
**Written Testimony
On Behalf of Accident Fund Holdings, Inc. (AFHI)
Committee on Financial Services
United States House of Representatives
September 19, 2013**

Chairman Hensarling, Ranking Member Waters, Members of the Committee:

Accident Fund Holdings, Inc. (AFHI) appreciates the opportunity to share our views on the Terrorism Risk Insurance Act (TRIA) program. The combined efforts of our Enterprise make AFHI the 17th largest provider of workers' compensation, and the largest non-governmental specialty writer, in the country. AFHI is a wholly owned subsidiary of Blue Cross Blue Shield of Michigan (BCBSM).

AFHI now employs nearly 1,000 employees throughout the country, writing monoline workers' compensation in all 46 states we're licensed in. In this capacity, and as the former state fund of Michigan, we offer a unique perspective on the TRIA program.

To insure against the peril of terrorism, public/private partnerships such as the TRIA program are necessary. The extension of the federal backstop under the TRIA program continues to have AFHI's full support. TRIA needs to be a long-term solution for workers' compensation insurers and the property casualty industry to protect employers, injured workers and their families. Basic key fundamental reasons for our reauthorization support are:

- Terrorism coverage for workers' compensation insurers cannot be excluded or limited by the policy language. Reinsurers are not able to replace the market capacity created by the expiration of TRIA.
- Workers' compensation insurance is a "no-fault" system, created to provide benefits on behalf of employers to injured workers. Without the extension of the federal backstop, the system designed to protect injured workers will be in jeopardy.
- We are unable to measure the frequency of attacks as we have few data points to model the risk of terrorism in the United States. We do not have a large number of observations to develop credible ratemaking or predictive models for catastrophic risks as a result of terrorism.

Workers' compensation insurers will need TRIA as long as we need the government to protect us from terrorists. The expiration of TRIA could result in financial insolvency for workers' compensation insurers and the businesses we serve should a nuclear, biological, chemical, radiological attack or a similar catastrophic terrorist event, occur. We would expect to see a migration of business currently being written by private workers' compensation carriers to public state funds, residual markets and guaranty funds for large segments of metropolitan areas. These public options for workers' compensation are not designed to handle a catastrophic terrorist event and they will fail. Injured workers and their families would face potential disruption in benefits.

If the workers' compensation system fails, taxpayers could still be responsible for compensating victims, the very scenario that some policymakers want to avoid by letting TRIA expire. There would be delays in payment and hardship for those injured because of the lack of an efficient compensation system.

These disruptions can be averted. Workers' compensation carriers are unable to exclude terrorism or acts of war through policy language like other property casualty writers. Extending TRIA is more than a federal backstop for insurers -- it is a social and economic imperative.