



Highlights of [GAO-04-720T](#), a testimony before the House Financial Services Committee, Subcommittee on Capital Markets, Insurance, and Government-Sponsored Enterprises and the Subcommittee on Oversight and Investigations.

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 (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 how TRIA affected the terrorism insurance market.

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 deliberations on the insurance industry's capacity to provide terrorism insurance.

www.gao.gov/cgi-bin/getrpt?GAO-04-720T.

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

TERRORISM INSURANCE

Effects of the Terrorism Risk Insurance Act of 2002

What GAO Found

TRIA has enhanced the availability of terrorism insurance for commercial policyholders, largely fulfilling a principal objective of the program. In particular, TRIA has benefited commercial policyholders in major metropolitan areas perceived to be at greater risk for a terrorist attack. Prior to TRIA, we reported concern that some development projects had already been delayed or cancelled because of the unavailability of insurance and continued fears that other projects also would be adversely impacted. We also conveyed the widespread concern that general economic growth and development could be slowed by a lack of available terrorism insurance. Since TRIA's enactment, terrorism insurance generally has been widely available, even for development projects in perceived high-risk areas, largely because of the requirement in TRIA that insurers "make available" coverage for terrorism on terms not differing materially from other coverage. Although the purpose of TRIA is to make terrorism insurance available, it does not directly address prices. As part of its assessment of TRIA's effectiveness, Treasury is engaged in gathering data through surveys that should provide useful information about terrorism insurance prices in the marketplace.

Despite increased availability of coverage, limited industry data suggest that most commercial policyholders are not buying terrorism insurance, perhaps because they perceive their risk of losses from a terrorist act as being relatively low. The potential negative effects of low purchase rates, in combination with the probability that those most likely to be the targets of terrorist attacks may also be the ones most likely to have purchased coverage, would become evident only in the aftermath of a terrorist attack and could include more difficult economic recovery for businesses without terrorism coverage or potentially significant financial problems for insurers. Moreover, those that have purchased terrorism insurance may still be exposed to significant risks that have been excluded by insurance companies, such as nuclear, biological, or chemical contamination. Meanwhile, although insurers and some reinsurers have cautiously reentered the terrorism risk market to cover insurers' remaining exposures, little progress has been observed within the private sector toward either finding a reliable method for pricing terrorism insurance or developing any viable reinsurance alternatives to TRIA once it expires.