CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 15, 2014

H.R. 4871
TRIA Reform Act of 2014

As reported by the House Committee on Financial Services on June 20, 2014

SUMMARY

H.R. 4871 would extend the Terrorism Risk Insurance Act (TRIA) for five years—through calendar year 2019—and, in certain instances, increase the share of insured losses paid by private insurers under the program.[1] The bill also would establish the National Association of Registered Agents and Brokers (NARAB) and authorize it to license producers of insurance (mostly agents and brokers) to operate in multiple states. Finally, the bill would require several new studies of various aspects of the terrorism insurance program.

Considering both the direct spending and revenue effects of the bill, CBO estimates that enacting H.R. 4871 would increase budget deficits by about $500 million over the 2015-2024 period. Changes in federal revenues and spending, however, would continue beyond 2024; CBO estimates that after taking into account all revenues and direct spending, enacting H.R. 4871 would lead to a small reduction in deficits over time.

Title I would reauthorize the TRIA program, which requires insurance firms that sell commercial property and casualty insurance to offer clients insurance coverage for damages caused by terrorist attacks by foreign or domestic interests.

Under TRIA, the federal government would help insurers cover losses in the event of a terrorist attack under certain conditions, and would impose assessments on the insurance industry to recover all or a portion of any federal payments. The program is currently set to expire at the end of calendar year 2014; no federal payments have been made under the program since its inception in 2002.

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1. The Terrorism Risk Insurance Act, Public Law 107-297, was enacted on November 2, 2002. It was extended on December 22, 2005, upon enactment of the Terrorism Risk Insurance Extension Act of 2005 (P.L. 109-144). On December 26, 2007, the Terrorism Risk Insurance Program Reauthorization Act of 2007 (P.L. 110-160) extended the program again. In this estimate, CBO refers to the original Act as subsequently amended, as TRIA.

There is no reliable way to predict how much insured damage terrorists might cause, if any, in any year. Rather, CBO's estimate of the cost of financial assistance provided under the bill represents an expected value of payments from the program—a weighted average that reflects industry experts' opinions of the probability of various outcomes ranging from zero damages up to very large damages resulting from possible future terrorist attacks. The expected value can be thought of as the amount of an insurance premium that would be necessary to just offset the government's expected losses from providing this insurance, although firms do not pay any upfront premium for the federal assistance available under TRIA.

Title II of H.R. 4871 would establish the NARAB; it would allow insurance producers who join the organization to obtain a license to act as a producer in any state other than their home state by meeting the NARAB's eligibility requirements and paying certain fees.

CBO estimates that enacting the bill would increase direct spending for federal assistance under TRIA and spending by the NARAB by $3.0 billion over the 2015-2024 period.

CBO estimates that enacting H.R. 4871 also would increase revenues. The bill would direct the Department of the Treasury to recoup some or all of the costs of providing financial assistance under TRIA through taxes imposed on certain insurance policyholders. CBO expects that spending for financial assistance to insurers would be offset (on a cash basis) by an increase in revenues. In addition, the bill would authorize the NARAB to charge fees to cover the cost of operating the organization. Taken together, CBO estimates that enacting H.R. 4871 would increase revenues by $2.5 billion over the 2015-2024 period, net of income and payroll tax offsets.[2]

Enacting the legislation would lead to additional spending of $250 million and additional revenues of $1 billion after 2024, CBO estimates. Thus the estimated net budgetary savings after 2024 would be slightly larger than the estimated net budgetary cost between 2015 and 2024.

The bill would impose intergovernmental and private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) by extending and expanding some requirements on insurers and policyholders, including the payment of surcharges. State, local, or tribal governments could be required to pay a surcharge as purchasers of property and casualty insurance, but CBO estimates that the aggregate cost to public entities of complying with those mandates would probably fall below the annual threshold established in UMRA ($76 million for intergovernmental mandates in 2014, adjusted annually for

2. When excise taxes and other types of "indirect" taxes are imposed on goods and services, they tend to reduce income for workers or business owners in the taxed industry and others throughout the economy. Consequently, revenue derived from existing "direct" tax sources—such as individual and corporate income taxes and payroll taxes—will also be reduced. To approximate that effect, CBO and the staff of the Joint Committee on Taxation apply an offset when estimating the net revenue that legislation imposing some form of indirect tax is expected to generate. The amount of the offset ranges from 25.2 percent in 2015 to 26.2 percent in 2024.

inflation). CBO estimates that the aggregate cost to private insurers and policyholders to comply with those mandates would exceed UMRA's annual threshold for private-sector mandates ($152 million in 2014, adjusted annually for inflation) in each year policyholders pay a surcharge.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of H.R. 4871 is shown in the following table. We estimate that enacting the bill would increase direct spending by $3.0 billion and increase revenues by $2.5 billion over the 2015-2024 period. The costs of this legislation fall within budget function 370 (commerce and housing credit).

	By Fiscal Year, in Millions of Dollars											
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2019	2015-2024
CHANGES IN DIRECT SPENDING[a]												
Title I – TRIA Reform												
Estimated Budget Authority	120	280	380	440	480	360	210	120	80	60	1,700	2,530
Estimated Outlays	120	280	380	440	480	360	210	120	80	60	1,700	2,530
Title II – NARAB Reform												
Estimated Budget Authority	1	2	55	56	58	60	63	66	68	68	172	497
Estimated Outlays	1	1	49	56	58	60	63	65	69	69	165	491
Total Changes in Direct Spending												
Estimated Budget Authority	121	282	435	496	538	420	273	186	148	128	1,873	3,027
Estimated Outlays	121	281	429	496	538	420	273	186	148	128	1,865	3,020
CHANGES IN REVENUES												
Title I – TRIA Reform	0	40	100	160	220	290	310	300	300	300	520	2,020
Title II – NARAB Reform	1	2	55	56	58	60	63	65	69	69	172	497
Total Changes in Revenues	1	42	155	216	278	350	373	366	368	368	693	2,518
NET INCREASE OR DECREASE (-) IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES												
Effect on the Deficit	120	239	274	280	260	70	-100	-180	-220	-240	1,173	503

Notes: TRIA = Terrorism Risk Insurance Act; NARAB = National Association of Registered Agents and Brokers.

Components may not sum to totals because of rounding.

a. CBO also estimates that implementing H.R. 4871 would increase discretionary costs by $2 million over the 2015-2019 period.

BASIS OF ESTIMATE FOR TITLE I (TRIA)

Title I would extend the TRIA program for five years, through December 31, 2019. CBO estimates that enacting the extension would increase direct spending by $2.5 billion and revenues by $2.0 billion over the 2015-2024 period. While this estimate reflects CBO's best judgment on the basis of available information, the cost of the TRIA program is a function of inherently unpredictable future terrorist attacks. As such, actual costs are likely to vary significantly from the estimated amounts. Such costs could be either higher or lower than the expected-value estimates provided for each year.

Terrorism Risk Insurance Act Under Current Law

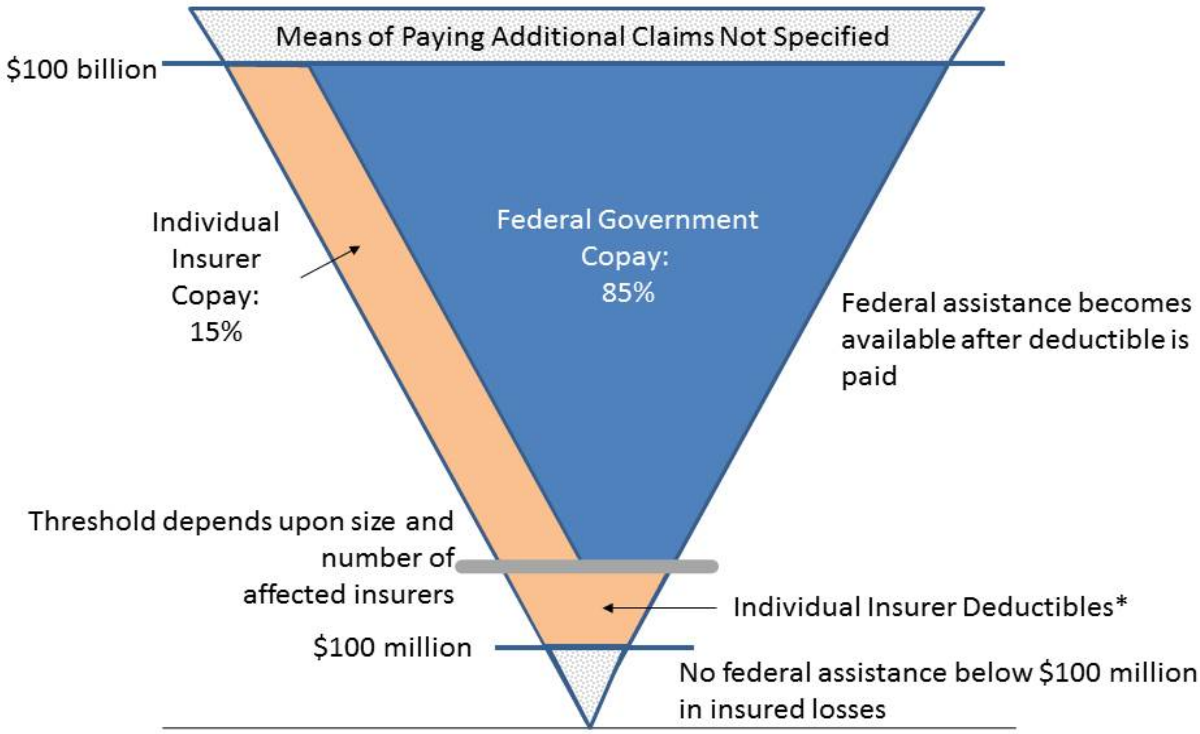
The Terrorism Risk Insurance Act provides financial assistance to commercial property and casualty insurers for losses above certain thresholds (illustrated in Figure 1 on the next page) caused by terrorist attacks by individuals acting on behalf of foreign or domestic interests. For such assistance to be provided, the Secretary of the Treasury must certify that a terrorist attack has occurred in the United States or other specified locations. TRIA is set to expire on December 31, 2014.

TRIA does not require commercial property and casualty insurance policies to cover losses from terrorist attacks involving nuclear, biological, chemical, or radioactive (NBCR) materials. If, however, an insurer and a policyholder choose to include losses from terrorist attacks involving NBCR materials in such a policy, TRIA would cover a portion of the losses resulting from such attacks.

For the Secretary of the Treasury to certify a terrorist attack, insured damages resulting from the attack must exceed $5 million. Financial assistance becomes available to insurers suffering losses from a certified attack once the insurers suffering losses have aggregate insured losses from an attack that exceed $100 million. Once that threshold is met, insurance companies that suffer losses are responsible for paying claims up to a deductible amount that equals 20 percent of the premiums they collected for certain lines of insurance in the calendar year preceding a certified attack. The total amount of deductibles paid by insurers would depend on the amount of losses from an attack and the particular insurers involved.

After meeting their individual deductibles for damage claims, insurers that suffered losses and the federal government would each pay a portion of the losses above the deductible (in 2014, the federal government would pay 85 percent of insured losses and individual insurers would pay 15 percent) up to total losses of as much as $100 billion. The law does not specify how any claims above the $100 billion cap would be paid.

Figure 1. Loss-sharing Under Terrorism Risk Insurance Act (TRIA)



Notes: Diagram not drawn to scale.
* Deductible = 20% of each insurer's direct earned premiums in the previous year for TRIA-covered insurance lines.

The Secretary of the Treasury is authorized to recover payments made by the federal government through taxes in the form of surcharges paid by all purchasers of commercial property and casualty insurance. The Secretary is required to recoup any federal payments made to cover losses, but only if those recoveries plus other amounts paid by directly affected insurers do not exceed $27.5 billion—known as the retention amount. If insured losses from a terrorist attack are large enough that insurers pay more than the industry retention amount, the Secretary would not be required to recoup any federal payments. The program provides the Secretary with authority, however, to recover federal payments in that instance after considering the ultimate cost to taxpayers, economic conditions, and the affordability of commercial insurance.

Modifications to TRIA Under H.R. 4871

H.R. 4871 would extend TRIA for five years, through December 31, 2019. The bill also would make changes in program parameters that would increase the share of insured losses paid, in certain instances, by private insurers in the event of an attack.

The bill would make changes to the program trigger, that is, the level of aggregate insured losses from a certified attack that must be incurred before insurers would become eligible for federal assistance. For losses resulting from an attack using nuclear, biological, chemical or radiological (NBCR) materials, the current-law level, $100 million, would be retained for the term of the program. For losses incurred from an attack using conventional (or non-NBCR) materials, however, the trigger would increase incrementally from $100 million in calendar year 2015 to $500 million in calendar year 2019, the last year the program would be in effect under H.R. 4871.

As under current law, an insurer suffering losses as a result of a certified attack would pay claims up to a specified deductible. The bill would retain the same deductible limits as in current law: 20 percent of certain premiums collected in the year preceding an attack.

H.R. 4871 also would continue the payment-sharing process that exists under current law. Affected insurers and the federal government would each pay a portion of the losses over the deductibles up to the $100 billion limit for the program. However, the bill would establish different sharing rates for losses depending on the materials used in the attack. Currently, the federal government would cover 85 percent of covered losses above the deductible. Under the bill, in the case of an NBCR attack, the federal government's share would remain at 85 percent of covered losses through the expiration of the program. In the case of an attack using conventional materials, however, that rate would decrease incrementally from 85 percent of covered losses in calendar year 2015 to 80 percent of covered losses in calendar year 2019.

Finally, H.R. 4871 would change the industry retention amount—the limit used to calculate the amount of federal spending that would be recovered from policyholders—from a flat amount, $27 billion in 2015, to an amount equal to the sum of the deductibles for all insurers participating in the program during the year of the loss. (CBO estimates that amount would be about $44 billion in 2016.)

Direct Spending for TRIA

By extending financial assistance to certain commercial insurers for losses from future acts of terrorism against insured private property, enacting H.R. 4871 would expose the federal government to potentially large liabilities for five more years (2015 through 2019). For any particular year, the amount of insured damage caused by terrorists could range from zero to many billions of dollars. CBO's estimate of the cost of this program reflects how much, on average, the government could be expected to pay to insurers and recover from the industry over the 2015-2024 period.

The following sections describe our method for estimating the expected value of financial assistance under the bill and explain how we convert that cost to estimates of annual federal expenditures.

Estimating the Expected Cost of Federal Assistance. For this estimate, CBO discussed the process of estimating insured losses with industry actuaries and reviewed models used by firms to set premiums for the terrorism component of property and casualty insurance that they offer. State insurance regulators generally require such premiums to be grounded in a widely accepted model of expected losses from covered events. After the terrorist attacks on September 11, 2001, the insurance industry began efforts to set premiums for insurance coverage for terrorist events using such models.

Although estimating losses associated with terrorist events is difficult because of the lack of meaningful historical data, the insurance industry has experience setting premiums for other catastrophic events—namely, natural disasters. Setting premiums for hurricanes and earthquakes, for example, involves determining areas that could sustain damage, the value of the losses that could result from various types of events with different levels of severity, and the frequency of such events.

Similarly, estimating premiums for losses resulting from terrorist attacks involves judgments regarding potential targets and the frequency of potential attacks. Because there is a very limited history of terrorist attacks in the United States, many of the parameters needed by the insurance industry to set premiums are based on expert opinion regarding terrorist activities and capabilities as well as information about attempted attacks that were not successful.

Estimating Potential Insured Losses. Based on discussions with insurers and information provided by the insurance industry, CBO estimates that the expected or average annual loss subject to TRIA coverage under the bill would be about $2.1 billion (in 2014 dollars); of that amount, $1.5 billion would account for losses caused by attacks using conventional materials and $650 million would be for losses caused by attacks using NBCR materials. This estimate incorporates industry expectations of the probabilities of terrorist attacks, encompassing the possibility of attacks that result in enormous loss of life and property damage, as well as a significant likelihood that no such attacks would occur in any given year. This estimate also reflects our expectation that some portion of losses from terrorism would not be covered by TRIA because some policyholders choose not to purchase insurance coverage for terrorism risks.

CBO’s estimate incorporates an expectation that, in most years, losses from terrorist attacks covered by TRIA would cost significantly less than $2.1 billion. We expect that there is a significant chance that no terrorist attacks covered by TRIA would occur in a given year. Since enactment of TRIA, no covered events have occurred, though several attempts were prevented by law enforcement and other security measures. Although the risk of a terrorist attack with many lives lost and substantial property damage still remains, based on industry models, CBO assumes for this estimate that attacks causing losses similar in scale to those sustained on September 11, 2011, in New York City are likely to occur very rarely, if at all.[3]

Under current law, insurers are not required to offer coverage for attacks using NBCR materials, although if an insurer and a policyholder voluntarily agree to include this coverage in a property and casualty policy, TRIA would cover some of those losses. While the bill would not require property and casualty policies to include coverage for losses resulting from attacks using NBCR materials, information provided by the industry indicates that a small amount of coverage is currently in place for such losses. Thus, under the bill, the government's exposure to losses resulting from terrorist attacks involving NBCR materials would likewise be small compared with losses resulting from attacks using conventional materials. The only exception is in the workers' compensation insurance line, where no exclusions for specific causes are allowed.

Determining the Federal Share of Insured Losses. Federal payments under TRIA would be lower than the total expected losses from terrorist attacks because TRIA places limits on eligibility for federal assistance and requires that insurers that suffer losses as the result of a certified attack pay a share of covered losses. CBO took account of those requirements to estimate federal spending for any given amount of insured losses from future terrorist attacks.

- *Upper and lower limits for federal assistance.* Because federal payments under TRIA would be capped at $100 billion per event, we excluded costs for potential losses above that level.

  Similarly, H.R. 4871 would set a minimum level of aggregate insured losses that must be incurred before insurers become eligible for financial assistance. Those minimum levels would depend on the materials used in a certified attack. If conventional materials were used, the minimum level of losses would increase each year of the authorization from $100 million in 2015 to $500 million in 2019. For attacks using NBCR materials, that minimum level would remain at $100 million each year. For this estimate, we excluded losses below the appropriate minimum level as well.

- *Insurers' deductibles.* Before the federal government would make any payments under TRIA, an insurer incurring losses would first pay claims up to a deductible amount. H.R. 4871 would maintain the current-law deductible of 20 percent of premiums on certain property and casualty lines collected by affected insurers in the calendar year preceding an attack.

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3. Based on information from the Insurance Information Institute, we estimate that industry losses on September 11, 2001, totaled about $44 billion (in 2014 dollars), including about $35 billion in losses that would have qualified for coverage under TRIA had the law been in effect on that date.

The total amount of the deductibles could range from a few million dollars to several billion dollars, depending on how many insurers provide coverage for losses resulting from a particular terrorist attack. In addition, the value of each individual insurer's deductible would vary greatly across the industry. For this estimate, CBO considered a range of possibilities regarding the share of federal assistance, using industry data to estimate insurers' deductibles under the bill. The range encompasses the possibility that an attack would affect only a few insurers with relatively small deductibles or several insurers with relatively large deductibles. CBO expects that insured losses below a few hundred million dollars for attacks using either conventional or NBCR materials would most likely be covered by insurers' deductibles, and therefore, would not result in a significant increase in federal spending.

- *Shared payments if losses exceed insurers' deductibles.* Once affected insurers have paid claims up to their deductibles, the federal government would share a portion of the losses above the deductibles. Under H.R. 4871, the federal government's share of claims above the deductible for losses from conventional attacks would fall from the current level of 85 percent of total losses to 80 percent, up to the $100 billion limit covered by the program, by 2019. For losses incurred in attacks using NBCR materials, the federal government's share of amounts above the deductible would remain at 85 percent, up to the $100 billion limit, for the full term of the program.

After taking into account minimum and maximum limits, deductibles, and the insurers' share of payments above the deductibles, CBO estimates that enacting title I would increase direct spending in total by $2.8 billion (but a portion of that estimated spending would occur after 2024, as noted below). That amount translates into an average of roughly $560 million for each of the five years for which the program would be extended. Actual spending would be spread out over many years, and those costs would be recovered through surcharges imposed on policyholders (which are discussed in the section on revenues below).

Taken another way, if the Secretary of the Treasury were authorized to collect premiums for the program, CBO estimates that the Secretary would need to charge, on average, about $560 million per year (for five years) to offset the government's projected losses under the bill. The bill, however, would not authorize any charges prior to a certified attack. The bill also does not contain an explicit requirement for the Secretary to recoup interest that would accrue on amounts outstanding.

Timing of Federal Spending. To estimate federal spending for this program on a cash basis, CBO used information from insurance experts on historical rates of payment for property and casualty claims following catastrophic events. Based on such information, CBO estimates that outlays under title I would total about $2.5 billion over the 2015-2024 period and about $250 million after 2024. In general, following a catastrophic loss, it takes many years to complete insurance payments because of disputes over the value of covered losses by property and business owners. Under this bill, we expect that financial assistance to insurers would be paid over several years, with most of the spending occurring within the first five years following a certified event.

Revenues for TRIA

Enacting title I would affect federal revenues by authorizing the Secretary of the Treasury to impose taxes in the form of surcharges on all holders of property and casualty insurance policies to recover the amount of federal payments made under the program, with certain limitations. CBO estimates that this provision would increase revenues by $2.0 billion over the 2015-2024 period and an additional $1 billion after 2024.

Surcharges. If a terrorist attack were to trigger government payment of financial assistance, the bill would require the Secretary of the Treasury to recoup some or all of that cost through taxes paid by purchasers of commercial property and casualty insurance. The calculation of the amount to be recouped would continue as under current law for the first year of the reauthorization (2015). Starting in calendar year 2016, the bill would direct the Secretary to recoup all federal assistance paid to affected insurers up the industry retention amount, which would be set at the deductible amount for all insurers participating in the program (about $44 billion in 2016, CBO estimates.)

If insured losses from a terrorist attack are large enough that federal assistance exceeds the industry retention amount, the Secretary would not be required to recoup that excess federal assistance—although the Secretary could choose to do so. In that case, the amount the Secretary would collect would be based on economic conditions, the affordability of commercial insurance, and the cost to taxpayers of no additional recoupment. CBO expects that the Secretary would not seek to recover financial assistance provided above the industry retention amount and would not collect interest on outstanding amounts.

The recoupment of financial assistance would be accomplished by assessing a surcharge on premiums for property and casualty insurance policies and would apply to policies in force following a terrorist attack that necessitated federal assistance. The amount to be recovered would be 150 percent of the difference between the industry retention amount and the Secretary’s estimate of the total amount paid by insurers for deductibles and their share of payments over the deductibles. CBO estimates that surcharges resulting from a five-year extension of TRIA would total, on an expected-value basis, $2.8 billion over the 2015-2024 period.

Timing and Tax Offset. The bill would direct the Secretary to begin collection of the surcharge—in cases where a surcharge would be imposed—no later than 18 months after an attack. CBO assumes that such surcharges would be fully collected over 10 years, with collections starting in the first year after a certified attack.

The gross revenue collections would be partially offset by a loss of revenues from income and payroll taxes. Consistent with standard procedures for estimating the revenue impact of indirect business taxes, CBO reduced the gross revenue impact of the insurance surcharges to reflect offsetting effects on income and payroll tax receipts. On balance, CBO estimates that enacting title I would increase revenues by a total of $2.0 billion over the 2015-2024 period, net of income and payroll tax offsets.

Spending Subject to Appropriation for TRIA

Title I also would direct several agencies to prepare reports on various issues related to the TRIA program. Spending to complete those reports would be subject to the availability of appropriated funds. Specifically:

- The Congressional Budget Office and the Office of Management and Budget each would be required to determine the feasibility of applying accrual accounting concepts to budgeting for the costs of TRIA and other insurance programs administered by the federal government; and

- The Government Accountability Office would be required to assess the viability of collecting upfront premiums from insurers that participate in the TRIA program and creating a reserve fund under the program where participating insurers would be able to dedicate capital for terrorism losses.

CBO estimates that implementing the new reporting requirements would cost about $2 million over the 2015-2019 period to complete the required studies and reports.

BASIS OF ESTIMATE FOR TITLE II (NARAB)

CBO believes that cash flows related to the National Association of Registered Agents and Brokers that would be created under the bill should be recorded in the budget as revenues and direct spending because the association’s authority would exist only through a preemption of states’ power to regulate the licensing of insurance producers. This preemption would stem from an exercise of the sovereign power of the federal government.

Direct Spending for NARAB

Under H.R. 4871, the NARAB would be responsible for establishing eligibility requirements for membership in the association, evaluating applicants’ eligibility for membership, and managing license requirements for members. Title II would direct the NARAB to establish separate classes of membership for businesses and individuals and require members to meet certain continuing education requirements.

H.R. 4871 would authorize the NARAB to create a database to centralize information about regulatory actions taken by states regarding insurance producers. The bill would allow two years from the date of enactment for the association to set up operations. During that time, the NARAB would be authorized to borrow funds from the public to cover start-up costs, which would be repaid from membership fees.

Based on information about the cost to operate similar professional organizations, CBO estimates that enacting title II would increase direct spending by $491 million over the 2015-2024 period to cover start-up, staffing, and operating costs of the organization.

Revenues for NARAB

H.R. 4871 would authorize the NARAB to charge fees to members to cover the cost of operating the organization. CBO assumes that the NARAB would use its authority to borrow funds to organize and begin its operations before membership fees could be collected, but revenues would keep pace with outlays beginning in 2015. CBO estimates that collecting those fees would increase revenues by $497 million over the 2015-2024 period.

Spending Subject to Appropriation for NARAB

Title II would require the Department of Justice to establish regulations to implement a requirement that members of NARAB undergo a background check conducted by the Attorney General. The NARAB would be authorized to collect fees, which would be remitted to the Department of Justice, for those background checks. We expect that those fees would be classified as offsetting collections and would be credited to the salaries and expenses appropriation of the Federal Bureau of Investigation (FBI). This is the same budgetary treatment accorded fees currently collected by the FBI for similar purposes.

We estimate that collecting and spending the fees for background checks authorized under title II would have no significant net effect on discretionary spending in any year.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays and revenues that are subject to those pay-as-you-go procedures are shown in the following table.

CBO Estimate of Pay-As-You-Go Effects for H.R. 4871, as ordered reported by the House Committee on Financial Services on June 20, 2014

	By Fiscal Year, in Millions of Dollars												
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2014-2019	2014-2024
	NET INCREASE OR DECREASE (-) IN THE DEFICIT												
Statutory Pay-As-You-Go Effect	0	120	239	274	280	260	70	-100	-180	-220	-240	1,173	503
Memorandum:													
Changes in Outlays	0	121	281	429	496	538	420	273	186	148	128	1,865	3,020
Changes in Revenues	0	1	42	155	216	278	350	373	366	368	368	693	2,518

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 4871 would impose intergovernmental and private-sector mandates, as defined in the Unfunded Mandates Reform Act, by extending and expanding requirements contained in the Terrorism Risk Insurance Act. Those mandates would:

- Require property and casualty insurers to offer terrorism insurance;

- Require property and casualty insurers to collect and report information about terrorism insurance policies; and

- Require, under certain circumstances, property and casualty insurers to collect surcharges from policyholders in amounts large enough to pay assessments to the federal government.

The bill also would impose intergovernmental mandates by preempting state laws and by requiring state insurance regulators to report on the results of insurance investigations.

State, local, or tribal governments could be required to pay a surcharge as purchasers of property and casualty insurance, but CBO estimates that the aggregate costs to public entities of complying with all of the mandates contained in the bill would fall below the annual threshold established in UMRA ($76 million in 2014 for intergovernmental mandates, adjusted annually for inflation). CBO estimates that the aggregate cost to private insurers and policyholders to comply with the mandates would exceed the annual threshold established in UMRA ($152 million in 2014 for private-sector mandates, adjusted annually for inflation) beginning in 2018.

Mandates That Apply to Public and Private Entities

Requirement to Offer Insurance. Current law (through 2014) requires that insurance companies offer terrorism insurance as a part of their property and casualty policies. Insurers may set their own premium rates, and policyholders can choose whether to purchase such insurance. The bill would extend the requirement to offer terrorism insurance through 2019. According to industry representatives, the cost to public and private insurers of continuing to offer such insurance would be minimal.

Requirement to Collect and Report Information. The bill would require property and casualty insurers to collect and report information to the federal government regarding their insurance coverage for terrorism losses (including information about lines of insurance with exposure to such losses; premiums earned on such coverage; geographical location of exposures; and pricing of such coverage). Based on information from insurers, CBO estimates that the cost to public and private entities of complying with the mandate would amount to tens of millions of dollars annually.

Repayment of Assistance. Insurers that offer terrorism insurance would receive financial assistance to cover losses under some conditions in the event of a certified terrorist attack. The bill would extend and expand the requirement that the federal government recoup the costs of such financial assistance through assessments on the insurers and surcharges on purchasers of property and casualty insurance. On average, policyholders would be required to pay a higher amount in surcharges under the bill in the event of a certified terrorist attack as compared to the amount they would have to pay under current requirements. The requirement to repay the federal government would be both an intergovernmental and a private-sector mandate under UMRA since state and local governments and private entities are both providers and purchasers of insurance.

The cost to insurers to comply with the mandate to administer the surcharges on policyholders and remit the amounts collected to the federal government would be small.

CBO estimates that insurer surcharges would total about $715 million over the 2015-2019 period. That amount is equal to federal benefits paid over those years plus 50 percent of those benefits (see the section on Revenues for TRIA, above, for further discussion). Based on information about the purchase of various types of insurance by public entities, CBO judges that state, local, and tribal governments comprise a small portion of the total market for property and casualty insurance. To the extent that state, local, or tribal governments would be required to pay a surcharge as policyholders, CBO estimates that the aggregate cost to public entities of complying with the mandate would total about $60 million over the 2015-2019 period. CBO estimates that the aggregate amount of surcharges paid by private entities would total about $655 million over the 2015-2019 period.

Mandates That Apply to Public Entities Only

H.R. 4871 would prohibit states from requiring producers that are members of the National Association of Registered Agents and Brokers to register with secretaries of state, meet state licensing requirements, complete education requirements, or be bonded. The bill also would require state insurance regulators to notify the NARAB of the results of complaint investigations.

Under current law, about 10 states require nonresident producers to register with their respective secretaries of state, and to pay fees. The bill would prohibit states from imposing this requirement and from collecting such fees. Based on the number of producers that are currently registered in states that impose that requirement, CBO estimates that the states would lose less than $1 million in fee revenue in 2017 and each year thereafter. We also estimates that the cost to states for the licensing, education, bonding, and notification requirements would be minimal. The bill also would preempt some state laws that regulate insurance. Based on information from state insurance regulators, CBO estimates that the cost to states of extending those preemptions would be minimal.

PREVIOUS CBO ESTIMATES

On June 24, 2014, CBO transmitted a cost estimate for S. 2244, the Terrorism Risk Insurance Program Reauthorization Act of 2014, as ordered reported by the Senate Committee on Banking, Housing, and Urban Affairs on June 23, 2014. Title I of H.R. 4817 and S. 2244 would extend authorization for TRIA for a different length of time and change the program's parameters in different ways; the CBO cost estimates reflect the differences between the two bills.

On June 13, 2013, CBO transmitted a cost estimate for S. 534, the National Association of Registered Agents and Brokers Reform Act of 2013, as ordered reported by the Senate Committee on Banking, Housing, and Urban Affairs on June 6, 2013. The provisions of title II of H.R. 4817 and S. 534 are similar, as are the CBO cost estimates.

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