



# **Terrorism Risk & Insurance Update**

**Capitol Hill Briefing  
Insurance Information Institute  
Washington, DC  
April 22, 2014**

***Download at [www.iii.org/presentations](http://www.iii.org/presentations)***

Robert P. Hartwig, Ph.D., CPCU, President & Economist  
Insurance Information Institute ♦ 110 William Street ♦ New York, NY 10038

Tel: 212.346.5520 ♦ Cell: 917.453.1885 ♦ [bobh@iii.org](mailto:bobh@iii.org) ♦ [www.iii.org](http://www.iii.org)



# Terrorism Update

## TRIA's Success

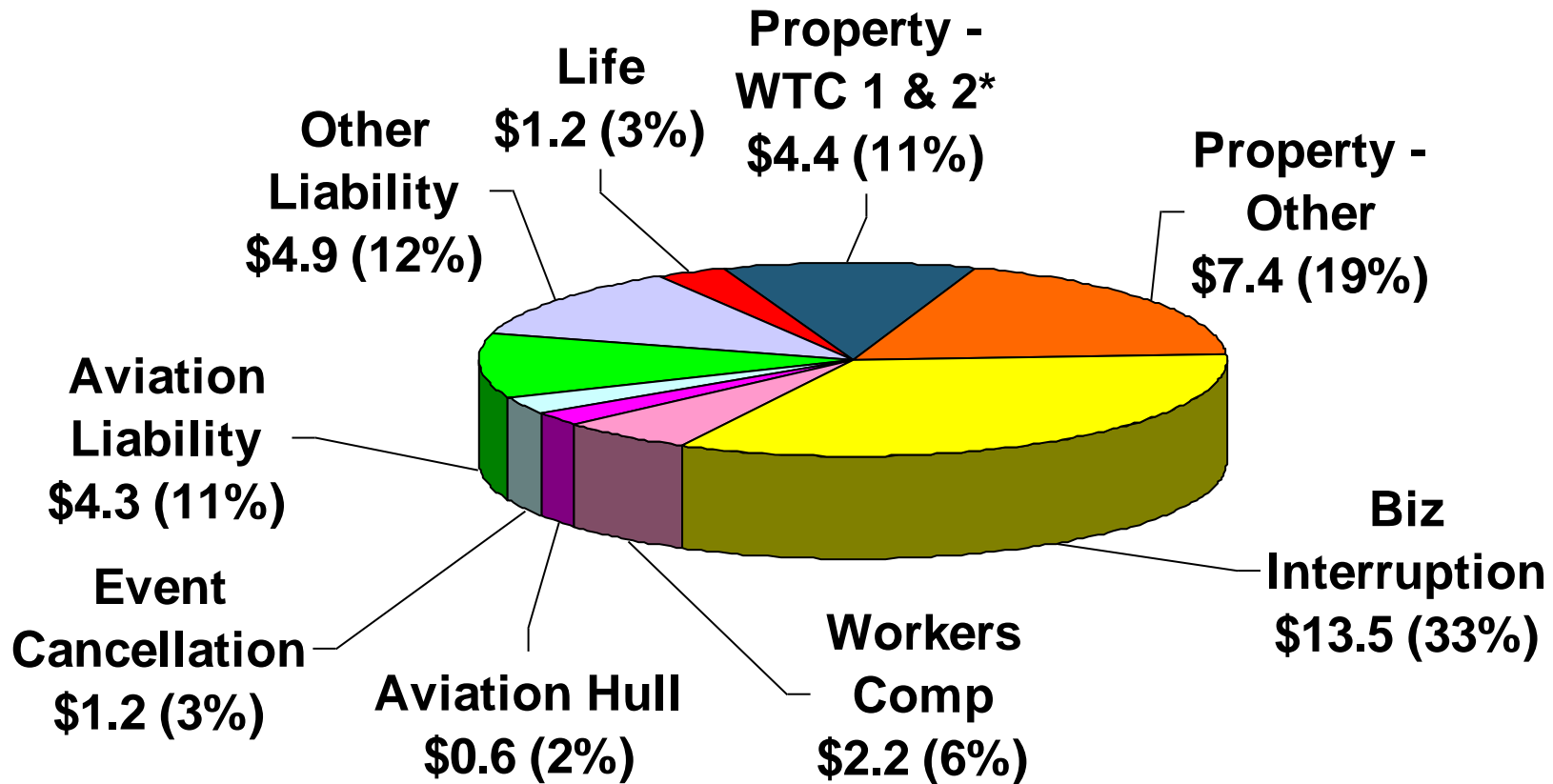
### Consequences of Expiration

***Download III's Terrorism Insurance Report at:***

***[http://www.iii.org/white\\_papers/terrorism-risk-a-constant-threat-2014.html](http://www.iii.org/white_papers/terrorism-risk-a-constant-threat-2014.html)***

# Loss Distribution by Type of Insurance from Sept. 11 Terrorist Attack (\$ 2013)

(\$ Billions)



**Total Insured Losses Estimate: \$42.9B\*\***

\*Loss total does not include March 2010 New York City settlement of up to \$657.5 million to compensate approximately 10,000 Ground Zero workers or any subsequent settlements.

\*\*\$32.5 billion in 2001 dollars.

Source: Insurance Information Institute.

# Summary of President's Working Group Report on TRIA (April 2014)

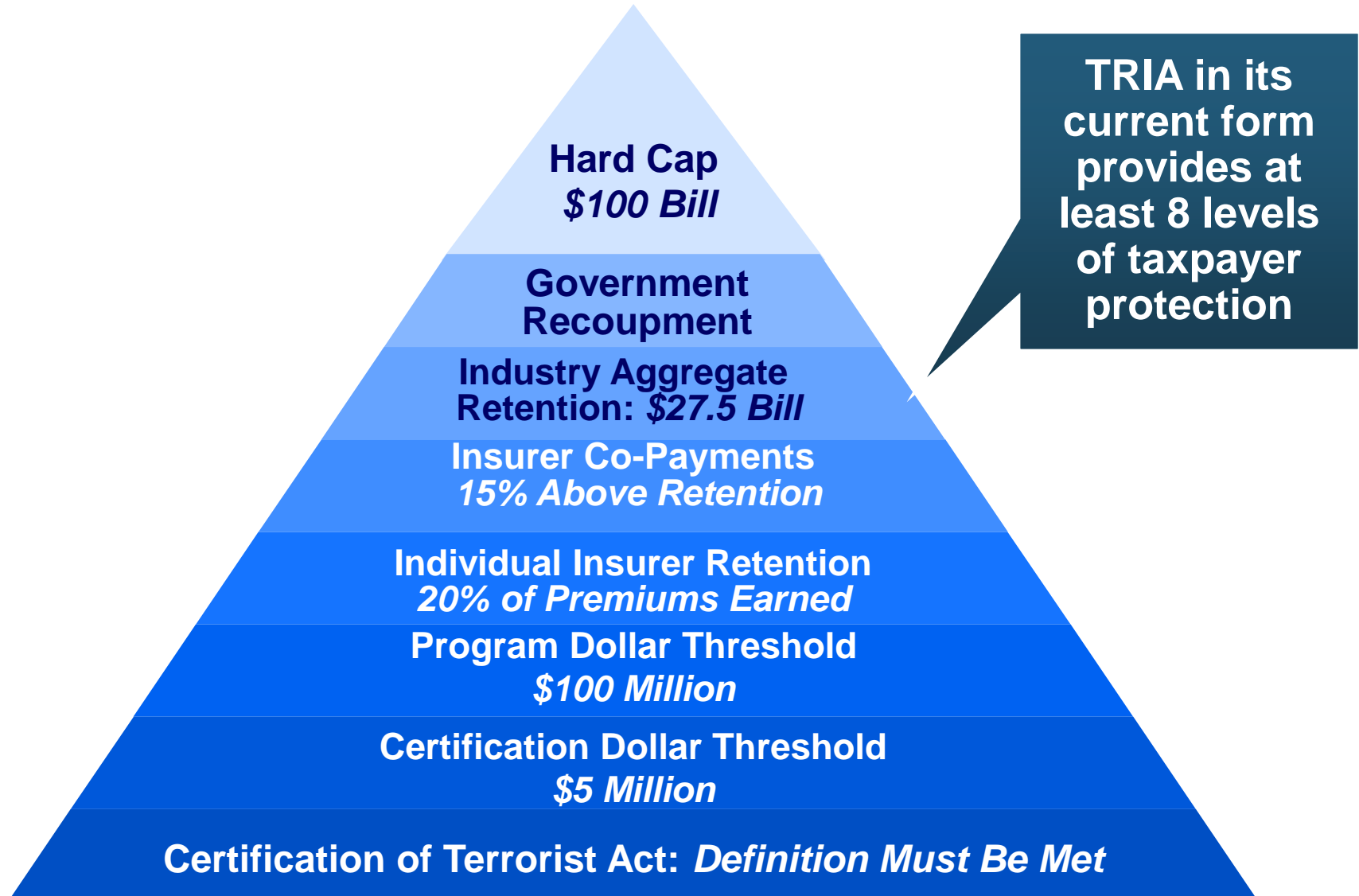
- Insurance for terrorism risk is available and affordable
  - ◆ Availability/affordability have not changed appreciably since 2010
- Prices for terrorism risk insurance vary considerably depending on the policyholder's industry and location of risk
- Prices have declined since TRIA was enacted
  - ◆ Currently ~3% to 5% of commercial property insurance premiums
- Take-up rates have improved since adoption of TRIA
  - ◆ Overall take-up rate is steady at ~60% (62% in 2013 per Marsh)
- *Market capacity is currently tightening given uncertainty over TRIA reauthorization*
- *The private market does not have the capacity to provide reinsurance for terror risk to the extent currently provided by TRIA*
- *In the absence of TRIA, terrorism risk insurance would likely be less available. Coverage that would be available likely would be more costly and/or limited in scope*

# Top 3 Key Facts About TRIA

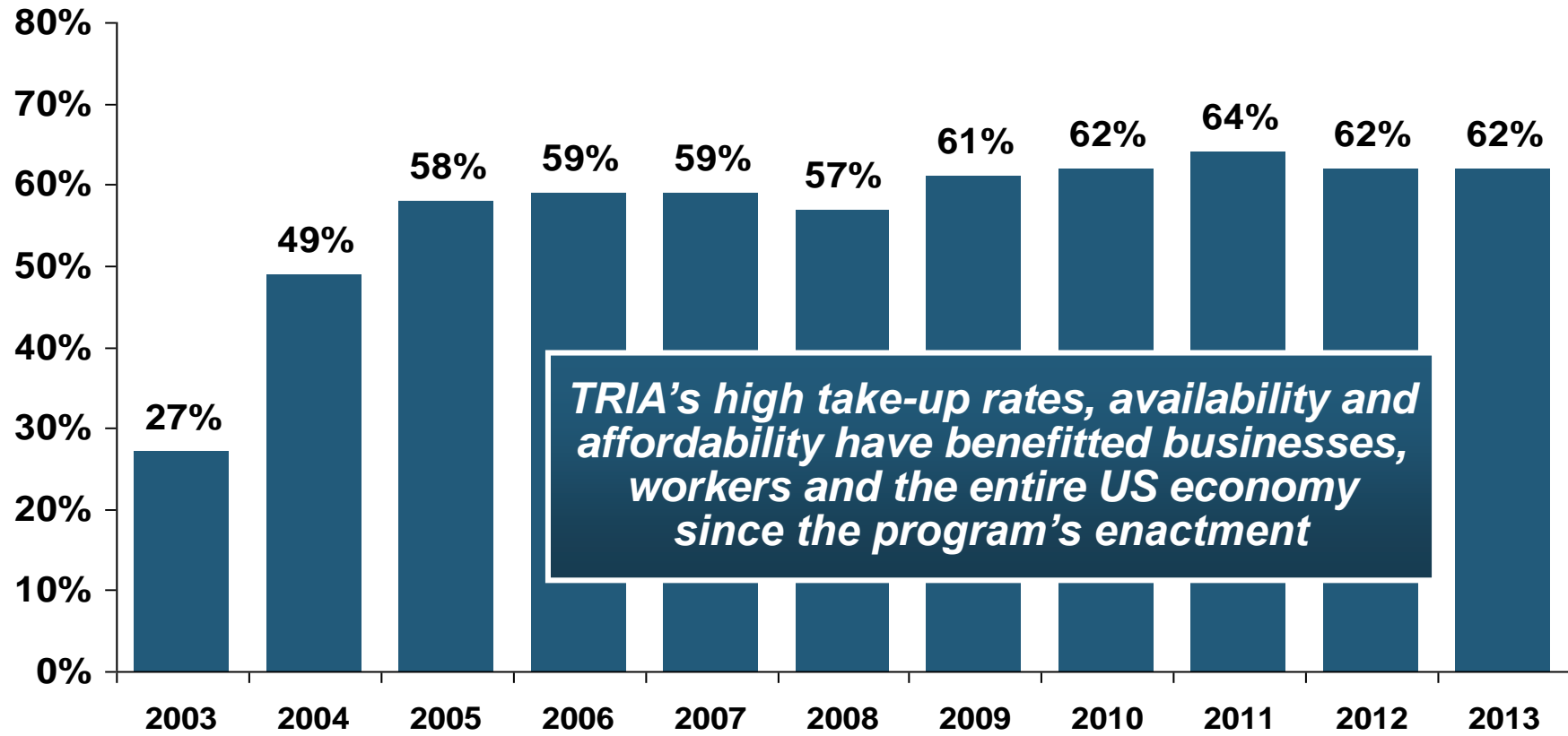
1. TRIA costs taxpayers virtually nothing
2. TRIA as currently structured continues to provide tangible benefits to the U.S. economy in the form of:
  - ◆ Terrorism insurance market stability, affordability and availability
  - ◆ Smooth functioning of commercial lending activity
  - ◆ Employment stimulus
3. TRIA is now clearly a critical part of the U.S. national economic security infrastructure
  - ◆ A primary goal of terrorism is to destabilize the U.S. economy
  - ◆ Terrorism risk insurance is critical to ensure a swift recovery in the event of future attacks

■ ***Bottom Line: TRIA is an unambiguous, unmitigated success***

# Pyramid of Taxpayer Protection: Strong, Stable, Sound and Secure



# Terrorism Insurance Take-up Rates, By Year, 2003-2013



**In 2003, the first year TRIA was in effect, the terrorism take-up rate was 27 percent. Since then, it has increased steadily, remaining in the low 60 percent range since 2009.**

Source: Marsh Global Analytics, 2014 Terrorism Risk Insurance Report, April 2014 and earlier editions.

# Consequences of Substantially Restructuring TRIA

- **Increases in required insurer retentions/deductibles do not “create” new capacity**
- **New capacity has entered primarily because:**
  - ◆ **TRIA remains in place**
  - ◆ **No major successful attack has occurred since 9/11**
  - ◆ **Modest improvement in modeling/understanding terror risk**
- **Many smaller/medium-sized insurers are likely already at or near their exposure limits, so increasing required retentions will not incentivize them to write more coverage**
  - ◆ **A.M. Best: 19% of insurers with < \$500 million in surplus failed stress tests; 11% of those with \$500 to \$1 billion failed**
  - ◆ **Insurance Information Institute: Insurers with <\$500 million in surplus wrote 16.8% of TRIA-back lines in 2012; those with less than \$1 billion in surplus wrote 23.6% of TRIA-backed coverages**



# Consequences of a Failure to Reauthorize TRIA *Followed by a Major Terrorist Attack*

- **If TRIA is not reauthorized, only limited private insurance would be available to cover losses arising from future attacks**
  - ◆ **Potentially large gap between insured and economic losses**
  
- **The federal government would be called upon to provide very large amounts of aid (tens of billions of dollars +)**
  - ◆ **Federal govt. has no delivery mechanism for post-attack aid**
  - ◆ **Under TRIA, federal response largely piggybacks on an efficient pvt. Insurer claims adjusting and payment system**
  
- **The existing standalone market would likely seize and contract**
  - ◆ **Depletion of capital → Availability crunch, Prices soar**
  - ◆ **Uncertainty over likelihood of future attacks**
  - ◆ **Terrorism exclusions would become ubiquitous**
  
- **Congress would likely be compelled to legislate TRIA anew**

# I.I.I. White Paper (March 2014): *Terrorism Risk: A Constant Threat*



## TERRORISM RISK: A CONSTANT THREAT

Impacts for Property/Casualty Insurers

MARCH 2014

Robert P. Hartwig, Ph.D., CPCU  
President  
(212) 348-6520  
bobh@iii.org

Daire Wilkinson  
Consultant  
(817) 459-6497  
dairew@iii.org

- Detailed history of TRIA
- How TRIA works
- Assessing the threat of terrorism
- Terrorism market conditions
- Global perspective
- Download at [http://www.iii.org/white\\_papers/terrorism-risk-a-constant-threat-2014.html](http://www.iii.org/white_papers/terrorism-risk-a-constant-threat-2014.html)

# Summary of Terrorism Risk Insurance Program Extension Bills Introduced in 2013

Bill	Summary
<p>•<b>H.R. 508: “Terrorism Risk Insurance Act of 2002 Reauthorization Act of 2013”</b></p> <p>•Introduced Feb. 5 by Rep. Michael Grimm (D-NY)</p>	<ul style="list-style-type: none"> <li>•5-Year Extension (through 2019)</li> <li>•Extend recoupment period for any TRIA assistance from 2017 to 2019</li> </ul>
<p>•<b>H.R. 2146: “Terrorism Risk Insurance Program Reauthorization Act of 2013”</b></p> <p>•Introduced May 23 by Rep. Michael Capuano (D-MA)</p>	<ul style="list-style-type: none"> <li>•10-Year Extension (through 2024)</li> <li>•Extend recoupment period for any TRIA assistance from 2017 to 2024</li> <li>•Requires President’s Working Group on Financial Markets (PWGFM) to issue reports on long-term availability and affordability of terrorism insurance in 2017, 2020 and 2023</li> <li>•Reports to be drafted with consultation from NAIC and representatives of the insurance and securities industries and policyholders</li> </ul>
<p>•<b>H.R. 1945: “Fostering Resilience to Terrorism Act of 2013”</b></p> <p>•Introduced May 9 by Rep. Benny Thompson (D-MS)</p>	<ul style="list-style-type: none"> <li>•10-Year Extension (through 2024)</li> <li>•Recoupment period changed to 2024</li> <li>•Would transfer responsibility for certification of a “act of terrorism” to the Secretary of Homeland Security from Secretary of Treasury.</li> <li>•PWGFM to issue reports in 2017, 2020 and 2023</li> <li>•Requires Sec. of DHS to provide insureds with “timely homeland security information, including terrorism risk information, at the appropriate level of classification and information on best practices to foster resilience to an act of terrorism.”</li> </ul>

# Terrorism Violates Traditional Requirements for Insurability

<b>Requirement</b>	<b>Definition</b>	<b>Violation</b>
<b>Estimable Frequency</b>	<ul style="list-style-type: none"><li>•Insurance requires large number of observations to develop predictive rate-making models (an actuarial concept known as credibility)</li></ul>	<ul style="list-style-type: none"><li>•Very few data points</li><li>•Terror modeling still in infancy, untested.</li><li>•Inconsistent assessment of threat</li></ul>
<b>Estimable Severity</b>	<ul style="list-style-type: none"><li>•Maximum possible/ probable loss must be at least estimable in order to minimize “risk of ruin” (insurer cannot run an unreasonable risk of insolvency though assumption of the risk)</li></ul>	<ul style="list-style-type: none"><li>•Potential loss is virtually unbounded.</li><li>•Losses can easily exceed insurer capital resources for paying claims.</li><li>•Extreme risk in workers compensation and statute forbids exclusions.</li></ul>

# Terrorism Violates Traditional Requirements for Insurability (cont'd)

Requirement	Definition	Violation
<p><b>Diversifiable Risk</b></p>	<ul style="list-style-type: none"> <li>• Must be able to spread/distribute risk across large number of risks</li> <li>• “Law of Large Numbers” helps makes losses manageable and less volatile</li> </ul>	<ul style="list-style-type: none"> <li>• Losses likely highly concentrated geographically or by industry (e.g., WTC, power plants)</li> </ul>
<p><b>Random Loss Distribution/ Fortuity</b></p> <p>Source: Insurance Information Institute</p>	<ul style="list-style-type: none"> <li>• Probability of loss occurring must be purely random and fortuitous</li> <li>• Events are individually unpredictable in terms of time, location and magnitude</li> </ul>	<ul style="list-style-type: none"> <li>• Terrorism attacks are planned, coordinated and deliberate acts of destruction</li> <li>• Dynamic target shifting from “hardened targets” to “soft targets”</li> <li>• Terrorist adjust tactics to circumvent new security measures</li> <li>• Actions of US and foreign govts. may affect likelihood, nature and timing of attack</li> </ul>

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