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Terrorism insurance backstop should end with 2014: Cato Institute

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The federal government's terrorism insurance backstop program is an example of corporate welfare that should be allowed to lapse when its Dec. 31, 2014, expiration arrives, the Washington-based Cato Institute said Tuesday.

According to "The Terrorism Risk Insurance Act: Time to End the Corporate Welfare," written by University of Maryland law professor Robert J. Rhee, the program created by the Terrorism Risk Insurance Act of 2002 was to be a temporary response to the Sept. 11, 2001, terrorist attacks.

"This program subsidized private risk with public funds through a cost-sharing program for which the government does not receive any compensation," according to the libertarian think tank. "The compelling need for the program was unclear even in the smoldering aftermath of 9/11."

Congress has extended the program twice.

"Terrorism risk is not more severe than other insurable risks such as natural catastrophes, and a federal backstop stakes public money to protect the insurance industry and subsidize the terrorism risk insurance premiums for commercial policyholders," Cato said in the report. "The private market is capable of underwriting this risk. This policy analysis suggests that the program should sunset as scheduled in 2014, thus ending this form of corporate welfare."

While no one knows when the next major terrorist attack will occur, "there certainly will have been many years of premium collection and the building up of reserves," Cato said. "Whether that reserve is sufficient to pay the loss is unknown, but this is also a part of the business of insurance — no one ever promised the insurance industry a guaranteed profit or solvency."