



Terrorism Risk Insurance Act of 2002

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Terror Risk Insurance Program

- TRIP is a temporary Federal system of shared public and private compensation for insured losses resulting from foreign acts of terrorism
 - **Ensures continued widespread availability of property and casualty insurance for terrorism risk**
 - **Provides transition period for private markets to stabilize, resume pricing, and build capacity while preserving State insurance regulation and consumer protection**
- Private insurance and asset markets, including markets for property and casualty insurance, are critical to economic growth because they spread the risk of both routine and catastrophic loss



Terrorism Risk Insurance Program Structure

- Three program years: 2003, 2004, 2005
- Insurer participation is mandatory during Program years
- Insurers must “make available” coverage for acts of terrorism during first two years of the Program. Terms, amounts, and limitations applicable to TRIA coverage shall be comparable to those for property and casualty coverage for non-terrorism events



Terrorism Risk Insurance Program Structure

- Insurers must clearly disclose the premium charged for losses insured under TRIA, and the Federal share of insured losses.
- By Sept. 1, 2004, and based on factors to be examined in the mandated Treasury study described below, the Secretary will decide whether the “make available” provision should be extended into 2005.



Terrorism Risk Insurance Program Structure

- The insurer's exposure is equal to the insurer's deductible (7% of premiums in 2003, 10% in 2004, and 15% in 2005) and 10% of insured losses in excess of the deductible
 - If an insurer had \$200 million in direct earned premiums in 2002, its deductible for 2003 would be equal to \$14 million, and 10 percent loss sharing would kick in above \$14 million in insured losses
- Annual Federal and insurer liability cap of \$100 billion
- No restrictions on rates or policyholder purchase decision



TRIA-Mandated Responsibility of Treasury for Information on Premiums

- The Secretary shall annually compile information on terrorism risk insurance premium rates of insurers for the preceding year ... To the extent that this information is not otherwise available to the Secretary, the Secretary may require each insurer to submit to the NAIC terrorism risk insurance rates...and the NAIC shall make such information available to the Secretary. The Secretary shall make [this] information available to Congress upon request.



TRIA-Mandated Responsibility of Treasury for Information on Market Conditions

- The Secretary ... shall assess the effectiveness of the Program and the likely capacity of the property and casualty insurance industry to offer insurance for terrorism risk after termination of the Program, and the availability and affordability of such insurance for various policyholders, including railroads, trucking, and public transit. The Secretary shall report the results of this study to Congress by June 30, 2005.



TRIA Information Collection Mandates will be Fulfilled through Corporate Surveys

- Surveys of corporations on the demand-side and supply-side of the commercial property and casualty insurance market are the primary vehicles through which the Treasury's Office for Economic Policy will fulfill the TRIA mandates to collect information on premiums, market conditions, capacity, and the effectiveness of the program.



Consultation with Risk Managers, Insurers and Other Industry Experts

- Large group of industry representatives, including the Risk and Insurance Management Society, participated in a day-long meeting on study design, at the Treasury Department, on January 30, 2003
- Several industry representatives, including RIMS, provided helpful comments on draft survey questionnaires
- Bids were sought from well-established survey contractors
- We have selected Westat to conduct the TRIA surveys
- Westat has contracted with Marsh to obtain further institutional expertise needed to refine questionnaires and identify points of contact



Overview of TRIA Surveys

- Information will be collected on cost of terror risk insurance as a share of total risk insurance, other financial data, insurance limits, reinsurance, self insurance and risk management programs
- Policy data will be collected within broad lines
 - **commercial property**
 - **workers compensation**
 - **other casualty**



Overview of TRIA Surveys

- Each sampled company will be contacted three times (once per program year), to capture effects of changes in legislated insurer deductibles
 - **First wave will address 2002 benchmark and 2003**
 - **Second wave will address 2004**
 - **Last wave will collect and analyze 2005 data by June, 2005**
- Separate surveys of insurers and policyholders
 - **Better information on relationship between terror risk insurance cost, limits, capacity and financial position**
 - **Better information on distribution of terror risk insurance cost and coverage for different categories of business**
 - **Better information on reasons for self-insurance when terror risk insurance is not purchased**



Survey of Policyholders

- Data will be assembled at arm's length from government
- Publicly-available data from Dunn and Bradstreet and the U.S. Census of Governments will be merged with survey data to minimize respondent burden
 - Multi-mode data collection for maximum scheduling flexibility
 - All identifying information will be removed, transformed to ratios, or perturbed, prior to analysis by Treasury staff
 - Only summary statistical data will be included in Treasury report



Survey of Policyholders

- Nationally representative sample of corporations, partnerships, and state and local governments
- Information will be collected for broad industry groups, major region, urban/non-urban headquarters
- Good representation for high-risk cities and properties, and for railroads, trucking, and public transit
- Questions on terror risk insurance uptake, price and loss control measures



Policyholder Questionnaire Respondent Profile

- Private sector respondents are U.S. corporate headquarters
- Primary industry revenue share as proxy for degree of revenue diversification
- Geographic distribution of revenues as proxy for physical diversification of possible losses
- Additional questions for iconic properties and properties in high-risk cities



Policyholder Questionnaire Policy Data

- Summary data on insurance policies, within workers compensation, other casualty and property lines
 - total premium excluding TRIA coverage
 - additional TRIA premium on policies that include TRIA coverage
 - lowest deductible and highest limit for all policies
 - special deductibles and limits for TRIA coverage
 - allocation of TRIA premiums to high-risk cities and iconic locations
- Parallel questions for stand-alone terrorism risk coverage



Policyholder Questionnaire Other Measures Taken to Minimize or Transfer Risk

- Increased expenditures on security
- Decentralized operations to reduce risk of business interruption
- Captives or risk retention groups
- Alternative financial instruments, such as catastrophe bonds
- Egress and fire prevention plans for your buildings
- Employee incentive schemes to reward safe practices
- Other loss-prevention measures/loss cost controls



Policyholder Questionnaire Changes in Market Capacity

- Number and variability of bids received for TRIA coverage
- Availability and affordability of coverage for non-TRIA terrorism coverage, i.e., for domestic terrorist events and events abroad
- Requirements for TRIA coverage by lenders, or for leasing arrangements
- Reasons for self insurance:
 - Company not at risk
 - Cost of terrorism coverage too high
 - Policy terms and conditions too restrictive



Survey of Insurers

- Nationally representative stratified sample of suppliers of commercial property and casualty insurance
- Information will be collected by geographical region and asset size
- Policy data will be gathered by state and broad line of business
 - Property
 - Workers' compensation
 - Other casualty



Survey of Reinsurers

- All reinsurers operating within the US
- Westat developing questionnaire with Guy Carpenter
- Comparable to Insurer Survey
- Difficult to develop standardized questions because programs are negotiated



Complex Project with Tight Time Frame

- Data must meet OMB and Treasury data quality standards to be used for policy recommendations
 - Requires large, unbiased sample
 - Questions of interest require reference to administrative books and records
 - Confidentiality and burden are major concerns
- Rapid data processing at startup and completion



Schedule for Policyholder Survey

Oct 20-24 2003	Field tests and in-depth interviews
Oct 27 forward	Phone calls confirming points of contact
Oct 30 forward	FedEx introductory letters and paper forms
Nov 10 2003-Jan 10 2004	Encrypted web-based data entry, skip patterns and unique passwords, Wave 1 for 2002-2003
Jan 10-Feb 15	Continued follow up with non-respondents
April 5-June 15	Wave 2 multi-mode data collection, for 2004
Jan 1-Mar 1 2005	Wave 3 multi-mode data collection, for 2005
June 30, 2005	Treasury report to Congress



Full Participation is Essential

- Confidentiality safeguards are strong, and reinforced by the Confidential Information Protection and Statistical Efficiency Act of 2002
- Questions on survey mechanics may be addressed to the Westat project director, Dr. David Marker, at (301) 251-4398, or davidmarker@westat.com
- Summary of survey results will be available in Secretary's report to Congress



Further Background on Terror Risk Insurance Program

- Testimony by Deputy Assistant Secretary Mark Warshawsky:
<http://www.treas.gov/press/releases/po1050.htm>
- Remarks by Under Secretary Peter Fisher:
<http://www.treas.gov/press/releases/kd3810.htm>
- Remarks by TRIP Executive Director Jeff Bragg:
<http://www.treas.gov/press/releases/js626.htm>
- Treasury Terror Risk Insurance Program web page:
<http://www.treas.gov/offices/domestic-finance/financial-institution/terrorism-insurance/index.htm>