



Workers Compensation Fund
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September 11, 2013

The Honorable Michael Grimm
The Honorable Carolyn Maloney
The Honorable Michael Capuano
The Honorable Peter King

United States House of Representatives
Washington, DC 20515

Dear Congressman Grimm, Congresswoman Maloney, Congressman Capuano, and Congressman King:

I am writing to express strong support for an extension of the Terrorism Risk Insurance Act (TRIA). TRIA is critically important for insurers like WCF and for the businesses we insure, and we very much appreciate your leadership on this issue. We are hopeful that Congress will extend TRIA for five years or longer and that Congress will act well in advance of the scheduled expiration of TRIA at the end of next year to avoid the costs and dislocations that would accompany uncertainty over whether Congress will in fact extend TRIA.

As you know, some observers appear to believe that TRIA matters only for large real estate developers and Wall Street, but I want to assure you that TRIA is critically important for Main Street, especially for small businesses.

WCF is the workers' compensation insurer of last resort in Utah. We were originally a creation of the state, and our role is to make sure Utah businesses of all types and size have access to workers' compensation coverage. Many other states have established similar entities – generally termed “state funds.” State funds like ours are mono-line, meaning we sell only workers' compensation insurance; we also typically sell only small amounts of insurance, if any, outside our home states.

For WCF and the businesses we insure, TRIA is critically important. Businesses in Utah – and in almost every other state – are required to purchase workers' compensation insurance; states mandate the coverage. And insurers do not have the option to exclude coverage for acts of terrorism; the states require workers' compensation coverage to be comprehensive.

What this means is that state funds and their customers are particularly vulnerable to acts of terrorism. In other words, our limited geographic reach, the limited breadth of our insurance products, and our inability to exclude terrorist events mean that a terrorist attack affecting a major employer in Utah could

create liabilities that would make us insolvent in the absence of TRIA. Our insolvency would also affect our 19,000 policyholders, many of whom operate small businesses in Utah.

We believe the private reinsurance market is unable or unwilling to provide full coverage to insurers for terrorism risks, if Congress fails to extend TRIA. In such a situation, the only choice for state funds like WCF would be to attempt to raise our rates in order to build capital and self-insure what is essentially an uninsurable war risk. For many state funds, the rate hikes would have to be substantial to meet actuarial requirements. Higher rates would needlessly hurt the businesses we serve – especially the small businesses that are the innovators and job-creators for our country.

The rating firm FitchRatings recently forecasted that, industry wide, “Workers’ compensation insurers could be particularly vulnerable to large losses if an extreme terrorist event takes place” without TRIA. Small state funds like WCF would be particularly vulnerable to terrorism losses that would threaten our viability.

As you know, TRIA has cost the government nothing. Also, in the event of a covered terrorist event, the legislation provides for make-up fees on insurers to reimburse the government. Those make-up fees mean that, realistically, the federal government will probably bear less financial risk over coming decades from extending TRIA than from letting it lapse. As professors at the Wharton School have observed, if the past is any guide, a terrorist attack in the absence of TRIA would trigger federal appropriations for affected individuals and businesses without any make-up fees.

Again, we very much appreciate your leadership in extending TRIA. Please let us know if we can assist you in your efforts in any way.

Sincerely,



Ray Pickup
President
Chief Executive Officer

CC:

The Honorable Jeb Hensarling, Chair, Committee on Financial Services
The Honorable Maxine Waters, Ranking Member, Committee on Financial Services

CC Utah delegation:

The Honorable Rob Bishop
The Honorable Chris Stewart
The Honorable Jason Chaffetz
The Honorable Jim Matheson