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# Backgrounder

## *Terrorism Risk Insurance*

January 2014

Following the terrorists attacks of September 2001, Congress passed the Terrorism Risk Insurance Act (TRIA). TRIA helped protect America and get the economy back on its feet by guaranteeing the federal government would cover a substantial portion of terrorism-related losses over a pre-determined amount. Intended to serve as a temporary backstop, the Terrorism Risk Insurance Act (TRIA) was set to expire at the end of 2005.

Before the December 31, 2005 expiration date, the insurance industry, along with builders, lenders, realtors and many others, successfully made the case that TRIA, as it was enacted, had worked well to make terrorism coverage available at an affordable rate. At the same time it was proven that the private insurance market would still be unable to cover the full risk without some sort of federal backstop. After much debate, the Terrorism Risk Extension Act of 2005 was signed into law on December 22, 2005. Increasing the amount of risk taken on by insurers, the final bill raised the level of losses that would trigger federal assistance to \$50 million in 2006 and \$100 million in 2007. The program was again extended in 2007 and currently expires December 31, 2014.

Under the Act, the insurance industry is responsible for paying the first 20% of terrorism-related losses, as well as 15% of losses beyond that initial deductible. The program does not charge premiums, but requires insurers to repay up to \$27.5 billion in reinsurance payouts. In order to keep taxpayers' burden to a minimum, the program has an annual cap of \$100 billion in total Treasury payouts.

Definition of "Act of Terrorism": Any act that is certified by the Secretary of Treasury, in concurrence with the Secretary of State and the Attorney General to be an act:

- of terrorism;
- that is violent/dangerous to humans, property, or infrastructure;
- that results in damage to the United States;
- that was committed by an individual(s) acting on behalf of a foreign person or interest or in an effort to coerce the civilian population or influence policy or conduct of the United States.

### TRIA Objectives

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.
3. Protect the economy of the United States and the stability of financial markets in the event of another terrorist attack.
4. Preserve state regulation of insurance.

For additional information on this issue, please contact PIA's federal affairs department.