

HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: HM 1101 Terrorism Risk Insurance Program

SPONSOR(S): Beshears

TIED BILLS: **IDEN./SIM. BILLS:** CS/SM 1538

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR or BUDGET/POLICY CHIEF
1) Local & Federal Affairs Committee	16 Y, 0 N	Kelly	Rojas
2) Regulatory Affairs Committee			

SUMMARY ANALYSIS

HM 1101 urges Congress to extend the Terrorism Risk Insurance Act of 2002. The memorial urges Congress to keep the reforms adopted in 2007 when Congress last reauthorized the Act

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. EFFECT OF PROPOSED CHANGES:

Background

In response to the terrorist attacks of September 11, 2001, reinsurers became reluctant to underwrite insurance for the risk of terrorist attacks. Insurance companies responded to this unwillingness by reducing limits on types of terrorism coverage, as well as narrowing or excluding conditions in insurance contracts.¹ As a result, commercial lenders were reluctant to make loans on new projects because collateral for a loan could be diminished in the event of a terrorist attack.²

In response to the insurance industry's reluctance, Congress enacted the Terrorism Risk Insurance Act of 2002 (TRIA) as a way to provide stability to the economy.³ TRIA created a temporary, federally backed Terrorism Risk Insurance Program administered by the U.S. Treasury Department, which provided reinsurance to insurers that are required to offer terrorism insurance for property and causality lines.⁴ Additionally, the federal government provided a "backstop" to terrorism insurance losses by insuring that the federal government would pay for 90 percent of terrorism losses (subject to mandated a deductible), while insurance companies would pay for the remaining 10 percent. This backstop provided the incentive for insurance companies to provide affordable premiums and terrorism coverage for more properties.⁵

Congress intended TRIA to be a temporary measure, with a sunset date only three years later. However, Congress extended the Act in 2005 and again in 2007. In addition to extending the implementation of TRIA, the 2005⁶ and 2007⁷ amendments increased the event size triggering the program from \$50 million per attack to a floor of \$100 million per attack, increased private co-pays and deductibles, eliminated certain lines of insurance coverage from the federal program (e.g., professional liability and commercial auto), and placed a \$100 billion cap on the program.⁸

Currently, without further Congressional action, the Act is set to expire once again on December 31, 2014.

Effect of Proposed Changes

HM 1101 urges Congress to extend the Terrorism Risk Insurance Act of 2002.

Proponents for this bill state the extension of the Act will allow insurers to continue offer widespread coverage for future catastrophes resulting from terrorism. It will also provide a safety net for banks who absent of the TRIA, may be unwilling to extend loans for commercial transactions like mortgages, construction projects, and other capital-intensive initiatives. In addition, the adverse effect of reluctant financiers, businesses may be reluctant to invest while commercial consumers may be unable to afford insurance. All of these issues could have a potential to amount to severe adverse effect on the United States economy.

B. SECTION DIRECTORY:

Not applicable.

¹ 33 N.Y.Prac., New York Construction Law Manual § 10:27 (2d ed.).

² *Id.*

³ Pub. L. No. 107-297, 116 Stat. 2322 (2002) (set out as a note under 15 U.S.C.A. § 6701).

⁴ *Id.*

⁵ *Id.*

⁶ Pub. L. 109-144, 119 Stat. 2660 (2005) (known as the Terrorism Risk Insurance Extension Act of 2005).

⁷ Pub. L. 110-160, 121 Stat. 1839 (2007) ((known as the Terrorism Risk Insurance program Reauthorization Act of 2007).

⁸ 33 N.Y.Prac., New York Construction Law Manual § 10:27 (2d ed.); 15 U.S.C.A. § 6701.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

None.

2. Expenditures:

None.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

None.

D. FISCAL COMMENTS:

None.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

None.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

Not applicable.

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

IV. AMENDMENTS/ COMMITTEE SUBSTITUTE CHANGES

N/A.