

Assembly Joint Resolution

No. 34

Introduced by Assembly Member Cooley

February 13, 2014

Assembly Joint Resolution No. 34—Relative to Terrorism Risk Insurance.

LEGISLATIVE COUNSEL'S DIGEST

AJR 34, as introduced, Cooley. Terrorism risk insurance.

This measure would, among other things, urge the President and Congress of the United States to take action as soon as possible to extend the Terrorism Risk Insurance Program Reauthorization Act of 2007 to protect the California and national economies.

Fiscal committee: no.

1 WHEREAS, Insurance helps protect the California economy
2 from the adverse effects of the risks inherent in economic growth
3 and development while also providing the resources necessary to
4 rebuild physical and economic infrastructure, offers
5 indemnification for business disruption, and provides coverage
6 for medical and liability costs from injuries and loss of life in the
7 event of catastrophic losses to persons or property; and
8 WHEREAS, The terrorist attacks of September 11, 2001,
9 resulted in claims paid by insurers to their policyholders eventually
10 totaling some \$32.5 billion, making this the second most costly
11 insurance event in United States history; and
12 WHEREAS, The sheer enormity of the loss, combined with the
13 possibility of future attacks, produced financial shockwaves that
14 shook insurance markets causing insurers and reinsurers to exclude

1 coverage arising from acts of terrorism from virtually all
2 commercial property and liability policies; and

3 WHEREAS, The lack of terrorism insurance contributed to a
4 paralysis in the state and national economies, especially in
5 construction, tourism, business travel, and real estate finance; and

6 WHEREAS, The United States Congress originally passed the
7 Terrorism Risk Insurance Act of 2002 (TRIA) (Public Law
8 107-297), in which the federal government partnered with
9 commercial property-casualty insurers on a shared loss program
10 that provided the certainty and stability needed to reestablish a
11 functional private market for terrorism risk insurance, and
12 reauthorized this arrangement through the Terrorism Risk
13 Extension Act of 2005 (Public Law 109-144) and the Terrorism
14 Risk Insurance Program Reauthorization Act of 2007 (TRIPRA)
15 (Public Law 110-160); and

16 WHEREAS, TRIPRA and its predecessors have fostered private
17 market participation, and therefore, have limited taxpayer exposure;
18 and

19 WHEREAS, Under TRIPRA the shared loss program is triggered
20 only after industrywide losses attributable to annual certified
21 terrorism events exceed \$100 million; and

22 WHEREAS, Quota share coverage under TRIPRA is provided
23 to individual insurers after the insurer has incurred losses related
24 to terrorism equal to 20 percent of the insurer's previous year
25 earned premium for property-casualty lines; and

26 WHEREAS, After an individual insurer has reached that
27 threshold, the insurer pays 15 percent of residual losses and the
28 federal government pays the remaining 85 percent; and

29 WHEREAS, The Terrorism Risk Insurance Program has an
30 annual cap of \$100 billion of aggregate insured losses, beyond
31 which neither the federal government or commercial
32 property-casualty insurers have any responsibility for terrorism
33 losses for those insurance lines covered by TRIPRA; and

34 WHEREAS, Without question, TRIPRA and its predecessors
35 are the principal reason for the continued stability in the insurance
36 and reinsurance market for terrorism insurance to the benefit of
37 California's economy; and

38 WHEREAS, Absent an extension by Congress, TRIPRA will
39 expire on December 31, 2014; and

1 WHEREAS, The National Association of Insurance
2 Commissioners (NAIC) has “not seen evidence that the insurance
3 marketplace is capable or willing to voluntarily take on a
4 substantial portion of the risk of providing coverage of acts of
5 terrorism”; and

6 WHEREAS, The threat of a large-scale terrorist attack in the
7 United States is still high and, according to experts, is concentrated
8 in five metropolitan areas nationwide with two of them, the San
9 Francisco and Los Angeles areas, in California; and

10 WHEREAS, Failure by Congress to extend TRIPRA would
11 likely result in insurers individually managing, and potentially
12 reducing, their exposure to terrorism risk, and according to Fitch
13 Ratings, failure to extend TRIPRA “could induce commercial
14 insurers to retreat from larger metropolitan areas, reducing
15 availability of coverage and raising premiums”; and

16 WHEREAS, Without adequate terrorism insurance coverage,
17 banks will not extend loans for commercial transactions, such as
18 mortgages, construction projects, and other capital-intensive
19 initiatives; and

20 WHEREAS, The lack of private terrorism insurance to cover
21 losses from future terrorist attacks may require the federal
22 government to cover those losses without the benefit of the private
23 market share of losses established under TRIPRA; and

24 WHEREAS, Without the encouragement of private market
25 participation established by TRIPRA, a limited availability of
26 insurance against terrorism would have a severe adverse effect on
27 California’s economy as financiers might be reluctant to lend,
28 businesses might be reluctant to invest, and commercial consumers
29 might be unable to afford insurance in the state’s major population
30 centers; now, therefore, be it

31 *Resolved by the Assembly and the Senate of the State of*
32 *California, jointly,* That we urge the President and the Congress
33 of the United States to support a long-term extension of TRIPRA;
34 and be it further

35 *Resolved,* That we urge the President and the Congress of the
36 United States to take action as soon as possible to extend TRIPRA;
37 and be it further

38 *Resolved,* That the Chief Clerk of the Assembly transmit copies
39 of this resolution to the President and Vice President of the United
40 States, to the Speaker of the House of Representatives, to the

- 1 Majority Leader of the Senate, and to each Senator and
- 2 Representative from the State of California in the Congress of the
- 3 United States.

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