



Highlights of [GAO-08-1057](#), a report to congressional committees

Why GAO Did This Study

The Terrorism Risk Insurance Act of 2002 (TRIA) specifies that the federal government assume significant financial responsibility for insured losses on commercial properties resulting from future terrorist attacks. While TRIA has been credited with stabilizing markets for terrorism insurance after the September 11, 2001, attacks, questions remain as to whether certain policyholders, especially those located in large urban areas viewed as being at high risk of attack, may still face challenges in obtaining coverage. GAO was asked to conduct a study to describe (1) whether the availability of terrorism insurance for commercial properties is constrained in any geographic markets, (2) factors limiting insurers' willingness to provide coverage, and (3) advantages and disadvantages of selected public policy options to increase the availability of such insurance.

To address these objectives, GAO analyzed available data and interviewed industry participants, including those with expertise in specific geographic markets considered to be at high, moderate, or low risk of attack (Atlanta, Boston, Chicago, New York, San Francisco, and Washington, D.C.).

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 the report was informative and useful.

To view the full product, including the scope and methodology, click on [GAO-08-1057](#). For more information, contact Yvonne D. Jones at (202) 512-8678 or jonesy@gao.gov.

TERRORISM INSURANCE

Status of Efforts by Policyholders to Obtain Coverage

What GAO Found

While some owners of high-value properties in major cities may face initial challenges obtaining terrorism insurance coverage compared with most policyholders nationwide, they generally have reported that they could meet current coverage requirements through a variety of approaches. Many industry participants said that terrorism insurance is currently available nationwide at prices viewed as reasonable and that the TRIA program was a key reason for these favorable conditions. However, some policyholders that own large, high-value properties in densely built urban areas viewed as at high risk of attack, particularly in Manhattan and to a lesser extent in Chicago and San Francisco, may still face initial challenges obtaining desired amounts of coverage at prices viewed as reasonable, according to industry participants. To address these challenges, some policyholders purchased coverage from a large number of insurers, which can be a time-consuming and complicated process for policyholders and their insurance brokers. Others purchased coverage in a separate policy (rather than as part of an overall property insurance package) which may be more costly, or self-insured.

While TRIA specifies that the federal government assume substantial financial responsibility for insured losses associated with future terrorist attacks, the steps insurers take to manage the risks they do face appear to be the primary reason some policyholders face challenges in obtaining coverage. Insurers said they seek to mitigate potential terrorism losses by limiting the amount of property coverage that they offered in specific areas of cities, such as downtown locations or areas considered to be at high risk of attack. These risk mitigation efforts generally make obtaining coverage more difficult or costly for policyholders with high-value properties in these areas, according to a variety of sources GAO contacted. Industry participants also said that the availability of reinsurance (insurance for insurers) and the views of rating agencies can limit the availability of coverage in such cities.

Industry participants had no consensus on whether TRIA should be modified or additional actions taken to increase the availability of terrorism coverage, and identified advantages and disadvantages of selected policy proposals that have been included in legislation, discussed in prior GAO reports, or suggested by industry participants to increase such coverage. A proposal to increase the federal government's current responsibility under TRIA for the insured losses associated with a future attack could make insurers more willing to offer coverage in affected areas. For example, one large insurer said that the proposal might make the company more willing to immediately offer additional coverage in cities viewed as at high risk of attack. However, any such benefits might be limited for reasons including the widespread insurance market disruptions that may result from another attack. This proposal, along with several other proposals analyzed in the report, also would increase the federal government's exposure to the losses associated with terrorist attacks, which is already 85 percent of losses up to \$100 billion annually, after an industry deductible.