NAIC National Association of Insurance Commissioners & The Center for Insurance Policy and Research

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FINANCIAL SERVICES PANEL SERIES
"The Reauthorization of the Terrorism Risk Insurance Act: A Panel Discussion"

Congresswoman Waters, thank you for holding this panel discussion on such a critical issue. I'm here to offer the perspective of the state insurance commissioners on the continued need for TRIA. The state regulators are tasked with ensuring the solvency and viability of the insurance industry, so I appreciate the opportunity to be here. TRIA is the best type of partnership between the private market and government, in that government's involvement in this instance creates the appetite for a private market to exist. To be clear, absent TRIA or some comparable solution, we do not believe insurance carriers will make available any meaningful capacity for affordable commercial terrorism coverage.

Insurance is well suited for protecting against losses from events where one can make reasonable assumptions about the frequency and severity of loss. However, this basic concept of insurability does not apply to terrorism, where neither the regulators nor industry possess the necessary insight or data to anticipate the frequency and severity of terrorist attacks or its impact on the insurance industry's solvency. Furthermore, policyholders lack sufficient knowledge to truly mitigate their risk. One can choose to drive poorly or live in the most likely path of hurricane, but losses in the case of terrorism arise randomly –effectively from no fault other than being an American. If our government is the embodiment of the values that terrorists are attacking, it stands to reason that the government bears some responsibility to absorb the financial impact of an attack.

The 9/11 attacks resulted in over $40 billion in total insured losses, of which nearly $25 billion was just property losses. This is greater than the average natural disaster losses of the entire US property casualty industry in a typical year. Insurers have tremendous capacity to absorb losses but they are threatened by a "tail" event that is off the charts in terms of its impact. What TRIA does is remove that "tail event" risk. By doing so, the private market now can manage at least one variable – severity – and make available coverage at reasonable prices. TRIA stabilizes not only the insurance sector, but the broader economy. Businesses and consumers that live and work and conduct commerce in areas that are likely terror attacks benefit from the stability of the insurance sector which participates only because TRIA is there as a backstop. Without TRIA, the industry would dramatically reduce the amount of coverage they would be willing to write, and the prices for terrorism coverage could be significant enough to curtail development and investment in many areas.

Indeed, insurance regulators around the country are already being asked to review policy exclusions for 2014 contracts that dramatically reduce coverage if TRIA is not reauthorized. The continued and uninterrupted existence of TRIA is the catalyst that brings in the private market to absorb losses that they would not otherwise absorb. If TRIA were to go away, while I can't predict what Congress would do in response to the next terrorist attack, the question you would confront is whether you would ask taxpayers to pay for the first dollar of losses, or the first dollar after the insurance industry has paid out over $27 billion. Thank you and I look forward to your questions.