



Terrorism Risk Insurance Program

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Terrorism Risk Insurance Program

Purpose

- **Address Insurance Market Disruptions**
- **Ensure Availability and Affordability of Commercial P&C Terrorism Coverage**
- **Provide Transition Period**
- **Stabilize and Build Capacity in Private Market**
- **Strengthen Overall Economy**



Terrorism Risk Insurance Program

Summary of Program

Certifies Act of Foreign Terrorism
Resulting in Damage > 5M

IN

United States

U.S. Missions

U.S. Air Carriers

U.S. Vessels

FOR

Commercial Lines P & C

Workers Compensation

Secretary
of
Treasury

Secretary
of
State

Attorney
General



Terrorism Risk Insurance Program

Property & Casualty Insurance

- **Means commercial lines including excess, workers' compensation, and surety**
NAIC Annual statement of Premiums + Losses (Statutory Page 14)
- **Does not mean:**
 - Federal crop insurance**
 - Private mortgage insurance**
 - Financial guaranty insurance**
 - Medical malpractice insurance**
 - Health or life insurance, including group life**
 - Flood insurance**
 - Reinsurance or retrocessional insurance**



Terrorism Risk Insurance Program

Restrictions

- **Temporary Program**
Expires 2005
- **Company Deductible**

2003	7%	} + 10% Insured Loss (after the deductible)
2004	10%	
2005	15%	
- **\$100 Billion Annual Cap on Insured Losses**



Terrorism Risk Insurance Program

Recoupment

- The Secretary will establish “Terrorism Loss Risk-Spreading Premium” (TLRS Premiums) to recoup federal TRIP assistance.
- TLRS Premiums will be imposed on policies, collected by insures, and remitted to the Treasury.
- Mandatory TLRS Premiums up to 3% of policy premiums for any policy.
- The Secretary may make adjustments for:
 - Urban & Smaller Commercial & Rural Areas, and
 - Different lines of insurance.
- Discretionary Recoupment



Terrorism Risk Insurance Program

Recoupment Example

\$20 B Insured Loss

Discretionary
Recoupment
\$5 B

100 Insurers Impacted

DEP 100 Insures = \$20 B

\$15 B 3rd Year

15% deductible = \$3 B

Industry Aggregate Retention

10% quota share = \$1.7 B

Mandatory
Recoupment
\$10.3 B

100 Companies Pay \$4.7 B

\$4.7 B Paid by 100 companies

Trip

Pays \$15.3 B



Terrorism Risk Insurance Program

Treasury Offices

T.R.I.P.

**Implementation
Program Management
Program Operations
Claims Management/
Processing
Financial/Operational
Efficiency**

O.E.P

**Group Life
Individual Life
Personal Lines
2005 make available extension**

F.I.P

**Interim Rules
Program
Regulations**



Terrorism Risk Insurance Program

Progress To Date

- **4 Interim Guidance Notices**
- **2 Interim Final Rule**
- **Proposed Rule**
 - **State residual markets**
 - **State Worker's Comp Fund**
- ➔ **Hire Executive Director**



Terrorism Risk Insurance Program

First Final Rule

- **Published July 11, 2003**
- **Provides key definitions, such as “Act of Terrorism,” “Insurer,” and “Affiliate”**
- **Identifies lines of Commercial Property & Casualty Insurance included in the Program**
- **Addresses Direct Earned Premium and calculation between personal and commercial lines**
- **Establishes process for insurers to request interpretations from TRIP**



Terrorism Risk Insurance Program

Final Rule: Definition of “Affiliate” & “Control”

Section 102(6) of the Act defines an “insurer” to include “any affiliate thereof.”

“Affiliate” means “with respect to any insurer, an entity that controls, is controlled by or is under common control with the insurer.”

What is Control?

“Control” exists:

- (1) if an insurer directly or indirectly or acting through 1 or more other persons owns, controls, or has power to vote 25 percent or more of any class of voting securities of the other insurer (this is conclusive of control);
- (2) if an insurer controls in any manner the election of a majority of the directors or trustees of the other insurer (this is conclusive of control);
- (3) if the Secretary determines, after notice and opportunity for hearing, that the insurer directly or indirectly exercises *a controlling influence* over the management or policies of the other insurer (this is presumptive of control).



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Final Rule: Requests

- Insurers can request a determination of “controlling influence” of affiliates
 - Written submission to TRIP
 - Treasury can ask for more information or for an informal oral hearing
 - Determination generally within 60 days
- Insurers can request a general interpretation of statute
 - Written submission to TRIP



Terrorism Risk Insurance Program

Pending Rulemaking

- **Treasury is in the process of finalizing an interim final rule and a notice of proposed rule, which will next address**
 - **Make available requirements**
 - **Disclosure requirements**
 - **State residual market mechanisms**



Terrorism Risk Insurance Program

Program Issues

- **Adverse selection**
- **Availability/Afordability**
- **Huge Exposure (ESP Workers Compensation)**
- **State Exemptions**



Terrorism Risk Insurance Program

Operational Issues

- **Recruit/Hire TRIP Staff**
- **Establish Emergency Implementation Plan**
- **Establish/Implement Claims Procedures**
- **Establish Audit/Enforcement Procedures**
- **Policy Surcharge Recoupment Procedures**
- **Final Rules**
- **Establish “Virtual” Company**



Terrorism Risk Insurance Program

Claims Issues

- **Speed with which TRIP will act on a request for reimbursement.**
- **Payment of allocated loss adjustment expenses.**
- **Level of documentation required to support a claim.**
- **Unique data elements required in reporting.**
- **Selection of vendor to administer reimbursement process.**
- **Treasury selection of Audit Vender**
- **Partial Payments**