



ISSUES

Terrorism Insurance - Long Term Solutions

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Our Position: PIA supports the creation of a long-term mechanism for terrorism coverage to ensure the viability of the existing domestic insurance market.

- Legislation must be passed well before the December 31, 2007 expiration of the Terrorism Risk Extension Act of 2005 because insurance companies are evaluating policy renewals now.
- The trigger level for a federal backstop should be at a level that allows small insurance companies to participate in the program, not just large insurers.
- The inclusion of nuclear, biological, chemical and radiological attacks (NBCR) must be addressed in legislation. Attacks of this magnitude cannot be absorbed by the insurance industry without federal participation.
- The need for TRIA is nationwide, not just confined to urban areas.

Current Situation:

The Terrorism Insurance Extension Act of 2005 is scheduled to expire on December 31, 2007. While the length of further extension is uncertain, one thing is certain: a terrorism insurance backstop is an important part of the nation's economic safety net because it allows insurers to manage terrorism risk in a cost effective manner.

Congress passed the original TRIA bill following the September 11 terrorist attacks in response to widespread exclusions of terrorism risks. TRIA (and the subsequent Terrorism Risk Insurance Extension Act) requires primary insurers to make terrorism insurance available to commercial clients that elect to purchase it.

PIA supports the development of long-term financing solutions coupled with the existing federal backstop, because private capital markets cannot provide all that is needed to cover the exposures on their own.

In addition to TRIA's coverage, private sector money markets have organized alternative TRIA coverage pools. However, they are insignificant compared to the breadth of insurance exposure, and do not and cannot provide coverage for small-to-mid size commercial policyholders – the

vast majority of commercial insureds in America. TRIA is the best way for these policyholders to receive proper coverage.

Hearings are now underway in both the Senate Banking Committee and the House Financial Services Committee. Both committee chairmen are adamant about passing legislation early this year. PIA applauds the commitment of the committees to find a solution now since insurance companies are currently reviewing renewals.

Background:

Shortly after the events of September 11, 2001, the property/casualty sector of the insurance industry determined that it could not sustain an additional terrorist attack without serious financial consequences befalling consumers and the nation's economy. As a result, the insurance industry approached Congress with a proposal to establish a federal backstop. The Terrorism Risk Insurance Act (PL 107-297), or TRIA, was subsequently signed into law in November of 2002.

TRIA helped protect America and get the economy back on its feet by guaranteeing the federal government would cover a substantial portion of the terrorism-related losses over a predetermined amount. Intended to serve as a temporary backstop, TRIA was set to expire at the end of 2005.

Before the December 31, 2005 expiration date, the insurance industry, along with builders, lenders, realtors and many others, successfully made the case that TRIA as it was enacted had worked well to make terrorism coverage available at an affordable rate. At the same time it was proven that the private insurance market would still be unable to cover the full risk without some sort of federal backstop. After much debate, the Terrorism Risk Extension Act of 2005 was signed into law on December 22, 2005. Increasing the amount of risk taken on by insurers, the final bill raised the level of losses that would trigger federal assistance to \$50 million in 2006 and \$100 million in 2007.

Under the Act, the insurance industry is responsible for paying the first 20% of terrorism-related losses, as well as 15% of losses beyond that initial deductible. The program does not charge premiums, but requires insurers to repay up to \$27.5 billion in reinsurance payouts. In order to keep taxpayers' burden to a minimum, the program has an annual cap of \$100 billion in total Treasury payouts.

America's businesses—and by extension the nation's entire economic system—continue to be vulnerable to terrorist attacks. Therefore, it remains critical that Congress and the federal government continue to work with the insurance industry to ensure that terrorism insurance remains available and affordable for American businesses.