

Terrorism Risk Insurance

- *State insurance regulators have supported the Terrorism Risk Insurance Act (TRIA) since its inception and its subsequent reauthorizations.*
- *The NAIC recommends prompt Congressional action on a long-term TRIA reauthorization of 7-10 years to help ensure economic stability through the availability of terrorism coverage for commercial policyholders, lenders, builders, and the businesses that operate in urban centers and other areas prone to a terrorist attack.*
- *A federal partnership with private insurers has provided a measure of security and certainty to the broader economy and ensured the widespread availability of property and casualty insurance for terrorism risks. It does so with minimal financial risk to the U.S. government as the program provides a mechanism to reimburse the federal government for its expenditures.*

Background

Following the September 11, 2001 terrorist attacks, primary insurers and reinsurers pulled back from offering terrorism insurance coverage due to concerns that terrorist acts would become more common and the inability to calculate the frequency, severity, and loss costs critical for insurance pricing. As a result, terrorism risk insurance was unavailable or extremely expensive, and many businesses were no longer able to purchase insurance that would protect them in future terrorist attacks. Congress responded by passing the Terrorism Risk Insurance Act of 2002 to create a federal government backstop for terrorism losses. TRIA has been reauthorized and modified in 2005, 2007, and 2015, and is scheduled to expire on December 31, 2020.

TRIA provides insurers with the security they need to allow them to offer coverage for acts of terrorism. This public-private partnership ensures that insurers bear primary financial responsibility for losses from terrorism and must make the coverage available, while effectively capping the magnitude of losses and recouping federal funds if they are expended. The NAIC supports a long-term reauthorization of TRIA that allows for sustained stability that reflects the commercial insurance cycle. Insurance capacity takes time to build, and the business cycle for commercial lines extends several years, therefore a reauthorization should last for at least seven years.

Key Points

- State insurance regulators have not seen evidence to suggest that the insurance marketplace is capable or willing to voluntarily take on a substantial portion of the risk of providing terrorism risk coverage. TRIA helps foster the existence of a broader market for risks that would otherwise be largely uninsured, or more likely, borne by taxpayers.
- The difficulty in accurately determining the frequency, severity, and loss costs for acts of terrorism makes coverage for acts of terrorism one that insurers would likely choose to avoid if given the opportunity. If TRIA expired, some insurers might place limitations on commercial insurance policies to exclude terrorism coverage or choose to withdraw from the market completely.
- An expiration of TRIA would be particularly disruptive to the workers' compensation market. Workers' compensation benefits are codified in state law and an employer cannot decline to provide coverage for acts of terrorism. Without TRIA, workers' compensation insurers might raise prices or decline to write coverage for businesses with many employees concentrated in single locations or near iconic properties.