

Congressional Hearing Meets on 'Terrorism and the Insurance Market'

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Two U.S. House subcommittees -- the Committee on Financial Services, Subcommittee on Oversight and Investigation, and the Homeland Security Subcommittee on Intelligence, Information Sharing, and Terrorism Risk Assessment -- held a hearing today to examine the ongoing issue of insuring the U.S. economy against terrorist attacks.

The hearing, "Terrorism Threats and the Insurance Market," took testimony from several industry groups.

Terry Fleming of Risk and Insurance Management Society Inc. delivered testimony on behalf of RIMS and its membership. Fleming says that the potential inability for risk managers to purchase terrorism insurance in the event that the Terrorism Risk Insurance Act (TRIA) is allowed to sunset on Dec. 31, 2007, is particularly critical. "Without coverage, many companies will be vulnerable to bankruptcy and extreme financial losses, which ultimately could adversely impact the nation's economy," according to Fleming. RIMS considers the availability of adequate insurance for acts of terrorism not just an insurance problem, but a national security and economic issue.

Insurers also believe a long-term solution to terrorism risk insurance is needed, maintaining that catastrophic terrorism is uninsurable.

"The threat of a terrorist attack on U.S. soil remains very real, and, unfortunately, so do the many difficulties insurance companies face in trying to manage this volatile risk without some form of government involvement," said Drew Cantor, American Insurance Association director of federal affairs. "The potential magnitude of loss from a terrorist strike greatly exceeds the available capital in the private sector insurance market."

The hearing marked the first-ever joint inquiry into the issue by the two congressional subcommittees. The panel was convened by Homeland Security Committee Chairman Peter King, R-N.Y., Oversight and Investigations Subcommittee Chair Sue Kelly, R-N.Y., and Intelligence, Information Sharing, and Terrorism Risk Assessment Subcommittee Chair Rob Simmons, R-Conn. Its purpose was to re-examine the issue of terrorism risk insurance, focusing in particular on challenges faced by the insurance industry with regard to its ability to assess such exposures.

Cantor said that catastrophic terrorism is uninsurable by the private sector alone for other reasons, including the inability to model attack frequency and the interdependent nature of the risk. "These problems are exacerbated for the private market with regard to the possible use of nuclear, biological, chemical and radiological weapons," Cantor continued. "It is vital the federal government remain a partner in insuring this risk."

Ben McKay, senior vice president, federal government affairs for the Property Casualty Insurers Association of America, explained why the hearing was important. "The further away we get from 9/11, the easier it becomes to forget about the enormous risk to the economy that terrorism presents," he said.

McKay said that terrorism is an uninsurable risk because of the industry's inability to accurately predict the frequency or severity of future attacks, the broad range of possible targets for such attacks, and the potential that damages from some type of attacks could exceed the industry's capital base and destroy insurers' ability to provide a financial safety net to American businesses.

PCI supports an approach that would establish a viable "middle layer" of reinsurance coverage to fill the



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gap between the losses for which the industry is responsible and those losses which would be paid by the federal government. Such a program would enhance the development of a viable private terrorism insurance market. However,

PCI notes that a federal backstop would still be needed to stimulate such a market and to ensure that the economy was protected from the impact of a cataclysmic attack.

"We've got one chance to get this right before TRIA expires in December 2007," McKay said. "We are working with a broad-based coalition of businesses to secure passage of a long-term solution that will eliminate the need to ask Congress for an extension of TRIA every two years. Continued extensions are not in anyone's best interest, least of all the businesses that need such coverage in place to provide the certainty they need to create new jobs and fuel economic growth."

After Sept. 11, 2001, and before the passage of TRIA, many RIMS members found it difficult to purchase property insurance, including

coverage for terrorism on buildings and construction projects. RIMS believes it is critical that a program be developed to provide continued coverage for acts of terrorism, including nuclear, biological, chemical, and radiological acts.

A backdrop to today's hearing is the President's Working Group on Financial Markets (PWG) study on long-term availability and affordability of insurance for terrorism, which is due to Congress by September 30.

"The PWG study is an important piece of information as the Administration, Congress, policyholders and insurers work to create a workable long-term solution for protecting the U.S. economy against the threat of terrorism," AIA's Cantor stated. "We also hope that policymakers will look beyond that study ? as they are doing with this hearing ? to gather other vital information as we all look at how best to maintain the vital economic security net currently provided by the federal terrorism risk insurance program."

Source: RIMS, PCI, AIA

