



Highlights of [GAO-04-806T](#), a testimony before the Senate Committee on Banking, Housing, and Urban Affairs.

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 assess Treasury's progress in implementing TRIA and 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-04-806T.

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

Treasury and industry participants have made significant progress in implementing TRIA to date, although Treasury has important actions to complete in order to comply with its responsibilities under TRIA. Treasury has issued regulations on TRIA, created and staffed the Terrorism Risk Insurance Program office, and begun mandated studies and data collection efforts. However, Treasury has not yet made a decision on whether to extend the mandate that insurers "make available" terrorism coverage, using terms not differing materially from other coverage, for policies issued or renewed in 2005. Treasury's ongoing studies and data collection efforts will provide further insight into TRIA's effectiveness.

TRIA has enhanced the availability of terrorism insurance for commercial policyholders, largely fulfilling a principal objective of the legislation. In particular, TRIA has benefited commercial policyholders in major metropolitan areas perceived to be at greater risk for a terrorist attack, largely because of the requirement in TRIA that insurers offer coverage for terrorism. Prior to TRIA, GAO 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. GAO also conveyed the widespread concern that general economic growth and development could be slowed by a lack of available terrorism insurance. Largely because of TRIA, these problems no longer appear to be major concerns.

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. Such negative effects 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 events. Finally, although insurers and some reinsurers have cautiously reentered the terrorism risk market to cover insurers' remaining exposures, industry sources indicated no progress to date toward finding a reliable method for pricing terrorism insurance and little movement toward any mechanism that would enable insurers to provide terrorism insurance to businesses without government involvement.