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The Reinsurance Tax and TRIA: A Recipe for Massive Taxpayer Liabilities

Proposed taxes on "affiliated reinsurance" transactions sought by the Obama administration and some members of Congress would restrict trade and could make it impossible to transfer the costs of the Terrorism Risk Insurance Act (TRIA) to the private sector.

The Facts about TRIA

TRIA is a public/private partnership, in which the federal government provides reinsurance to encourage private insurers to provide coverage they otherwise would not or could not. In return for this backstop, insurers are required to offer coverage. Although TRIA has not been triggered in its 12 years of operation, a major terrorist attack cause up to \$100 billion in unbudgeted federal outlays. Without action, the program will lapse on Jan. 1, 2015.

Both Parties Agree: Reauthorization is Necessary and Will Involve More Private Capital

While Congress is considering legislation to reauthorize TRIA, members have said repeatedly they want the private sector to take on more risk. Some ideas include increasing the industry's retention, raising the program's trigger level and shrinking the federal government's pro-rata payment share. The Senate Banking Committee has passed a version of reauthorization legislation. Both the House and Senate bills would require more private capacity.

Congress Must Reject Reinsurance Tax Proposals

If the reinsurance tax becomes law, international insurers and reinsurers operating in the United States would be denied a key risk management tool every other insurer uses. They would have to either replace affiliate reinsurance with non-affiliate reinsurance or raise more capital. This would force the industry as a whole to reduce the size and scope of their U.S. offerings. Above all, it would make reinsurance more expensive, making it much harder to transfer terrorism risks to the private sector.

Quite simply, the proposed reinsurance tax will make it impossible for Congress to achieve its stated goals of moving more terrorism insurance into the private sector. *If Congress wants to have private industry rather than taxpayers take on more terrorism risk, it must reject affiliate reinsurance tax proposals.*