EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

September 17, 2007
(House Rules)

STATEMENT OF ADMINISTRATION POLICY

H.R. 2761 – Terrorism Risk Insurance Revision and Extension Act of 2007

(Rep. Frank (D) Massachusetts and 30 cosponsors)

The Administration believes that the Terrorism Risk Insurance Act (TRIA) should be phased out in favor of a private market for terrorism insurance. The Administration strongly opposes efforts to expand the Federal government's role in terrorism reinsurance. The most efficient, lowest cost, and most innovative methods of providing terrorism risk insurance will come from the private sector. Unfortunately, H.R. 2761 effectively makes TRIA permanent, increases the role of the Federal government, and expands the scope of coverage well beyond the point where it is needed. <u>Therefore, if H.R 2761 as reported were presented to the President, his senior advisors would recommend that he veto the bill</u>.

The Administration has set forth three critical elements that are necessary for there to be an acceptable extension of TRIA: (1) the Program should be temporary and short-term; (2) there should be no expansion of the Program; and (3) private sector retentions should be increased.

TRIA was intended to provide a temporary mechanism to allow the marketplace to adapt in the short run after economic dislocations resulting from September 11th. Therefore, the Administration opposes the legislation's 15-year extension. Instead, the program should be phased out in the near future.

Instead of scaling back the Federal backstop, the legislation unnecessarily expands the Program by including group life insurance and by adding domestic terrorism coverage. The insurance market for these risks has remained robust and competitive since TRIA's inception, even absent a Federal backstop. Adding these insurance coverages to the Federal reinsurance backstop sends the wrong signal to the marketplace, which instead should be encouraged to find new ways to diversify the risks of doing business.

The Administration also opposes provisions that would increase the government's share of private insurance losses from nuclear, biological, chemical, and radiological (NBCR) events by reducing insurance industry deductibles and reducing co-payments for NBCR losses. This provision would result in reduced private sector participation in areas where NBCR coverage is currently being provided, such as workers' compensation insurance. In addition, the legislation also creates a new "make available" mandate for NBCR coverage, which could have a negative impact on the provision of terrorism risk insurance coverage for non-NBCR acts of terrorism.

Furthermore, given the experience with TRIA over the last five years, the Administration believes that private sector retentions should be increased. The Administration opposes provisions that: (1) lower the program trigger level from $100 million; (2) maintain or decrease insurance industry retention levels; and (3) restructure the program's cap in a way that increases the Federal Government's share without a matching increase in the private sector's share. These provisions would have the effect of reducing or limiting private participation in the Program while at the same time increasing taxpayers' exposure.

The Administration also opposes the bill because of the potential cost of the legislation. For example, in 2006, the CBO scored the previous two-year extension of the Program at a ten-year cost of $1.4 billion and has recently scored H.R. 2761 at a ten-year cost of $10.4 billion. The proposed substantial expansion of the Program to new lines of coverage, the inclusion of domestic terrorism, the lowering of the Program trigger level, and the inclusion of mandated coverage for NBCR attacks would significantly add to the Program's potential cost. Nor would the costs of this bill be diminished by a requirement that Congress vote to release funds after a terrorist event has occurred. The Administration strongly opposes the use of any such gimmicks to mask the true cost of the legislation and circumvent budget rules.

The Administration is willing to work with the Congress as the bill moves through the legislative process so that H.R. 2761 meets the critical elements of an acceptable extension.

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