

# ISSUE BRIEF

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## Terrorism Risk Insurance Act: Time to End an Unnecessary Program

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Congress is now considering multiple bills to extend the Terrorism Risk Insurance Act (TRIA), a law designed to shore up insurance companies as they adapted to the threat of terrorism after 9/11.

While it had a legitimate purpose following the attacks of 9/11, TRIA is no longer needed and serves only as a form of corporate welfare to insurance companies. Rather than continue this program, Congress should allow the insurance companies to stand on their own: The market has matured considerably since the days after 9/11, and insurers have had plenty of time to develop the tools needed to insure against terrorism.

**TRIA's Important but Temporary Purpose in 2002.** In the aftermath of 9/11, the U.S. was unsure about both the future of terrorism and the dangers to the U.S. Insurance companies incurred huge costs as a result of the terrorist attacks on 9/11 and were not sure how to appropriately price premiums for the risk of terrorism in the future. This uncertain situation threatened the issuance of insurance to thousands of companies that wanted insurance protection against terrorism.

To stabilize the insurance industry, the U.S. government stepped in to provide reinsurance for cat-

astrophic terrorism losses, effectively limiting the losses that the insurance industry would absorb in the event of another serious attack. TRIA gave the insurance industry risk protection and time to assess risk and appropriately price insurance for terrorism and ensured that the rest of the private sector could obtain the insurance.

TRIA, however, was never meant to be a permanent program. The original bill stated that TRIA would “provide temporary financial compensation to insured parties, contributing to the stabilization of the United States economy in a time of national crisis, while the financial services industry develops the systems, mechanisms, products, and programs necessary to create a viable financial services market for private terrorism risk insurance.”

That was over 10 years ago. The U.S. is now out of crisis mode, and the insurance industry has had plenty of time to develop the tools and gather the data it needs to assess the risk of terrorism and price insurance accordingly.

**TRIA Is No Longer Needed.** In the years since 9/11, the percentage of larger companies purchasing terrorism insurance has increased from around 27 percent in 2003 to more than 60 percent. In some industries and areas of the country, insurance coverage is as high as 80 percent.<sup>1</sup> Costs have also fallen, with the median premium rate for medium- and large-size firms falling by almost 60 percent from \$57 million to \$25 million between 2004 and 2009.<sup>2</sup>

Given the development of a functioning insurance market, there is no need for the federal government, and thus the U.S. taxpayer, to be on the hook for terrorism insurance payouts. The insurance industry and the companies that want to buy terror-

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ism insurance are now perfectly capable of assessing the value of this insurance and making informed decisions in the marketplace.

Ultimately, TRIA is now little more than corporate welfare that is likely hindering the full maturation of the terrorism reinsurance market. At this point, there is no reason for the American taxpayer to be responsible for insurance losses on private property.

**Letting TRIA Expire.** Currently, there are multiple bills that would extend TRIA by either five years (H.R. 508) or 10 years (H.R. 1945 and 2146). These misguided bills would extend a temporary program that has already been extended twice and is now well past the time it should have been ended. Continuing in the path of many other programs and taxes before it, TRIA shows how temporary programs can easily become semi-permanent or even permanent policies.

Rather than reauthorize TRIA, Congress should allow it to expire. TRIA is a temporary program that

is no longer needed. Failing to end it would merely allow an unnecessary bailout of the insurance industry to continue at the taxpayers' expense.

**Returning Terrorism Insurance to the Private Sector.** TRIA served a purpose following 9/11 as a backstop for insurance companies as they figured out how to reconfigure terrorism insurance rates. But the industry has had more than enough time to determine how to assess risk and price insurance policies and no longer needs the assistance of the American taxpayer. Congress should allow TRIA to expire and let this important industry return to private hands.

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  2. Erwann O. Michel-Kerjan, "TRIA at Ten Years: The Future of the Terrorism Risk Insurance Program," testimony before the Subcommittee on Insurance, Housing and Community Opportunity, Committee on Financial Services, U.S. House of Representatives, September 11, 2012, [http://opim.wharton.upenn.edu/risk/library/2012-09-11\\_TRIA-testimony\\_MichelKerjan.pdf](http://opim.wharton.upenn.edu/risk/library/2012-09-11_TRIA-testimony_MichelKerjan.pdf) (accessed March 5, 2014).
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