



NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

March 24, 2005

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The Honorable Bill Frist
Majority Leader
US Senate
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The Honorable Harry Reid
Minority Leader
US Senate
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The Honorable Dennis Hastert
Speaker
US House of Representatives
Washington, DC 20515

The Honorable Nancy Pelosi
Minority Leader
US House of Representatives
Washington, DC 20515

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Dear Leaders Frist, Hastert, Reid and Pelosi:

We are writing to urge immediate Congressional action on a federal solution to ensure continued marketplace stability when the Terrorism Risk Insurance Act of 2002 (TRIA) expires at the end of 2005.

Access to insurance is essential to business confidence and continued economic growth. Some terrorism risks may be largely uninsurable without a backstop. The members of the National Association of Insurance Commissioners (NAIC) are extremely concerned that significant market disruptions will develop before TRIA's expiration.

This is supported by recent remarks made by Alan Greenspan in an appearance before the House Financial Services Committee. U.S. Representative Sue Kelly (R-NY) asked Mr. Greenspan about the looming expiration of the Terrorism Risk Insurance Act (TRIA). He said, "There are regrettable instances in which markets do not work, cannot work," and added, "I have yet to be convinced" that the terrorism insurance market can be made to work.

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The NAIC believes that TRIA has been successful in stabilizing the insurance market. However, the commercial insurance business cycle operates in such a way that insurers and their policyholders were required to make decisions as early as September 2004 for coverage going well into 2006. Annual policy renewals with effective dates of January 2, 2005, or later had to contemplate no federal backstop for any losses in 2006. As a result, insurance regulators in most states approved conditional coverage limitations for terrorism coverage for renewal policies on a widespread basis.

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If triggered by the expiration of TRIA, these limitations will greatly reduce terrorism coverage in the states that have approved the endorsement. In those states that have rejected these coverage limitations, insurers will have to make the difficult choice of writing the coverage and accepting the potentially catastrophic terrorism exposure or not writing it at all. This could lead to availability and affordability problems down the road.

Without Congressional action, insurance regulators will encounter the same coverage situation that existed following the aftermath of September 11. Coverage currently exists for terrorist acts that are below \$25 million in insured losses in states that approved coverage limitations. However, if an insured loss exceeds \$25 million in these states, then there is no insurance coverage provided. As a result, insurance coverage for acts of terrorism will be diminished for most American businesses when TRIA sunsets.

A permanent and more comprehensive program to deal with terrorist acts and mega catastrophes is warranted. Regulators are currently discussing various solutions for future catastrophes and their potential impact on the American economy. However, without a short-term extension of TRIA, there will not be enough time to adequately review the findings of the upcoming Treasury report on TRIA and to discuss the nation's approach to mega catastrophe management.

We strongly urge Congressional action to avoid the market disruptions that will occur in the absence of a federal backstop program. Such action will ensure the insurance market's continued role supporting economic development. In addition, it will allow the Congress the time it needs to fully evaluate the Treasury Department's June 2005 report and recommendations.

Sincerely,



Diane Koken
Commissioner of Insurance, Pennsylvania
President, NAIC

Cc: The Honorable Tom DeLay
House Financial Services Committee Members
Senate Banking Committee Members