

## **NAMIC STATEMENT OF PRINCIPLES ON TERRORISM INSURANCE**

- Terrorism is an ongoing threat to the people and government of the United States. Therefore, a long term insurance industry program coupled with a government backstop at an appropriate level of loss is essential to assuring an orderly economic recovery and reconstruction effort after any significant terrorist attack.
- The Terrorism Risk Insurance Extension Act of 2005 is a stop gap measure that must be converted into a long term private/public sector program.
- The government backstop was established under TRIA because there is currently insufficient private sector terrorism insurance and reinsurance coverage to provide adequate coverage in the event of another large-scale terrorist attack.
- A long term private/public terrorism insurance program is necessary because terrorism is fundamentally an uninsurable risk, due to the inability of insurers to predict when events will occur and because of the potentially catastrophic costs of an attack.
- To be effective, a permanent terrorism program must allocate the costs of terrorism events between the private and public sector in a way that maximizes private sector involvement while assuring that private insurers can continue to meet their obligations across all economic sectors and insurance product lines after a terrorism event.
- The goal of public policymakers should be to allow the private sector to take on as much of the risk as possible by devising a plan that will enable insurers and reinsurers to provide coverage at affordable prices so that businesses and commercial property owners will purchase it.
- We recommend adoption of a three tier solution.
  1. The first layer would consist of private primary insurance and reinsurance as exists under TRIA, and would include the following elements:
    - A permanent event trigger of no more than \$50 million to encourage more participation by small and medium-sized companies. A higher trigger would drive smaller and medium sized companies from the market because reinsurance costs would be too high making primary coverage unaffordable.
    - Individual company deductibles and the industry retention level tied to premium income, but set at levels that would enable the industry to continue to meet its financial obligations and perform its economic role after paying off its share of the losses from a terrorist attack.
    - Preemption of state laws that prohibit insurers from excluding terrorism and preventing the free market from setting adequate rates for terrorism insurance. The preemption can be tied to a federal requirement that all companies over a certain size must offer terrorism coverage to commercial policyholders.
  2. The second layer would be an industry-sponsored reinsurance facility to encourage the development of new private sector capital for terrorism. It would act as a bridge

- between the purely private sector layer and the public/private sector liquidity backstop in the third layer.
- Initially it should cover losses of about \$10 billion to see just how much private sector capacity can be developed.
  - U.S. companies eligible to access recoveries from the fund would fund the initial and ongoing capitalization through a policyholder surcharge.
  - The facility should be authorized to purchase reinsurance protection financed through the market for risk linked securities (RLS).
3. The third layer would be a public private partnership that would provide liquidity support for the financial markets in the wake of catastrophic terrorist events.
- It would be funded in part by a fixed annual policyholder surcharge.
  - Aggregate annual financial protection would be provided for 90 percent of all eligible losses, losses beyond those covered by the first two tiers, up to \$100 billion.
- By encouraging the maximum private sector protection while recognizing the need for federal back stop, a successful TRIA program will reduce government exposure, increase the take-up rate for terrorism coverage among businesses and commercial property-owners, and thus reduce the costs the federal government would otherwise bear in the event of a catastrophic terrorist attack.