



Highlights of [GAO-04-307](#), a report to the Chairman, Committee on Financial Services, House of Representatives

Why GAO Did This Study

After the terrorist attacks of September 11, 2001, insurance coverage for terrorism largely disappeared. Congress passed the Terrorism Risk Insurance Act (TRIA) in 2002 to help commercial property-casualty policyholders obtain terrorism insurance and give the insurance industry time to develop mechanisms to provide such insurance after the act expires on December 31, 2005. Under TRIA, the Department of Treasury caps insurer liability and would process claims and reimburse insurers for a large share of losses from terrorist acts that Treasury certified as meeting certain criteria. As Treasury and industry participants have operated under TRIA for more than a year, GAO was asked to describe (1) their progress in implementing the act and (2) changes in the terrorism insurance market under TRIA.

What GAO Recommends

GAO recommends that the Secretary of the Treasury, as part of Treasury's study of the effectiveness of TRIA and after consultation with insurance industry participants, identify for Congress alternatives that may exist for expanding the availability and affordability of terrorism insurance after TRIA expires. These alternatives could assist Congress during its deliberations about terrorism insurance.

www.gao.gov/cgi-bin/getrpt?GAO-04-307.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Richard J. Hillman at (202) 512-8678 or hillmanr@gao.gov.

TERRORISM INSURANCE

Implementation of the Terrorism Risk Insurance Act of 2002

What GAO Found

Treasury and industry participants have made significant progress in implementing TRIA during its first year, but Treasury has important work to complete in order to comply with its responsibilities under the act. For example, Treasury has issued regulations to define program requirements, created and fully staffed the Terrorism Risk Insurance Program office, and begun data collection efforts in support of mandated studies. Insurers also have adjusted their operations and policies to comply with TRIA. However, insurers have expressed concerns that Treasury has not yet decided whether to extend through 2005 the requirement that insurers offer terrorism coverage on terms that do not differ materially from other coverage. Although the act gives Treasury until September 1, 2004, to decide this issue, a more timely decision is needed to avoid hindering underwriting and pricing decisions for policies that are issued or renewed through 2005. In addition, Treasury has not fully established a claims processing and payment structure. Insurers are concerned that a delayed payment of claims by Treasury, whether because of the length of time taken to certify that an act of terrorism met the requirements for federal reimbursement or from inadequate claims processing capability, might seriously impact insurer cash flows or, in certain circumstances, insurer solvency.

It appears that Congress's first objective in creating TRIA—to ensure that business activity did not materially suffer from a lack of available terrorism insurance—has been largely achieved. Since TRIA was enacted in November 2002, terrorism insurance has been generally available to businesses. But most commercial policyholders are not buying the coverage. According to insurance industry experts, purchases have been higher in areas considered to be at high risk of another terrorist attack. However, many policyholders with businesses or properties not located in perceived high-risk locations are not buying coverage because they view any price for terrorism insurance as high relative to their perceived risk exposure. Further, those who have bought terrorism insurance remain exposed to significant perils. Insurers have broadened long-standing policy exclusions of nuclear, biological, and chemical events. Congress's second objective—to give private industry a transitional period during which it could begin pricing terrorism insurance and develop ways to cover losses after TRIA expired—has not yet been achieved. Industry sources indicated that under TRIA, insurance market participants have made no progress to date toward the development of reliable methods for pricing terrorism risks and made little movement toward developing any mechanism that would enable insurers to provide terrorism insurance to businesses without government involvement.