

CRS Report for Congress

Terrorism Risk Insurance: Issue Analysis and Legislation

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Summary

Following the September 11, 2001 terrorist attacks, insurance protecting against property losses that might occur in future attacks became costly or unavailable for many businesses. In response, Congress passed the Terrorism Risk Insurance Act of 2002 (TRIA, P.L. 107-297, 116 Stat. 2322), creating a temporary reinsurance backstop that would spread terrorism losses over time and over a wider base of companies and policyholders while having taxpayers absorb some of these losses, particularly in the event of a large-scale terrorist attack. TRIA was limited to commercial property and casualty insurance, covering up to \$100 billion each year after set insurer deductibles. The government would have paid 90% of insured losses over the deductible. If the losses were under a certain amount, ranging from \$10 billion to \$15 billion, the industry would have been required to pay back the government-provided funds through industry-wide recoupments.

Concern was expressed even before the enactment of TRIA that a three-year program would be too limited to allow the private sector to develop the capacity to insure terrorism risk. Responding to these concerns, the 109th Congress passed the Terrorism Risk Insurance Extension Act of 2005 (TRIEA, P.L. 109-144, 119 Stat. 2660) in December 2005. TRIEA extended the program two years, until the end of 2007, and generally reduced the government's exposure to terrorism losses. It did this by (1) excluding a number of insurance lines that had been covered; (2) increasing the minimum event size necessary for the government backstop to pay losses from \$5 million to \$100 million; (3) increasing the individual insurer deductibles from 15% to 20%; (4) increasing the industry's aggregate retention amount from \$15 billion to \$27.5 billion; and (5) reducing the government's share of losses from 90% to 85%.

As with the initial three-year TRIA, the two-year extension was considered by many to be insufficient to address adequately the challenges that arise from the need to insure against terrorism losses. Some of those seeking to further extend TRIA argue that terrorism is completely uninsurable and thus a permanent program is needed. Other TRIA supporters take the view that the private market may be able to insure against terrorism in the future, but the current TRIA program has not existed long enough to allow the private market to develop. A third point of view is that TRIA itself is stifling the development of the private market and should be further reduced, if not eliminated, to allow the development of a private market solution.

In the 110th Congress, the House passed H.R. 2761 on September 19, 2007. This bill would make substantial changes to TRIA, including adding 15 years to the program; adding group life insurance; requiring that insurers cover nuclear, biological, chemical and radiological attacks; and lowering the program trigger amount to \$50 million. S. 2285, a bill that would extend the program only seven years and add domestic terrorism to the program, was reported out of committee in the Senate on November 1, 2007. This report provides an overview of TRIA-related issues, including a summary of the current TRIA program as well as the legislation that created and extended the program. It will be updated as major events occur.

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Terrorism Risk Insurance: Issue Analysis and Legislation

Background

Prior to the September 2001 attacks on the United States, insurers generally did not exclude or separately charge for terrorism risks. The events of September 11, 2001, however, changed this, as insurers realized the extent of possible terrorism losses. Estimates of insured losses from the 9/11 attacks are around \$35 billion in current dollars, the largest man-made insurance disaster on record. These insured losses were concentrated in the following lines: business interruption (33% of the losses), property (30%), and liability (23%).¹

While primary insurance companies, those who actually sell and service the insurance policies bought by consumers, certainly lost significant amounts of money, the heaviest insured losses were absorbed by foreign and domestic reinsurers — the insurers of insurance companies. Due to the lack of data on, or modeling of, terrorism risk, reinsurers felt unable to price for such risks and largely withdrew from the market for terrorism risk insurance. Once reinsurers stopped offering coverage for terrorism risk, primary insurers, also suffering from a lack of data and models, also withdrew, or tried to withdraw, from the market. In most states, state regulators must approve policy form changes, and state regulators generally agreed to insurer requests to exclude terrorism risks from their commercial policies, just as they had long excluded war risks. Terrorism risk insurance was soon unavailable or extremely expensive, and many businesses were no longer able to purchase insurance that would protect them in future terrorist attacks. Although most of the evidence is anecdotal, this problem is thought to pose a threat of serious harm to the real estate, transportation, construction, energy, and utility sectors, in turn threatening the broader economy.

Insurability of Terrorism Risk

Stripped to its most basic elements, insurance is a fairly straightforward operation. An insurer agrees to assume an indefinite future risk in exchange for a definite current premium from a consumer. The insurer pools a large number of risks such that at any given point in time, the ongoing losses will not be larger than the current premiums being paid, plus the residual amount of past premiums that the insurer retains and invests, plus, in a last resort, any borrowing against future profits

¹ L. James Valverde, Jr. and Robert P. Hartwig, “9/11 and Insurance: The Five Year Anniversary,” available on the Insurance Information Institute website at [http://server.iii.org/yy_obj_data/binary/760752_1_0/September%2011%20Anniversary.pdf].

if this is possible. For the insurer to operate successfully and avoid bankruptcy, it is critical to accurately estimate the probability of a loss and the severity of that loss so that a sufficient premium can be charged. Insurers generally depend upon huge databases of past loss information in setting these rates. Everyday occurrences, such as automobile accidents or natural deaths, can be estimated with great accuracy. Extraordinary events, such as large hurricanes, are more difficult, but insurers have many years of weather data coupled with sophisticated computer models with which to make predictions.

Terrorism risk, however, is seen by many to be so fundamentally different than other risks as to be essentially uninsurable by the private insurance market, and thus requires a government solution. The argument that terrorism risk is uninsurable typically focuses on lack of data about both the probability and severity of terrorist action. The reason for the lack of data is generally comforting to our nation — very few terrorist attacks have succeeded. This, however, does not assuage the fiduciary duty of an insurance company president not to put a company at risk by insuring against an event that too easily could bankrupt the firm. As a replacement for large amounts of historical data, insurers turn to various forms of models similar to those used to assess future hurricane losses. Even the best model, however, can only partly replace good data, and terrorism models are certainly still in their infancy.

One prominent insurance textbook identifies four ideal elements of an insurable risk: (1) a sufficiently large number of insureds to make the losses reasonably predictably; (2) the loss must be definite and measurable; (3) the loss must be fortuitous or accidental; and (4) the loss must not be catastrophic (i.e., it must be unlikely to produce loss to a large percentage of the risks at the same time).² Terrorism risk in the United States certainly fails the first criterion. It also likely fails the third due to the malevolent human actors behind terrorist attacks. Whether or not it fails the fourth criterion is largely decided by the underwriting actions of insurers themselves (i.e., whether the insurers insure a large number of risks in a single geographic area that would be affected by a terrorist strike). Unsurprisingly, insurers generally have sought to limit their exposures in particular geographic locations, making terrorism insurance more difficult to find.

International Experience with Terrorism Risk Insurance

Although the U.S. experience with terrorism is relatively limited, other countries have dealt with the issue much more extensively and have developed their own responses to the challenges presented by terrorism risk. Spain, which has seen significant terrorist activity by Basque separatist movements, has included terrorism in a broader government-owned reinsurer dealing with catastrophes since 1954. The United Kingdom, responding to the Irish Republican Army attacks in the 1980s, created Pool Re, a privately owned mutual insurance company with government backing, specifically to insure terrorism risk. In the aftermath of the September 11, 2001 attacks, many foreign countries reassessed their terrorism risk and created a variety of approaches to deal with the risk. The UK greatly expanded PoolRe, while

² Emmett J. Vaughan and Therese Vaughan, *Fundamentals of Risk and Insurance* (Hoboken, NJ: John Wiley & Sons, 2003), p. 41.

Germany created a private primary insurer with government backing to offer terrorism insurance policies. Germany's plan, as with TRIA in the United States, is a temporary measure. It is set to expire at the end of 2007 and no decision on renewal has been reached. Not all countries, however, concluded that some sort of government backing was necessary for terrorism insurance. Canada specifically considered, and rejected, creating some sort of government program following September 11, 2001, and has not changed this position, even after attempted terrorist attacks on Canada itself.

Previous U.S. Experience with “Uninsurable” Risks

Terrorism risk post-2001 is certainly not the first time that United States has faced a risk perceived as uninsurable that Congress chooses to confront. During World War II, for example Congress created a “war damage” insurance program, and there are current programs insuring against aviation and flood losses. The closest previous analog to the situation with terrorism risk is probably the federal riot reinsurance program created in the late 1960s.

Following large scale riots in American cities in the late 1960s, insurers generally pulled back from insuring in those markets, either adding policy exclusions to limit their exposure to damage from riots or ceasing to sell property damage insurance altogether. In response, Congress created a riot reinsurance program as part of the Housing and Urban Development Act of 1968.³ The federal riot reinsurance program offered reinsurance contracts similar to commercial excess reinsurance. The federal government agreed to cover some percentage of an insurance company's losses above a certain deductible in exchange for a premium paid by that insurance company. Private reinsurers eventually returned to the market and the federal riot reinsurance program was terminated in 1985.

The Terrorism Insurance Market and the Economy: Post-9/11 and Pre-TRIA

The September 2001 terrorist attacks, and the resulting billions of dollars in insured losses, caused significant upheaval in the insurance market. Even before the attacks, the insurance market was showing signs of a cyclical “hardening” of the market in which prices typically rise and availability is somewhat limited. The unexpectedly large losses caused by terrorist action certainly exacerbated this trend. More directly, the attacks had a specific impact on the commercial lines of insurance most at risk for terrorism losses. Post-September 11 insurers and reinsurers began either including substantial surcharges for terrorism risk, or, more commonly, they excluded coverage for terrorist attacks altogether. Reinsurers could take these steps rapidly because reinsurance contracts and rates are generally unregulated. Primary insurance contracts and rates, however, are more closely regulated by the individual states and the exclusion of terrorism coverage for the individual purchaser of insurance thus required regulatory approval at the state level in most cases. States

³ P.L. 90-448, 82 Stat. 476. The act also created state “Fair Access to Insurance Requirements” (FAIR) plans and a Federal Crime Insurance Program.

acted fairly quickly, and, in the fall of 2001, 45 states approved insurance policy language excluding terrorism damage in standard commercial policies.

The lack of readily available terrorism insurance caused fears of a larger economic impact, particularly on the real estate market. In most cases, lenders prefer, if not require, that a borrower maintain insurance coverage on a property. Lack of terrorism insurance could lead to defaults on existing loans and a downturn in future lending, causing economic ripple effects as buildings are not built and construction workers remain idle. The 14-month period after the September 2001 terrorist attacks and before the November 2002 passage of TRIA provides some insight into the effects of a lack of terrorism insurance. Some examples in September 2002 include the Real Estate Round Table, releasing a survey that “found \$15.5 billion of real estate projects in 17 states were stalled or cancelled because of a continuing scarcity of terrorism insurance”⁴ and Moody’s Investors Service downgrading \$4.5 billion in commercial mortgage-backed securities.⁵ This picture, however, was not uniform. For example, in July 2002, the *Wall Street Journal* reported that “despite concerns over landlords’ ability to get terrorism insurance, trophy properties were in demand.”⁶

Initial Congressional Action

Congressional action to address the perceived broad economic threat from a lack of terrorism insurance began when the House Committee on Financial Services held a hearing in September 2001. Following this, its Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises held another in October 2001. Chairman Michael Oxley introduced H.R. 3210 in the 107th Congress in November 2001. During the November 29 debate on the bill, the House accepted a substitute bill by a narrow vote. The bill provided for a temporary government loan to insurers in case of acts of terrorism; it also contained controversial provisions on litigation management.

The legislation subsequently stalled over the tort provisions. In the Senate, four bills were introduced in 2001, but the chamber took no action. In June 2002, Senators Christopher Dodd, Harry Reid, Paul Sarbanes, and Charles Schumer introduced a compromise proposal, S. 2600, which passed the Senate in July 2002. As passed, it did not require insurers to repay all federal assistance or contain the controversial liability reform.

⁴ “Terror Insurance Drag on Real Estate Still Climbing,” Real Estate Roundtable, September 19 2003, available at [http://www.rer.org/media/newsreleases/TRIA_Survey_15billion_Sept19_2002.cfm].

⁵ “Moody’s Downgrades Securities on Lack of Terrorism Insurance,” *Wall Street Journal*, September 30, 2002, p. C14.

⁶ “Office-Building Demand Rises Despite Vacancies,” *Wall Street Journal*, July 24, 2002, p. B6.

The reconciling November 2002 conference report retained bill number H.R. 3210 and was subsequently passed. The President signed TRIA on November 26, 2002.⁷

TRIA's Original Goals and Substance

TRIA's stated goals were to (1) create a temporary federal program of shared public and private compensation for insured losses to allow the private market to stabilize; (2) protect consumers by ensuring the availability and affordability of insurance for terrorism risks; and (3) preserve state regulation of insurance.

To meet the first goal, TRIA began a short-term program for the federal government to share insured commercial property-casualty losses with the private insurance market. The program extended from enactment through December 31, 2005. The role of federal loss sharing depended on the size of the insured loss. For a small loss, there was no federal sharing. For a medium-sized loss, the federal role was to spread the loss over time and over the entire insurance industry, paying claims up-front but then recouping the payments through a broad levy on insurance policies afterwards. For a large loss, the federal government was to pay most of the losses, although recoupment was possible in these circumstances as well.

The precise criteria under TRIA were as follows: (1) the federal government would have shared in any insurer's losses only if the industry's aggregate insured losses from an act of terrorism exceeded \$5 million; and (2) each insurer would have been responsible for paying out a certain amount in claims — known as its deductible — before it could call upon federal assistance. Its deductible was directly proportionate to a particular insurer's size, rising from 7% of earned premiums in 2003, to 11% in 2004, and 15% in 2005. Once these two thresholds were passed, the federal government would have paid 90% of each insurer's losses above its deductible. If, however, the aggregate industry loss had been below \$10 billion for the year 2003, \$12.5 billion for 2004, or \$15 billion in 2005, the amount that would have been paid to individual insurers was required to be recouped through a surcharge added to all commercial insurance premiums in following years. This surcharge could be a maximum of 3% of premium and would last until the federal share was repaid. If the aggregate industry loss was greater than the \$10 billion - \$15 billion amount, then the law imposed no mandatory recoupment surcharge, although the Treasury Secretary was given the authority to impose such a surcharge. The maximum amount that could be paid out under the program in a given year was \$100 billion.

The act covered only U.S. commercial property-casualty insured losses due to acts of international terrorism certified by the Treasury Secretary. It did not cover losses due to acts of war declared by Congress, except workers' compensation losses. Congress also "carved out" certain lines, disallowing their coverage under TRIA. The carved-out lines were federal crop insurance, private crop or livestock insurance, private mortgage insurance, title insurance, financial guaranty insurance of single-line

⁷ P.L. 107-297, 116 Stat. 2322. See CRS Report RS21444, *The Terrorism Risk Insurance Act of 2002: A Summary of Provisions*, by Baird Webel.

guaranty insurers, medical malpractice, flood insurance, reinsurance, and all life insurance products.

TRIA addressed the second goal, to protect consumers, by nullifying all commercial terrorism exclusions in force on TRIA's date of enactment. TRIA required property-casualty insurers, as a condition of receiving federal assistance, to make terrorism insurance available prospectively to their commercial policyholders by February 23, 2003. The coverage could not differ materially from coverage for other types of losses. Each offer must reveal both the premium charged for terrorism insurance and the federal share of compensation. TRIA in effect gave policyholders coverage for terrorism risk immediately, without charge, until the policyholder accepted or declined the coverage TRIA required insurers to offer. The policyholder was not, however, required to purchase coverage. If the policyholder declined to do so, its insurer could exclude terrorism losses. TRIA did not limit what insurers could charge for terrorism risk insurance, though it did give state regulators the authority to modify excessive, inadequate, or unfairly discriminatory rates. The legislation made this "make available" provision effective until the end of 2004, with the Treasury Secretary having the option to continue it until the end of 2005.

TRIA's third goal was to preserve state regulation of insurance. Section 106 did so expressly, with some exceptions. One exception was the definition of an "act of terrorism": TRIA's definition applied despite any other definition in state law. A second exception was TRIA's limited preemption of state rate and form filing requirements. TRIA preempted all prior approvals through December 31, 2003, though it did allow states to invalidate an excessive or discriminatory rate and to review policy forms after their use. Thus, states retained considerable authority over rates and terms for terrorism coverage. A third exception was TRIA's requirement that workers' compensation coverage include not only coverage for terrorism risk but also for war risk. Finally, TRIA directed the Treasury Secretary to consult with the state regulators' group, the National Association of Insurance Commissioners, on several application issues.

In addition to the determination on the "make available" provisions, Congress directed the Treasury Secretary to conduct an expedited study of whether the TRIA program should be extended to group life insurance and allowed the secretary to extend TRIA to group life if the study determined that it should be. TRIA also directed the secretary to "study the potential effects of acts of terrorism on the availability of life insurance and other lines of insurance coverage, including personal lines," by August 2003. Finally, the secretary required a report to Congress by June 30, 2005, on the effectiveness of the program, the ability of the property-casualty industry to offer terrorism insurance after the program ends, and the "availability and affordability of such insurance for various policyholders, including railroads, trucking, and public transit."

Post-TRIA Activity

Executive Branch

The Treasury issued guidelines and rules for carrying out TRIA and carried out most of the studies and made determinations as directed by Congress.⁸ Three Treasury actions drew the most congressional attention and controversy. In August 2003, the results of its study on group life insurance were announced, and the determination was made that group life not be covered under TRIA because such insurance was still readily available from primary insurers in the private market. This determination would have been overturned by several TRIA extension bills, but it was not overturned by the legislation that ultimately was passed. In June 2004, Treasury made the determination that the “make available” provisions should be extended through the end of the program in 2005, a determination that drew support from most in Congress.

On June 30, 2005, the Treasury issued its report on TRIA with Treasury Secretary John Snow’s accompanying letter recommending against continuation of TRIA “in its present form.”⁹ The Secretary stressed two factors: the economy had become more robust since 9/11, and extension of TRIA would hinder the development of private insurance solutions by crowding out innovation and capacity building. To gain support from the Secretary, the letter specified that any TRIA extension should include an increase of the event threshold from \$5 million to \$500 million, increases in deductibles and co-payments, and a reduction in the types of insurance covered by TRIA. These requirements differ substantially from previously introduced legislation on the topic, particularly the increase to \$500 million and the reduction in the types of insurance.

Terrorism Insurance Market After TRIA

The “make available” provisions of TRIA addressed the availability problem that had plagued the terrorism insurance market, as insurers were required by law to offer terrorism coverage. There was significant uncertainty, however, as to how consumers would react, since there was no consumer requirement to purchase terrorism coverage, and the pricing of terrorism coverage was initially high. Initial consumer reaction to the terrorism coverage offers was not overwhelming. Marsh, Inc., a major insurance broker, reports that only 27% of their clients bought terrorism insurance in 2003. This take-up rate, however, climbed to 49% in 2004 and 58% in 2005.¹⁰ The take-up rates varied significantly among industries, with the highest rates seen in real estate and financial services (79% in 2005) and the lowest rates in

⁸ See [<http://www.treasury.gov/offices/domestic-finance/financial-institution/terrorism-insurance/>] for the latest details. One exception was the study on availability that was to be done by August 2003. This has yet to be delivered to Congress.

⁹ See [<http://www.ustreas.gov/press/releases/js2618.htm>].

¹⁰ *Marketwatch: Terrorism Insurance 2006*, Marsh Inc., p. 7.

construction and manufacturing (43% in 2005).¹¹ Rates also varied significantly across the country — 67% in the Northeast, 58% in the Midwest, 53% in the West, and 50% in the South.¹² Similar numbers are reported by others in the insurance market. Aon, another major insurance broker, reports an overall take-up rate of 59.3% in 2004-2005, with highest rates reported in the real estate and financial services industry (nearly 90%). Aon reported, however, that the highest take-up rate was in the South (nearly 75%) while the Northeast was much lower (nearly 55%).¹³

The price for terrorism insurance has generally declined since the aftermath of the 2001 terrorist attacks. For example, a 2005 survey by the Department of the Treasury found that the terrorism premium as a percent of the overall insurance premium was nearly 4% in 2002, and fell to slightly under 3% in 2003 and then rose to slightly over 3% in 2004. For those in high risk cities, it was approximately 6% in 2002, 5% in 2003 and slightly under 3% in 2004.¹⁴ Marsh reported that the median premium for terrorism was 4.7% of the overall insurance premium in 2004 and 4.2% in 2005.¹⁵

Congressional Action in the 108th and 109th Congresses

Oversight and Hearings. Congressional oversight continued after enactment, with hearings in both the House and the Senate in April and May 2004. The principal points of concern expressed in these hearings were Treasury's prior decision to exclude group life insurance from coverage under TRIA, the then-upcoming Treasury decision on the "make available" provisions, and the possibility of a general extension of the act past its scheduled sunset date. Some concerns about TRIA extension were also raised at the hearings, and whether all who expressed support for TRIA extension agreed on the exact form of this extension was unclear as well. Officials at the Treasury Department had previously indicated repeatedly that they expect the program to expire as the law provides. When pressed for the Bush Administration's then current position on TRIA extension at the hearings, the Treasury witnesses generally indicated no strong position, preferring instead to wait for the results of the then ongoing study (issued on June 30, 2005, and discussed above).

Through the early part of the 109th Congress, many Members and interest groups seemed to be waiting for the Treasury report that was expected to provide the Administration's position on possible TRIA extension. The Senate Banking, Housing, and Urban Affairs Committee did hold a general oversight hearing on TRIA on April 14, 2005. Shortly after the release of the Treasury study, both the House (July 13, 2005) and the Senate (July 14, 2005) held hearings featuring Secretary

¹¹ Ibid., p. 8.

¹² Ibid., p. 9.

¹³ *Property Terrorism Update: TRIA in the Balance*, Aon Inc., pp. 31-33.

¹⁴ U.S. Department of Treasury, Report to Congress, *Assessment: The Terrorism Risk Insurance Act of 2002* (June 30, 2005), pp. 4, 64.

¹⁵ *Marketwatch: Terrorism Insurance 2006*, Marsh Inc., p. 10.

Snow explaining further the Administration's position on TRIA extension outlined in his June 30, 2005 letter. The House Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises went further, inviting regulators, insurers and other interested parties to testify at a hearing entitled "The Future of Terrorism Insurance" on July 27, 2005.

TRIA Extension Legislation. Two bills, S. 467 and H.R. 4313, were reported out of committee to extend and revise TRIA in the 109th Congress. Different versions of S. 467 passed both the Senate and the House by early December 2005.¹⁶

S. 467 was introduced in the 109th Congress by Senator Christopher Dodd on February 18, 2005, prior to the Treasury report. It was marked up in the Senate Banking, Housing, and Urban Affairs Committee on November 16, 2005. The committee amended the bill substantially before reporting it favorably. S. 467, as reported, extended the program by two years and left the framework largely intact, while further limiting federal government exposure, as suggested by Treasury Secretary Snow. Specifically, it (1) removed additional of types of insurance (commercial auto, burglary and theft, surety, farm owners multiple peril, and professional liability, except for directors and officers liability); (2) raised the insurer deductible to 17.5% in 2006 and 20% in 2007; (3) increased the insurer co-payment from 10% to 15% for 2007; and (4) raised the event trigger to \$50 million in 2006 and \$100 million in 2007. After markup, the bill was brought to the Senate floor and passed by unanimous consent on November 18.

H.R. 4314 was introduced by Representative Richard Baker on November 14, 2005, and marked up by the House Financial Services Committee on November 16. Relatively minor amendments were made in committee, including language prohibiting life insurers from denying coverage due to lawful travel undertaken by individuals. H.R. 4314, as reported, extended TRIA and revised the program extensively. It limited the types of insurance covered by removing commercial auto, but it expanded the program to cover domestic terrorist events. Also, it increased the types of insurance covered to include group life and specific coverage for nuclear, biological, chemical, and radiological (NBCR) events. It raised the event trigger to \$50 million in 2006 and an additional \$50 million for every future year the program is in effect. It also changed the insurer deductible, but did so differently for different lines of insurance, raising the deductible to as much as 25% for casualty insurance but lowering it to 7.5% for NBCR events. H.R. 4314 would have raised the insurer co-payment to 20% for events under \$10 billion while lowering it gradually to 5% for events over \$40 billion. In the event of a terrorist attack, the deductibles and event triggers would reset to lower levels, with deductibles possibly as low as 5% in the event of a large attack. It removed the cap on the mandatory recoupment provision so that all money expended under TRIA would be recouped by the federal government through a surcharge on insurers in the years after the attack. H.R. 4314 also would have created TRIA Capital Reserve Funds (CRF), which would allow insurers to set aside untaxed reserves to tap in the case of a terrorist attack. The

¹⁶ For additional information, see CRS Report RL33177, *Terrorism Risk Insurance Legislation in 2005: Issue Summary and Side-by-Side*, by Baird Webel.

majority of the text of H.R. 4314 was inserted into S. 467, and the House passed this bill on December 7, 2005.

Although the House called for a conference committee reconciling the differences between the two bills, the Senate did not. Ultimately, a further amendment to S. 467, S.Amdt. 2689, passed the Senate on December 16, 2005, and the House followed, passing S. 467 as amended on December 17, 2005. The President signed the bill into P.L. 109-144 on December 22, 2005.

P.L. 109-144 closely tracks the Senate version of S. 467. The only substantial difference is an increase of the aggregate industry retention amount from \$17.5 billion and \$20 billion to \$25 billion and \$27.5 billion for 2006 and 2007.

Current Congressional Action

With the extended TRIA set to expire at the end of 2007, many in Congress have called for further legislation to reauthorize the program. Both Chairman Christopher Dodd of the Senate Banking, Housing, and Urban Affairs Committee and Chairman Barney Frank of the House Financial Services Committee indicated early in the session that terrorism insurance legislation was a high priority for their committees in the 110th Congress. The Senate Banking, Housing, and Urban Affairs Committee held a hearing on February 28, 2007, entitled “Examining the Terrorism Risk Insurance Program,” and the House Financial Services Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises held two hearings: “The Need to Extend the Terrorism Risk Insurance Act” in New York City on March 5, 2007, and “Policy Options for Extending the Terrorism Risk Insurance Act” on April 24, 2007.

Terrorism Risk Insurance Revision and Extension Act of 2007 (TRIREA)

Representative Michael Capuano, along with 23 cosponsors, introduced H.R. 2761 on June 18, 2007. Referred to the Financial Services Committee, the bill was the subject of a hearing in that committee’s Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises on June 21, 2007.

H.R. 2761 as introduced would have extended and revised the current structure of the Terrorism Risk Insurance Program, adding significant new elements to this structure. Within the existing TRIA structure, the bill would have extended the program 10 years, to the end of 2017, while reducing the program trigger to \$50 million and generally leaving the individual insurer deductibles and aggregate retention unchanged at 20% of direct earned premium and \$27.5 billion, respectively. It also would have expanded the scope of TRIA by including domestic terrorism as a covered event, adding group life insurance as a covered line, and mandating that insurers make available coverage for NBCR terrorist events. Under the bill as introduced, group life insurance would have had a separate pool, with its own deductibles and recoupment amounts based on the amount of insurance at risk, rather than direct earned premiums. NBCR coverage would have had a lower (7.5%)

deductible compared to non-NBCR terrorist events (20%). In addition, H.R. 2761 as introduced included so-called reset provisions, that would have lowered the program thresholds for areas that have suffered past terrorist attacks or that suffer terrorist attacks in the future if the damage from the attacks exceeds \$1 billion. Finally, the bill would have expanded the mandatory availability provisions to include restrictions on life insurers' ability to consider lawful international travel as a factor in underwriting decisions.

H.R. 2761 was marked up by the House Financial Services Committee's Subcommittee on Insurance, Capital Markets and Government Sponsored Enterprises on July 24, 2007, and by the full committee on August 1, 2007.¹⁷ Substantial amendments were adopted at both markups. The subcommittee markup began with a complete substitute amendment by Chairman Kanjorski being adopted by voice vote. This substitute changed the NBCR provisions, delaying the make available provisions until 2009 and lowering the deductible to 3.5% with a 0.5% increase per year. It also included a requirement for biennial reporting on the TRIA program by the Treasury and changed the composition of the independent commission created by the bill to make recommendations on the program. Several amendments to reduce the 10 year extension of the program were rejected, as was one to require full recoupment of federal funds expended beyond the \$27.5 billion aggregate retention amount in current law. Amendments adopted by the subcommittee included one by Representative Gary Ackerman to include the Secretary of Homeland Security in the certification of a terrorist attack under TRIA and one by Representative Richard Baker to apply the lower trigger amount in the retrospective reset provisions to the entire country rather than just to the affected area.

The full committee markup began with an amendment by Chairman Frank making a number of technical changes and three primary substantive changes. First, Chairman Frank's amendment changed the reset provisions, removing the retrospective reset altogether and applying the prospective reset provisions to the entire country. Thus, if there is a future terrorist attack resulting in more than \$1 billion in damages, the trigger would be reduced to \$5 million and the insurer deductible would be reduced to 5% for those insurers suffering terrorism losses. Second, it included temporary preemptions from state rate and form approval laws for NBCR coverage mandated under the bill. Third, it established a "terrorism buy down fund" in the U.S. Treasury which would essentially allow insurers to put aside reserves that would grow tax-free to cover losses from future terrorist attacks that are not reimbursed by TRIA. The U.S. Treasury could also borrow from this fund to cover the federal share of a future terrorist attack. The committee adopted a number of additional amendments, including (1) an exemption for small insurers from the requirement to make NBCR coverage available; (2) the return of farmowners multiple peril as a TRIA-covered line; (3) the specific allowance for insurers to partner in meeting the requirement to make NBCR coverage available; (4) the indexing of the various dollar amounts in the bill to an unspecified measure of inflation; (5) the provision for a report by the Secretary of the Treasury in the event that the Secretary decides not to recoup expended federal funds beyond \$27.5 billion;

¹⁷ The full committee markup began on July 26, but H.R. 2761 was the last of a number of bills to be marked up.

(6) the extension of the program for 15 years, to the end of 2022; and (7) an increase in the post-reset deductible by 0.5% per year. The amended bill was forwarded to the full House by a vote of 49-20.

The Congressional Budget Office (CBO) issued a cost estimate for H.R. 2761 on September 6, 2007. CBO found that the bill as reported would increase direct spending by \$3.7 billion from 2008 to 2012 and \$10.4 billion from 2008 to 2017. This spending would be offset by additional revenues of about \$100 million from 2008 to 2012 and \$2.0 billion from 2008 to 2017. Since the cost estimate found that an increase in the budget deficit, or decrease in surplus, would result from the bill, it may run afoul of the “pay-as-you-go” (PAYGO) rule adopted by the House at the beginning of the 110th Congress.¹⁸ In response to the PAYGO issues, the special rule (H.Res. 660) under which TRIREA was considered on the House floor included a self-executing amendment that inserted language into the underlying bill that would require passage by Congress of a joint resolution before any funds could be expended. H.Res. 660 provides for expedited consideration of this future resolution, including a waiver of all points of order against it and its consideration. This requirement for future congressional action introduces uncertainty to the TRIA program that did not exist before. It is unclear exactly how the insurance market might react to this uncertainty, should this language become law.

H.R. 2761 was brought up on the House floor under H.Res. 660 on September 19, 2007. The rule made in order two floor amendments and a motion to recommit with instructions. The manager’s amendment (H.Amdt. 801) by Chairman Frank changed the bill to include the NBCR deductible in the reset provisions, modified the certification process for an NBCR attack, indexed the dollar amounts in the bill specifically to the Consumer Price Index for All Urban Consumers (CPI-U), and made a variety of technical and conforming changes. It passed on the House floor 426-1. The other amendment (H.Amdt. 802) was offered by Representative Steve Pearce. It would have changed the increase in the deductible under the post-attack reset provisions from 0.5% per year to 1% per year. This amendment failed by a vote of 194-230. The motion to recommit with instructions was offered by Representative David Drier and failed by a vote of 196-228. The House then passed the bill as amended by a vote of 312-110. H.R. 2761 was received in the Senate on September 20, 2007, read twice, and referred to the Committee on Banking, Housing, and Urban Affairs.

To summarize, H.R. 2761 as passed by the House included provisions that would make the following changes to the current Terrorism Risk Insurance Program:

- Extend the TRIA program for 15 years, until the end of 2022.
- Make spending by the program contingent on passage of a future joint resolution.
- Add coverage for domestic terrorist acts in the program.
- Add the Secretary of Homeland Security to the certification process.

¹⁸ See CRS Report RL33850, *The House’s “Pay-As-You-Go” (PAYGO) Rule in the 110th Congress: A Brief Overview*, by Robert Keith, for more information on PAYGO.

- Add group life insurance to the program with a separate set of retentions and deductibles.
- Return farmowners multiple peril as a covered line.
- Reduce the general trigger to \$50 million.
- Require insurers to cover nuclear, biological, chemical, and radiological (NBCR) terrorist attacks starting in 2009.
- Lower insurer deductible for NBCR attacks to 3.5% immediately and then raise that number by 0.5% per year in the future.
- Increase the federal share of NBCR losses from 85% to as high as 100% for attacks causing over \$100 billion in losses.
- Temporarily preempt state laws on rate and form filing for NBCR coverages.
- Provide the possibility of relief from NBCR requirement to smaller insurers.
- Reset individual insurer deductibles to 5% and the program trigger to \$5 million in the aftermath of a future terrorist attack (or series of attacks) that causes more than \$1 billion in damage. Deductible reset would be only for insurers who suffer losses.
- Increase the post-reset insurer deductibles by 0.5% per year.
- Establish a “Terrorism Buy-Down Fund” that would essentially allow insurers to put aside reserves that would grow tax-free to cover future losses that are not reimbursed by TRIA. The fund would also be available to the Secretary of the Treasury to cover the federal share of TRIA losses.
- Restrict life insurers’ use of foreign travel as an underwriting tool.
- Index the dollar amounts in the program to future inflation.

The Office of Management and Budget released a Statement of Administration Policy¹⁹ on H.R. 2761 that indicated “if H.R. 2761 as reported were presented to the President, his senior advisors would recommend that he veto the bill.” The Administration indicated that it objected to the length of term of the extension, as well as the increase in the federal role and the expansion of the scope of coverage.

Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA)

The Senate Banking, Housing, and Urban Affairs Committee marked up this original bill on October 17, 2007. While Senator Charles Schumer discussed possible amendments in the markup session, no amendments were voted on in committee. The bill was ordered reported to the full Senate on a vote of 20-1. Chairman Dodd introduced the bill, now numbered S. 2285, on November 1, 2007, and the committee report (S.Rept. 110-215) was issued the same day.

S. 2285 is a relatively straightforward reauthorization of the existing TRIA program. The two primary changes that it would make to the program are (1) extend it for seven years, until 2014; and (2) add coverage for domestic terrorist attacks to the program. In addition, it would modify slightly the annual liability cap, and

¹⁹ See [<http://www.whitehouse.gov/omb/legislative/sap/110-1/hr2761sap-r.pdf>].

require the Secretary of the Treasury to promulgate regulations on determining payments, should losses exceed \$100 billion rather than leaving this determination to a future Congress. The bill would call for reports from the Government Accountability Office (GAO) on the possibility of insurance coverage for NCBR events (within one year) and on the affordability and availability of terrorism insurance in specific markets (within 180 days). In addition, the President's Working Group on Financial Markets would be tasked to continue its analysis of the longer term availability and affordability of terrorism risk insurance, and to report on this subject in 2010 and 2013.

CBO issued a cost estimate for TRIPRA on October 29, 2007. It found that the bill would increase direct spending by \$3.1 billion from 2008 to 2012 and by \$6.6 billion from 2008 to 2017. This spending would be offset by increased government receipts of \$100 million from 2008 to 2012 and \$1.5 billion from 2008 to 2017.

No official Statement of Administration Policy has been released on the Senate bill. Treasury Secretary Paulson, however, has indicated in a letter that the Administration would be willing to accept the bill as it passed the committee.²⁰

²⁰ Relevant text of this letter was provided to CRS by the Department of the Treasury. This was also reported in the press. See [<http://www.politico.com/news/stories/1007/6394.html>].