

SUMMARY OF BAKER TRIA PROPOSAL AS AMENDED

Deductibles:

- Workers' compensation: 16% + 2% / year
- Property: 20% + 2.5% / year
- Group Life: 20% + 2.5% / year
- Casualty: 25% + 5% / year
- NBCR: 7.5% + .75% / year

NBCR: Insurers would be required to offer NBCR coverage, but with more form freedom and the ability to sublimit exposures. In return NBCR insurer deductibles would be decreased.

Co-Shares: Current TRIA co-shares are 10%. Insurers' co-shares would be increased for smaller events and decreased for mega-events:

- For the first \$10 billion 20% co-share
- \$10b – 20 billion 15%
- \$20b – 40 billion 10%
- Over \$40 billion 5%

Triggers:

- Year 4 \$50 million
- Year 5 \$100 million
- Any additional yr + \$50 million

“Reset” Mechanism: Co-shares and trigger levels will be reduced back down to lower levels if a major event occurs:

- Deductibles -.1% per \$1 billion in covered losses (5% minimum)
- Triggers -\$10m per \$1 billion in covered losses (\$50m minimum)

Insurer Retentions: Full taxpayer protection / payback of any Federal expenditures through surcharges capped at 3% of covered line premiums / yr.

TRIA Capital Reserves: Insurers are allowed to treat a portion of their identified terrorism premiums as dedicated terrorism capital. These funds would be owed to the government for reinsurance and therefore tax exempt. However, insurers could use these funds first to pay for any of their own covered terrorism losses (including losses below the trigger level). If an insurer's funds exceed its terrorist losses, they would be remitted to the government in case of an attack to reduce the Federal expenditure, and then replenished as part of the surcharges. This provision will build up long-term dedicated terrorism capital to stabilize the marketplace and begin pooling.

Risk Sharing Mechanisms: Treasury will establish a voluntary risk sharing mechanism (mutual reinsurance pool) to help insurers that choose to share the risk of terrorism losses beneath the trigger levels. The TRIA capital reserves could be used by insurers to share this risk loss.

Covered Lines: Commercial auto is excluded; group life and domestic terrorism are included.

Market Reforms: Various reforms are added to streamline regulation of terrorism insurance (applying only to covered terrorism policies), including:

- [sophisticated commercial purchasers are allowed easier access to the surplus lines marketplace for terrorism coverage]
- [commercial purchasers' access to the surplus lines market would only be limited with respect to due diligence requirements of the purchaser's home state]
- Congressional direction to the states to fully utilize SERFF and to create more streamlined access to the surplus lines market

Commission: A public-private commission is created that is required to draft detailed and specific proposals to establish a long-term pooling terrorism bill that would significantly reduce the Federal Government's involvement and exposure. Unless the Treasury determines the Commission has not reported appropriate recommendations, TRIA would be extended for a third year as a transition.

Studies: The bill would initiate three studies, one on the risks of NBCR attacks, one on the exposure of personal property and casualty to terrorism, and one on natural catastrophe exposures.