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Terrorism Insurance in the USA:
A Cooperative Effort

Catástrofes: Lecciones Aprendidas
(terrorismo, terremotos e inundaciones)

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Agenda

- U.S. Department of the Treasury – State Cooperation
- The NAIC's Terrorism Insurance Implementation Working Group
- TRIA v. Reinsurance
- Private Market Activity
- Current Market Conditions

Treasury – State Cooperation

- Sept. 11, 2001 Attacks on the World Trade Center and the Pentagon triggered a market availability crisis for terrorism insurance in the USA
- Total losses of $31.6 Billion caused insurers to react
  - Prices go up
  - Coverage is limited
  - Polices were cancelled

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Treasury – State Cooperation

- U.S. Congress reacted by enacting the Terrorism Risk Insurance Act of 2002 (TRIA)
  - Temporary program
  - Risk sharing mechanism
  - Renewed in 2005 and again in 2007
  - Will expire in 2014

Treasury – State Cooperation

- Pre-dates Congressional Action to Enact TRIA
  - Insurance regulators and NAIC staff worked with Treasury staff to help with understanding of commercial lines markets
    - Identified data elements & provided data
    - Helped with feasibility analysis of legislative proposals

The NAIC's ***Terrorism Insurance Implementation Working Group***

- State insurance regulators and the NAIC are directly mentioned several times in the TRIA legislation
- To facilitate state-federal coordination, the NAIC members appointed a Terrorism Insurance Implementation Working Group to work with staff of the Terrorism Risk Insurance Program Office in the Treasury

The NAIC's ***Terrorism Insurance Implementation Working Group***

- New York has served as chair of the TIIWG since its inception
- The working group now meets by conference call as needed
- Meetings were held frequently the first few years of the program
  - Discussed draft regulations
  - Consulted on other pertinent matters
  - Coordinated the provision of insurance data for the Treasury's use

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The NAIC's *Terrorism Insurance Implementation Working Group*

- The working group worked with the TRIP Program Office to:
  - Develop disclosure forms for insurers to inform policyholders of TRIA requirements
  - Discuss in a regulator to regulator environment, the types of regulations and claim settlement procedures needed to administer the program

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TRIA v. Reinsurance

- TRIA is not a reinsurance program:
  - Insurers do not pay a premium for coverage
  - Program funding occurs post-event through a policy surcharge the next program year (not to exceed 3%)
  - TRIA provides a loss sharing mechanism where the U.S. Treasury pays as specified percentage of insured terrorism losses above an insurer deductible amount to participating insurers

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TRIA v. Reinsurance

- Current program year aggregate deductible is $27.5 billion
- Insurer’s deductible is the value of an insurer’s direct earned premiums for commercial property and casualty insurance for the immediately preceding calendar year multiplied by 20%
- Federal payment is 85% of that portion of the amount of insured losses that exceeds the applicable insurer deductible.
- The most the TRIA program will pay is capped at $100 billion

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Private Market Activity

- The markets for terrorism in the USA are calm because of the Terrorism Risk Insurance Program
  - Mandatory "make available" requirements address market availability
  - Federal shared loss features address timing risk for insurers
- Another significant terrorist event could trigger market uncertainty
- Iconic buildings and large metropolitan areas seem to be most at risk of terrorist attack

Private Market Activity

- Given complete free choice, most insurers would choose not to write coverage for acts of terrorism or would choose to write only very limited amounts of coverage
- It is impossible to model the frequency component of terrorism losses

Current Market Conditions

- The President's Working Group on Financial Markets issued a report on the state of terrorism risk insurance in the USA in 2010
- Its key findings include:
  - The availability and affordability of terrorism risk insurance provided by the private sector has improved since 2006
  - Insurers have built capital and increased marketplace capacity

Current Market Conditions

- Key Findings (Continued)
  - Capacity is constrained in some markets and some commercial insurance policyholders in high-risk urban areas have difficulty obtaining coverage with sufficient limits
  - Improvements in the terrorism risk insurance market may have occurred due to improvements in modeling and managing accumulation and concentration of aggregate loss exposure; new market entrants and increased competition; and heightened capital positions of the property and casualty insurance and reinsurance industries

Current Market Conditions

- Key Findings (Continued)
  - Increased capacity and competition have resulted in decreases in price generally
  - Take-up rates among commercial insurance policyholders reached approximately 60% in 2006, but have remained roughly flat since then
  - Market participants remain uncertain about the ability of models to predict the frequency and severity of terrorist attacks.
  - Such views influence policyholder perception of risk and purchase decisions, as well as insurer and reinsurer capacity allocations

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Thanks!