REINSURANCE ASSOCIATION OF AMERICA

STATEMENT

TESTIMONY

OF

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TRIA AT TEN YEARS: THE FUTURE OF THE TERRORISM RISK INSURANCE PROGRAM

BEFORE

UNITED STATES HOUSE FINANCIAL SERVICES SUBCOMMITTEE

ON INSURANCE, HOUSING AND COMMUNITY OPPORTUNITY

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Good Morning Chairwoman Biggert, Ranking Member Gutierrez, and Members of the Subcommittee. I am Edward B. Ryan, Senior Managing Director at Aon Benfield, the world's leading reinsurance intermediary and full-service capital advisor. With more than 80 offices in 50 countries, our worldwide client base has access to the broadest portfolio of integrated capital solutions and services. I thank you for the opportunity to testify on behalf of the Reinsurance Association of America on the reinsurance perspective of this hearing entitled "TRIA at Ten Years: The Future of the Terrorism Risk Insurance Program."

As we mark the 11th anniversary of the attacks on the US, we remember all the victims of 9/11. Aon Benfield, especially the 1,100 of us who worked in the World Trade Center, continues to mourn the 176 of our colleagues and friends whom we lost that day.

We know the commercial insurance market and know that reinsurance availability is a key component of our economy. We therefore urge Congress to act to extend the Terrorism Risk Insurance Act (TRIA).

Aon and the RAA supported the adoption of the Terrorism Risk Insurance Act in 2002, its reauthorization in 2005 (TRIEA) and the 2007 Extension Act (the current TRIPRA). The response to 9/11 by the insurance industry was to pay tens of billions of dollars in claims but also to exclude terrorism losses going forward. TRIA created an essential federal backstop that enabled the primary insurance industry to provide terrorism insurance coverage to our nation's businesses. The Program has enhanced the private market for such coverage and has had a stabilizing influence on the economy. Under TRIA and its extensions, the availability of terrorism risk insurance has increased.

Private Reinsurers' Role under the TRIPRA Program

There is a role for private reinsurers under the TRIPRA program. In an event certified by the Secretary of the Treasury as a terrorist attack, TRIPRA provides reinsurance-like protection for primary commercial insurance exposures. The program provides coverage for 85% of eligible loss up to an industry loss of $100 billion. Coverage is subject to an individual company retention of 20% of the prior year's direct earned premium (DEP) on covered lines. These individual company retentions, and the 15 percent co-pay for losses above the retention, require insurers to retain significant losses before TRIPRA funding is triggered.

Private reinsurance provides a vehicle for insurers to manage that retained loss.

Private Insurers and Reinsurers Still Face Significant Hurdles in Underwriting Terrorism Risk

Since the terrorist acts of 2001, insurers, modelers and reinsurers have worked to develop a better understanding of terrorism risk. Companies have consulted military and intelligence experts and hired specialty risk modeling firms.

At Aon Benfield, through our wholly-owned subsidiary Impact Forecasting, we developed the first terrorism model post 9/11 to analyze terrorism exposures. With a comprehensive list of 8,000 hard targets in the database, the Impact Forecasting Terrorism Model can produce deterministic and probabilistic losses for a full range of conventional and NBCR (nuclear, biological, chemical and radiological) scenarios.

Despite these efforts, terrorism risk poses great challenges as an insurable risk.

The main hurdle in assessing and underwriting terrorism risk is that the frequency of loss from terrorism is neither predictable nor random. Terrorists continually attempt to defeat loss prevention and mitigation strategies. In addition, the insurance industry does not have access to all existing information about terrorism, targets and potential attacks for obvious national security reasons.

Observations on Private Reinsurance Terrorism Market

Despite these issues, reinsurers have been willing to put capital at risk to manage terrorism losses. Reinsurers typically offer coverage for foreign acts of terrorism, i.e. acts committed by non-US agents, in stand-alone terrorism contracts, rather than within existing all-perils catastrophe contracts. The amount of stand-alone terrorism treaty reinsurance capacity available in the private market is estimated to be $6-$8 billion, a figure that has remained largely unchanged in recent years.

The bulk of terrorism reinsurance currently comes via existing reinsurance programs. Coverage for Personal Lines (which is not subject to the Program), for Workers Compensation, as well as for acts of terrorism committed by US agents is generally available in existing catastrophe programs. Insurers with exposures limited to rural or suburban areas have secured terrorism coverage within existing reinsurance programs, with limitations on the size of subject risks or events.

Regarding NBCR exposures, there is little reinsurance appetite for this risk. When it is available, pricing for NBCR coverage comes at a significant premium and coverage amounts are significantly less than those available for conventional terrorism.

For the foreseeable future, based on current demand, there will be an adequate supply of reinsurance capacity for coverage around the structure currently provided by the Federal Program. However, were the Program to terminate in 2014, we expect insurers to curtail the provision of terrorism insurance. U.S. businesses would be more exposed to the financial consequences from terrorist activities. To the extent that this additional risk forces businesses to seek insurance, insurers would offer meaningful but not unlimited insurance products. The private reinsurer marketplace would work productively with insurers to provide reinsurance coverage for terrorism, but capacity would be severely constricted. Moreover, absent a federal backstop for terrorism risk, expectations that the vast majority of the existing insurance market for terrorism risk would disappear is not merely speculative. Aon tracked property insurance market behavior prior to the previous expiration of the various iterations of TRIA and, in each instance, more than 80% of the existing capacity for terrorism risk would have been withdrawn from the market in the absence of TRIA and its mandatory offer of coverage provisions.

<u>TRIPRA Renewal in 2014</u>

TRIPRA has served an important role to our nation's economy. As TRIPRA expires in 2014, we urge this Committee and the Congress to reauthorize this program in 2013 to eliminate any uncertainty around reauthorization, and to meet the needs of insurers and insureds whose contracts will expire throughout the year. We commit the resources of Aon Benfield as well as the Reinsurance Association of America to work with the Committee to achieve this goal.