Statement of the

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The Financial Services Roundtable

before the

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Chairwoman Biggert, Ranking Member Gutierrez, and Members of the Subcommittee, thank you for the opportunity to testify today – appropriately and humbly as we meet on September 11th.

I am Steve Bartlett, the President and CEO of the Financial Services Roundtable. The Roundtable is a national trade association composed of 100 of the nation's largest banking, securities and insurance firms. Our members provide a full range of financial products and services to consumers and businesses. Member companies participate through the Chief Executive Officer and other senior executives nominated by the CEO. Roundtable member companies provide fuel for America's economic engine, accounting directly for $92.7 trillion in managed assets, $1.2 trillion in revenue, and 2.3 million jobs.

TRIA IS A NEEDED PUBLIC-PRIVATE PARTNERSHIP

The property & casualty insurance sector is an important part of the country's physical and economic infrastructure. Insurance helps protect the U.S. economy from the adverse effects of the risks inherent in economic growth and development. Insurance also provides the resources necessary to rebuild physical and economic infrastructure in the event of catastrophic losses to persons or property. Insurance provides a safety net that is critical to healthy economic activity.

The Financial Services Roundtable supports the Terrorism Risk Insurance Act (TRIA), which provides an absolutely essential federal backstop in the face of catastrophic losses arising from a terrorist attack. Importantly, any federal outlay may, under the statute, be recouped by assessments on policyholders. In addition, it is imperative that the program be reauthorized to avoid disruptions in coverage.

TRIA, and the Terrorism Risk Insurance Program it created, provides stability in the market by making an uninsurable risk insurable. Originally signed into law on November 26, 2002, TRIA was amended by the Terrorism Risk Insurance Extension Act of 2005 and the Terrorism Risk Insurance Program Reauthorization Act of 2007, and is now set to expire on December 31, 2014.

TRIA must be reauthorized because it makes terrorism risk insurance accessible. It provides an orderly mechanism through which terrorism losses are absorbed by the private sector, and because it helps support the economy when we as a country are attacked.

TERRORISM RISK PRESENTS UNIQUE CHALLENGES

Effective insurance underwriting requires the ability to predict with some accuracy frequency, location and severity (amount of loss). Though normal insurance risks can be unpredictable, when those events are assessed over a large enough area and timeline, the randomness of those events provide a pattern which informs underwriting decisions and allows insurance companies to cover the appropriate level of risks.

Terrorism changes that equation because it is not random; it is purposeful. Neither the frequency nor severity of the attack can be predicted or modeled. A terrorist may not act for years and then strike multiple times in multiple different ways, none of which is predictable. This dynamic risk, driven by free will and unlimited in scope, makes managing the risk by the private sector near impossible. Terrorism knows no geographic, seasonal, or other objectively verifiable pattern. It can happen anywhere, any time and in any way imagined by the mind of the terrorist.

Modeling methodologies for terrorism are also nascent. While insurers continue to refine modeling methodologies, underwriters have yet to identify a model that can account for the erratic and purposeful behavior of a terrorist. These difficulties are substantially compounded by the very nature of terrorist activity – terrorists seek to disguise intent and their planned actions – and the highly secure nature of government intelligence sources. Similarly, there is no way to predict the severity of an event. Depending on the type of attack, thousands of dollars, millions of dollars or billions of dollars in insured commercial activity can be at risk.

Absent TRIA, the insurance industry's ability to absorb another terrorist attack, whether on the magnitude of September 11, 2001, or worse, is compromised. State legislatures and insurance regulators limit the industry's ability to manage or limit terrorism exposure and, since catastrophic terrorism is unpredictable, insurers cannot adequately price the exposure and are subject to a significant degree of adverse selection. TRIA is essential to ensure that the risk spreading mechanism that is the foundation of the insurance industry, works. We acknowledge that even with TRIA, the insurance industry remains vulnerable to significant financial disruption in the event of another catastrophic terrorism attack given the substantial insurer retentions TRIA requires.

Similarly, in the absence of an effective backstop for terrorism losses, another terrorist attack, especially if the impact is concentrated on a small group of primary insurers, may very well be enough to render the industry unable to absorb a second catastrophic loss, such as from a hurricane, earthquake or other natural catastrophe.

We have insufficient experience, significant modeling uncertainty, incomplete data, and a huge loss potential that may exceed the insurance industry's claims paying ability. It is, therefore, critical that the U.S. continues to have a backstop for the largest events.

TRIA IS DESIGNED TO KEEP THE WHEELS OF COMMERCE MOVING

Prior to 9/11, insurance companies included insurance for terrorism risk in their general policies with no additional premium assessed for this risk. Following that tragic day, insurers were left with little option but to exclude terrorism coverage as an uninsurable risk from policies. There was little or no market for commercial policyholders who sought coverage.

In the absence of all-peril coverage, banks and other investors were less willing to lend or invest money in construction projects and businesses without terrorism coverage; this ultimately hampered construction and jobs. During the fourteen-month period between 9/11 and the passage of TRIA, approximately $15 billion in real estate-related transactions were delayed or cancelled, according to the Real Estate Roundtable. During that same period, the White House Council of Economic Advisors estimated that 300,000 jobs were lost.

TRIA was designed to mitigate the negative economic impact from the stalled real-estate development and investment. First and foremost, TRIA includes a "make available" provision, which means that insurers must offer terrorism insurance to commercial clients. With coverage available, banks looking to lend and investors looking to deploy their capital can do so while protecting their investments from the threat of a terrorist attack.

With TRIA in place, the number of business that purchased terrorism insurance has risen dramatically. In 2003, the take-up rate was 27 percent; by 2009, the take-up rate rose to 61 percent, according to a 2010 Marsh Report.

TRIA ENSURES PRIVATE SECTOR PROTECTION OF TERRORISM RISK

TRIA ensures that private insurance and reinsurance pays the first losses in the event of a terrorist attack. The current version of TRIA has a "program trigger" of $100 million for certified acts of terrorism, under which the private sector takes all the loss. If losses exceed $100 million, each individual insurance company with losses will realize the entire loss up to 20 percent of its direct written premium the prior year – for some companies this would be over $1 billion in money being paid out before one dollar of government money is spent.

Following the 20 percent deductible, private insurers begin to share losses with the federal government; the government absorbs 85percent of additional losses and the private sector absorbs the remaining 15 percent with a program cap of $100 billion.

Importantly, if the government backstop is called upon, the law requires that government payments will be recouped by increasing future policyholders' premiums by up to 3 percent a year. Government funding for events that occur after January 1, 2012, must be collected by September 30, 2017.

FAILURE TO EXTEND TRIA WOULD HAVE ECONOMIC CONSEQUENCES

Without federal support, insurers' limited ability to manage terrorism risk would become unstable and they would withdraw or reduce their offerings. This is neither supposition nor hyperbole – we know how the market reacts in the absence of this program. In the absence of TRIA, limited insurance and reinsurance for terrorism risk will be available, and what is available will be offered at largely cost-prohibitive prices. Lending, especially for large-scale development in high-risk areas will be significantly restricted as credit is not extended to businesses unable to obtain terrorism risk insurance.

According to a 2010 President's Working Group report, marketplace terrorism risk insurance capacity has increased. Nevertheless, capacity is constrained and commercial insurance policyholders have difficulty obtaining coverage with sufficient limits. Essentially, market capacity is improving, but it is not sufficient. TRIA requires that terrorism coverage is available and provides the market the tools to grow.

THE ALTERNATIVE TO TRIA IS NO PROTECTION AT ALL

While some have argued TRIA exposes U.S. taxpayers to losses that will increase an already high debt and deficit, the opposite is actually true. As detailed above, losses from a terrorist act must reach a substantial total before the federal government becomes involved by loaning funds to pay claims. And once that level is reached, the insurer shares those losses with the federal government and then uses future premium charges to repay federal funds.

In fact, TRIA puts in a place an orderly system to make sure that the private sector absorbs most if not all of the losses. Without TRIA, terrorism insurance will be available only in limited quantities. This not only deters investments and costs jobs, but it also means that little to no coverage is in place if another attack occurs. It is difficult to imagine a situation in which the federal government will not be forced to absorb the loss from such an attack – when businesses are left with no protection from physical and financial disaster.

The risk of such an attack is not limited to a geographic region, industry or target. It can happen anywhere. And no matter where it happens, its impact goes far beyond that specific target. High-density areas and high-value properties have more difficulty obtaining coverage, but commerce is interconnected. What happens in one region or to one location has ramifications across the country. If a port or transportation hub is disabled by an attack, businesses that rely on that center in their supply chain are damaged and may face business continuity challenges.

But it is important to remember, the ultimate target of a terrorist attack is likely not a business or particular building. Rather, it is the government and population of the United States. If future attacks do occur, we, as a country, must respond to support our citizens and businesses. TRIA acknowledges this by ensuring that the U.S. response is one that supports its people and its economy by providing a mechanism in which such unpredictable losses can be underwritten and absorbed by the private sector.

CONCLUSION

The Roundtable applauds the Subcommittee for its attention to this topic at such an early date. Although expiration seems a long way off, business decisions that involve terrorism risk coverage are continually being made; if uncertainty is allowed to persist around renewal of the program, we will see an increasingly negative impact on the economy.

The Roundtable strongly believes TRIA should be reauthorized. Doing so will make our economy and country stronger. We look forward to working with you on this important issue. I am happy to answer any questions.