



Highlights of [GAO-09-39](#), a report to congressional committees

Why GAO Did This Study

The Terrorism Risk Insurance Act of 2002 (TRIA) is credited with stabilizing insurance markets after the September 11, 2001, attacks by requiring insurers to offer terrorism coverage to commercial property owners (property/casualty insurance), and specifying that the federal government is liable for a large share of related losses. While TRIA covers attacks involving conventional weapons, insurers may use exceptions that may exclude coverage for attacks with nuclear, biological, chemical, or radiological (NBCR) weapons, which has raised concerns about the potential economic consequences of such attacks. TRIA's 2007 reauthorization directed GAO to review (1) the extent to which insurers offer NBCR coverage, (2) factors that contribute to the willingness of insurers to provide NBCR coverage, and (3) policy options for expanding coverage for NBCR risks. To do this work, GAO reviewed studies and reports and interviewed more than 100 industry participants about the availability of NBCR coverage in the market.

GAO provided a draft of this report to the Department of the Treasury and the National Association of Insurance Commissioners (NAIC). Treasury and NAIC said that they found the report informative and useful. NAIC did express what it said was a philosophical difference of opinion with GAO's characterization of risk-based premiums for workers' compensation insurers.

To view the full product, including the scope and methodology, click on [GAO-09-39](#). For more information, contact Orice Williams at (202) 512-8678 or williamso@gao.gov.

TERRORISM INSURANCE

Status of Coverage Availability for Attacks Involving Nuclear, Biological, Chemical, or Radiological Weapons

What GAO Found

Consistent with the findings of a September 2006 GAO report on the market for NBCR terrorism insurance, property/casualty insurers still generally seek to exclude such coverage from their commercial policies. In doing so, insurers rely on long-standing standard exclusions for nuclear and pollution risks, although such exclusions may be subject to challenges in court because they were not specifically drafted to address terrorist attacks. Commercial property/casualty policyholders, including companies that own high-value properties in large cities, generally reported that they could not obtain NBCR coverage. Unlike commercial property/casualty insurers, insurers in workers' compensation, group life, and health lines reported generally providing NBCR coverage because states generally do not allow them to exclude these risks.

Commercial property/casualty insurers generally remain unwilling to offer NBCR coverage because of uncertainties about the risk and the potential for catastrophic losses, according to industry participants. Insurers face challenges in reliably estimating the severity and frequency of NBCR attacks for several reasons, including accounting for the multitude of weapons and locations that could be involved (ranging from an anthrax attack on a single building to a nuclear explosion in a populated area) and the difficulty or perhaps impossibility of predicting terrorists' intentions. Without the capacity to reliably estimate the severity and frequency of NBCR attacks, which would be necessary to set appropriate premiums, insurers focus on determining worst-case scenarios (which with NBCR weapons can result in losses that would render insurers insolvent). For example, a nuclear detonation could destroy many insured properties throughout an entire metropolitan area. Workers' compensation, group life, and health insurers that generally cannot exclude NBCR coverage from their policies also face challenges in managing these risks. For example, workers' compensation insurers said they face challenges in setting premiums that they believe would cover the potential losses associated with an attack involving NBCR weapons.

GAO reviewed two proposals that have been made to address the lack of NBCR coverage in the commercial property/casualty market. The first proposal, part of an early version of the bill to reauthorize TRIA in 2007, would have required insurers to offer NBCR coverage, with the federal government assuming a greater share of potential losses than it would for conventional attacks. Some industry participants supported this proposal because insurers otherwise would not offer NBCR coverage and because a substantial federal backstop was necessary to mitigate the associated risks. However, others said that some insurers might withdraw from the market if mandated to offer NBCR coverage, even with a substantial federal backstop. In a second proposal by some industry participants, the federal government would assume all potential NBCR risks through a separate insurance program and charge premiums for doing so. However, critics said the government might face substantial losses on such an NBCR insurance program because it might not be able to determine or charge appropriate premiums.