NAMIC®
NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES

Terrorism Risk Insurance

The Terrorism Risk Insurance Program is a risk-sharing model between insurers and the federal government, created in 2002 to preserve private sector participation in terrorism insurance markets, set to expire in December 2014.

NAMIC STRONGLY SUPPORTS the TRIA program and believes that it is vital f or protecting businesses and a stable economy. We therefore support H.R. 508, which extends the program or 5 years without altering the risk-sharing model, and would also support legislation to extend TRIA authorization for a longer duration.

Background

For property/casualty insurers and reinsurers, the impact of the terrorist attack of September 11, 2001, was substantial, producing insured losses of about $32.5 billion ($40.0 billion in 2012 dollars). Losses were paid out across many different lines of insurance, including property, business interruption, aviation, workers compensation, life and liability. A total of 2,976 people lost their lives in the attacks in New York, Washington, D.C., and Pennsylvania, which makes it the worst terrorist attack on record in terms of fatalities and insured property losses. In the 11 years since 9/11 insurers have paid out many billions of dollars for other catastrophes, with only Hurricane Katrina in 2005 surpassing 9/11 as the largest insurance loss in history.

Before 9/11, terrorism exclusions were virtually nonexistent in commercial insurance contracts sold in the United States. After 9/11 highlighted the unique risks of terrorism, many insurers withdrew from the marketplace. Real estate transactions, particularly those in high value target areas such as New York and Washington, were delayed or canceled due to the unavailability of terrorism coverage. This in turn caused the loss of thousands of jobs.

Terrorism risk is largely uninsurable for several reasons:

- There is no reliable model that measures terrorism risk. Terrorism risk cannot be measured with any accuracy because such events are willful acts undertaken by those who wish to confound those who study them. Historical data on terrorism is scant and of little relevance.

- Coordinated large-scale attacks cause losses to be highly correlated over time and across business lines. Therefore the risk is difficult to diversify.

- Loss potential is extremely high, further undermining private insurers' ability to diversify terrorism risk exposure.

- Adverse selection makes terrorism insurance unaffordable in major urban areas, where attacks are still considered most likely. At the same time, terrorists can strike anywhere in the country, targeting energy sources, utilities, shopping centers, stadiums and hotels, among others. All of these participants require terrorism insurance to finance development and operations.

Recognizing the unique challenges insuring commercial real estate for terrorist attacks, Congress passed the Terrorism Risk Insurance Act (TRIA) in November 2002. TRIA established a public/private risk-sharing partnership that allows the federal government and the insurance industry to share losses in the event of a major terrorist attack. The program is designed to ensure that adequate resources are available for businesses to recover and rebuild if they become the victims of a terrorist attack. Only after Congress created the program did coverage for terrorist attacks resume.

Since its initial enactment in 2002 the terrorism risk insurance program has been revised and extended twice. The most recent extension—the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA)—ensures its existence until December 31, 2014. However, the portion of the loss insurers would pay in the event of a terrorist attack has increased significantly over the years.

At almost no cost to the taxpayer, the national terrorism insurance program has made it possible for more than a decade for businesses to purchase terrorism risk coverage.

Although not scheduled to expire until December 31, 2014, insurance providers will require a long lead time to underwrite commercial property and casualty insurance policies that cover losses resulting from terrorist attacks.

For more information on TRIA go to http://www.namic.org/federal/fedissues.asp, or contact

Matt Gannon
Assistant Vice President – Federal Affairs
mgannon@namic.org

Federal and Political Affairs Department

Jimi Grande
Senior Vice President –
Federal & Political Affairs
jgrande@namic.org

Matt Gannon
Assistant Vice President –
Federal Affairs
mgannon@namic.org

Jon Bergner
Federal Affairs Director
jbergner@namic.org

Caitlin Lucchino
Federal Affairs Manager
clucchino@namic.org

Irica Solomon
Political Director
isolomon@namic.org

Matt Brady
Media Relations Director
mbrady@namic.org

Kristin Eichhorn
Congressional Contact
Program Director
keichhorn@namic.org

122 C Street, N.W.
Suite 540
Washington, D.C.
(202) 628-1558

www.namic.org

NAMIC is the largest and most diverse property/casualty trade association in the country, with 1,400 national, regional and local mutual insurance member companies serving more than 135 million auto, home, and business policyholders. These companies write in excess of $196 billion in annual premiums, accounting for 50 percent of the automobile/ homeowners market and 31 percent of the business insurance market. More than 200,000 people are employed by NAMIC member companies.

NAMIC®
NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES