



February 7, 2006

TRIA EXTENSION UPDATE

BACKGROUND

The Terrorism Risk Insurance Extension Act of 2005 extended the federal terrorism insurance mechanism through 2007. Several of the changes with the Extension Act are:

- Commercial auto, farmowners, burglary / theft, surety and professional liability will no longer be covered under TRIA.
- The industry deductible will increase to 17.5 % in 2006 and 20% in 2007.
- The event trigger will increase from the current \$5 million to \$50 million after March 31, 2006, then to \$100 million in 2007.
- The industry payback amount will be \$25 billion in 2006 and \$27.5 billion in 2007.
- The federal share of covered terrorism losses decreases from 90% to 85% after December 31, 2006.

INSURANCE DEPT. BULLETINS

The NAIC sent a sample bulletin to the various Insurance Departments reflecting the changes in TRIA. New Jersey recently issued Bulletin 06-04 regarding terrorism. In this Bulletin, New Jersey commented that companies should cease providing terrorism coverage with respect to the now non-covered lines. Also, companies are obligated to return any premiums collected for the terrorism coverage.

MSO[®] ACTION

We are filing revised terrorism endorsements for the affected lines to incorporate a December 31, 2007 sunset of TRIA.

For Commercial Auto, we are filing a new endorsement that will exclude terrorism as was defined in the pre-TRIA endorsements. We are also withdrawing the current TRIA endorsements.

We revised the sample Policyholder Notices (TPD 4, TPD 5, TPD 6, TPD 7, TPD 8, TPD 9) to include the 85% federal share reference.

We will keep you informed of the approvals of the revised forms.

**CURRENT
ENDORSEMENTS**

The 01 05 editions of the various terrorism endorsements were designed to take into account the expiration of TRIA. As of January 1, 2006, the TRIA provisions (see Section A of the endorsements) became ineffective and the pre-TRIA terrorism exclusion provisions (see Section B) went into effect for those risks that no longer fall under TRIA.

OTHER ISSUES

Questions have arisen as to how to treat now excluded lines when written as part of a package policy. Crime insurance and auto coverages (such as hired and nonowned auto) written on a package policy and if reported as multi-peril would not be excluded.

Also farm coverages written and reported as commercial property, liability or multi-peril are not excluded, only the farmowners line is now excluded.

DISTRIBUTION

The revised policyholder notices will be added to the CD-ROM. Affiliated companies will be able to access them through our website: <http://www.msonet.com>.

QUESTIONS

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