

Crapo Statement at TRIA Reauthorization Hearing

June 18, 2019

WASHINGTON – U.S. Senator Mike Crapo (R-Idaho), Chairman of the U.S. Senate Committee on Banking, Housing and Urban Affairs, delivered the following remarks at a hearing entitled “The Reauthorization of the Terrorism Risk Insurance Program.”

The text of Chairman Crapo’s remarks, as prepared, is below.

“Today, we are joined by three witnesses who have evaluated and written extensively on the Terrorism Risk Insurance Program, including Mr. Tarique Nageer, Terrorism Placement and Advisory Leader with Marsh; Dr. Howard Kunreuther, Co-Director of the Wharton Risk Management and Decision Processes Center; and Mr. Baird Webel, Specialist in Financial Economics with the Congressional Research Service.

“The terrorist attacks on September 11, 2001 devastated U.S. citizens, households and businesses.

“In the wake of those attacks, Congress passed and the President signed into law the Terrorism Risk Insurance Act of 2002 to establish the Terrorism Risk Insurance Program, or TRIP, and to stabilize the market for terrorism risk insurance.

“Since then, Congress has reauthorized the Program three different times in 2005, 2007 and 2015.

“My goal in each reauthorization was to build on existing data to find ways for the private insurance industry to absorb and cover the losses for all but the largest acts of terror, ones in which the federal government would likely be forced to step in were the program not there.

“Congress made several improvements to the Program during the 2015 reauthorization. It increased the program trigger from \$100 million to \$200 million in increments of \$20 million each year; increased the level below which insurers are subject to mandatory recoupment \$2 billion each year to what is now a floating amount based on insurers’ deductibles; and decreased the coinsurance rate from 85 percent to 80 percent in 1 percent increments each year.

“That bill garnered overwhelming bipartisan support in the Senate with a vote of 93 to 4.

“The Program is once again set to expire on December 31, 2020.

“Well ahead of that expiration date, the Banking Committee has already started meeting with key stakeholders and is exploring whether there are additional balanced reforms to improve the Program and reduce taxpayer exposure without having a material negative effect on the cost and take-up rates for terrorism coverage.

“In 2018, the Treasury Department issued a report on the Program’s effectiveness, which also discussed key developments in the marketplace for terrorism risk insurance.

“In addition to Treasury concluding in the report that ‘The Program has accomplished its principle goals identified in TRIA,’ Treasury also observed that ‘Private reinsurance of terrorism risk has significantly increased under the Program, and there is now increased private reinsurance capacity for the exposures that remain wholly with the private market under TRIP.’

“Each of today’s witnesses has written extensively on the Program’s effectiveness, structure and market developments.

“In 2018, Dr. Kunreuther co-authored a report on the Program, which found that ‘Overall, TRIA has worked well. It has stabilized a very disrupted market in the aftermath of 2001, making terrorism insurance widely available and affordable. Take-up rates among enterprises small and large are rather high and premiums a few percentage points of what firms pay for their property insurance, even though cost and take-up rates vary widely by size, industry, geography, and line of business.’

“In its 2019 Terrorism Risk Insurance Report, Marsh discussed take-up rates, as well as cost, geographic and corporate trends in terrorism risk insurance in the U.S., as well as globally.

“Marsh emphasized in the report that ‘...the federal backstop created by TRIA and reauthorized as TRIPRA – along with similar public-private mechanisms that exist in other countries – remains crucial to the continued stability and health of the property terrorism insurance market.’

“Finally, the Congressional Research Service has published numerous reports, including one as recently as April 2019, providing a comprehensive overview of the Program, its history, statutory changes in past reauthorizations and key considerations for this Congress.

“During this hearing, I look forward to hearing more about: specific considerations in evaluating the Program’s effectiveness; how the Program has evolved over time; how the marketplace has responded to changes to the Program made by Congress in previous reauthorizations; what additional room exists to further reduce taxpayer exposure; and how different market participants may react to changes in different Program levers.

“Thank you all for joining us today to share your perspectives and research.”

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