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A Newsletter from Chicago Underwriting Group, Inc.
Underwriters of D & O and Professional Liability Insurance

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THE TERRORISM RISK INSURANCE ACT OF 2002 [TRIA]

This discussion of the TRIA is intended only as an informal guide for our producers. It should not be taken as a definitive interpretation of the TRIA.

The Terrorism Risk Insurance Act [TRIA or the Act] became law on November 26, 2002 and is in effect through December 31, 2005. It marked a rare incursion by the federal government into the field of commercial insurance, a branch of financial services usually handled by the individual states. Not every class of insurance is affected, for example, medical malpractice is exempted, but D&O and professional liability - the classes underwritten by Chicago Underwriting Group, Inc. - fall within the scope of the Act.

Broadly speaking, the Act nullifies terrorism exclusions currently existing in commercial polices. Then, subject to statutorily established insurer deductibles, the Act provides a federally financed backstop for losses due to acts of terrorism "certified" as such by the federal government. Any terrorism exclusions having been nullified, the insurer must then specifically offer TRIA coverage to its current and future policyholders; an additional premium can be charged. The policyholder then must either elect to buy the TRIA coverage, or to reject it.

Notification and Implementation

Policies in force at November 26, 2002.

Policyholders affected under the Act will be sent Disclosure Notices by their insurers informing them of the Act. Insurers whose policies contain no terrorism exclusions must state on the Notice how much of the premium, if any, is allocated to that coverage.

Insurers whose policies contain terrorism exclusions must offer the coverage as defined in the Act and state the additional premium charged. These policyholders have 30 days to accept the coverage and pay the applicable premium, or reject it. Chicago Underwriting Group, Inc. has sent out the Disclosure Notice **directly to the policyholders**, as required by the Act. A copy of the Notice has been sent to the producing brokers as well.

Polices renewing after November 26, 2002.

TRIA coverage will be offered by CUG at the time of quoting the policy premium. If coverage is bound, a

RATING NEWS

2002 saw a succession of insurance company downgrades from the rating agencies. Several of these impacted the D&O / Professional Liability market. For brokers concerned about future downgrades, here is some better news:

- Effective January 23, 2003, **A.M. Best Co**. upgraded its financial strength rating of **Old Republic Union** to **A (Excellent)**.
- Effective January 21,2003, **Standard & Poor's** assigned its AA financial strength rating to **Old Republic Union**.

Old Republic Union, member of the Old Republic Group, is an eligible surplus line insurer in over 25 states.

In addition to upgrading Old Republic Union, S&P and Best reaffirmed their respective **AA** and **A+ (Superior)** ratings on **Old Republic Insurance Company**.

formal acceptance or rejection of the TRIA coverage will be required. This documentation will be handled in the customary way through the producing broker. Finally, an endorsement reflecting either acceptance or rejection will be added to the policy. ❖

RIMS 2003

The 2003 Risk Insurance Management Society Inc.'s annual conference will be in Chicago in April. Although Chicago Underwriting Group, Inc. will not be an exhibitor, we will be pleased to meet any of our policyholders or prospective policyholders and their brokers while they are in the city. Our office is only a few blocks from the conference hotel.

California Business

Effective from January 1, 2003, California policyholders must pay a California Insurance Guarantee Association [CIGA] surcharge of 2% of the policy premium and any additional premiums. This charge must be collected by the broker and sent to us along with the premium. Our quotes, binders and policy declarations page will reference this charge. The surcharge applies to policies written with California admitted insurers. All California policies written by **Old Republic Insurance Company**, an admitted insurer, are affected by the surcharge.

Policies written by **Old Republic Union Insurance Company** would not be subject to the CIGA surcharge, but the California surplus line tax [currently 3% of gross premiums, plus a 0.25% stamping fee] would apply. ❖

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