REAUTHORIZE THE TERRORISM RISK INSURANCE ACT

THE COUNCIL
The Council of Insurance Agents & Brokers

BACKGROUND

The Terrorism Risk Insurance Act (TRIA) was initially passed in 2002 following the September 11 terrorist attacks, and it is set to expire on December 31, 2020. Following 9/11, commercial development projects reached a standstill because of the lack of certainty and consumer access to an insurance product capable of insuring against large-scale terror attacks. Congressional passage of TRIA in 2002 created a federal backstop for terrorism insurance and reignited much-needed economic growth. Congress has since reauthorized the Act in 2005, 2007 and 2015.

TRIA established the Federal Terrorism Insurance Program to administer a system of shared public/private compensation for insured losses resulting from acts of terrorism in order to protect consumers and create a transitional period for private insurance markets to stabilize. The role of federal loss sharing depends on the size of the insured loss. For a relatively small loss, there is no federal sharing. For a medium-sized loss, the federal role is to spread the loss throughout the entire insurance industry over time, providing assistance up front but then recouping the payments through a broad levy on insurance policies afterwards. For a large loss, the federal government is to pay most of the losses, although recoupment is possible in these circumstances as well.

With the most recent extension in 2015, the program changed to trigger when insured losses reached $100 million, at which point the federal government covered 80% of insured terrorism losses in excess of individual insurer deductibles, while the insurer paid 20%. In 2016, the trigger was extended to $120 million, followed by $140 million in 2017 and $160 million in 2018. For 2019, the trigger is $180 million, and in 2020 the trigger will be $200 million, which will hold for any calendar year thereafter.

THE ISSUE

Before September 11, 2001, coverage for losses from terrorist attacks was included in general insurance policies without additional cost to policyholders. After September 11, 2001, coverage from losses from terrorist attacks became extremely high and cost prohibitive, if it was even offered at all (insured losses from 9/11 are at $40 billion). While market experts agree that sophisticated terrorism risk underwriting capabilities have increased since the passage of TRIA, the capacity to cover another attack the size of 9/11 is still an enormous risk that greatly affects the economy as well.

OUR POSITION

The Council urges Congress to pass a clean, long-term reauthorization of the Terrorism Risk Insurance Act to provide market certainty and lay a sound methodical approach to economic recovery following any potential act of terrorism.

ABOUT US

The Council of Insurance Agents & Brokers is the premier association for the top regional, national and international commercial insurance and employee benefits brokerage firms worldwide. Council members are market leaders who annually place 85 percent of U.S. commercial property/casualty insurance.

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