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Private Market Will Dry Up If Federal Terrorism Insurance Not Renewed: Aon

Research by Aon shows that more than 85 percent of insurers will no longer insure terror risk if the federal backstop goes away.

The brokerage firm revealed the conclusion based on its “market intelligence” in a written comment to the U.S. Treasury Department, advising that renewal of TRIA will ensure the continuation of a functional market for commercial property/ casualty terrorism coverage.

“Although a revised version of the original Terrorism Risk Insurance Act (TRIA) federal legislation was signed into law reauthorizing the program for seven years via the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) in 2007, the Act’s imminent expiration at the end of 2014 has already generated dislocation” in the commercial P/C insurance and reinsurance marketplace, the Aon comment said.

Noting that the TRIA in its various forms has succeeded in increasingly shifting the risk of terrorism loss to the private market, Aon stresses that TRIA “also had the benefit of forcing insurers to offer terrorism coverage.”

“If the mandatory offer of coverage disappears with TRIPRA 2007 expiring without replacement, then the market will contract. This is not supposition–it has been backed up by carrier behavior with prior TRIA expirations—with nearly 85 percent of property insurance carriers looking to exclude terrorism in the absence of TRIA,” the Aon comment states.

Also conceding that more capital would enter the market in the form of specialty standalone terrorism insurers should TRIA expire, Aon says that “this capital would not come close to approximating the $100 billion of contingent reinsurance capital provided by TRIA.”

The commentary includes a chart (a downward sloping line graph) showing average property terror insurance price declines between 2002 and 2012 of close to 50 percent. Highlighting a slight uptick on the chart after 2012, Aon comments that “a noticeable increase in terrorism pricing” starting in the first quarter of 2013 is a function of prevailing rate cycles and the fact that markets began to adjust their portfolios of risk to manage the potential expiration of TRIA.

The Aon comment also notes that it is “highly unlikely” that the risk models will improve to a point that allows insurers and reinsurers to be comfortable with the ability to forecast the size and frequency of potential losses or terrorism accumulations.

In a statement released in conjunction with the comment, Ed Ryan, a senior managing director with Aon Benfield, the firm’s global reinsurance business, said: “The main hurdle in assessing and underwriting terrorism risk is that the frequency of loss from terrorism is neither predictable nor random. Therefore, terrorism insurance is unlike any other marketplace risk. The uncertainty surrounding terror risk makes insurance coverage unique and this requires a novel approach.”

Aaron Davis, a managing director with Aon Risk Solutions, added: “Today’s successful terrorism risk marketplace relies on the TRIA program. TRIA minimizes price volatility and coverage uncertainty.”

“This makes TRIA reauthorization imperative for our country and the economy,” he said.

The comment also included a chart showing carriers participating in the standalone terrorism, which exists as a specialty subset market within the property marketplace, according to Aon. “This market is comprised of global P/C carriers and reliant on TRIA’s backstop for some of the capacity it deploys to insureds in the United States,” Aon says.

Standalone Terror Market Top Players		
Underwriter	Normal ($) maximum Line	Absolute ($) maximum Line
Various Syndicates at Lloyd's	925,000,000	1,195,000,000
AIG / Lexington	100,000,000	250,000,000
Arch Insurance Company (Europe) Ltd	5,000,000	5,000,000
Ace European	50,000,000	50,000,000
Axis Specialty	150,000,000	200,000,000
Hannover Rückversicherungs-Aktiengesellschaft	15,000,000	50,000,000
Hiscox USA	100,000,000	100,000,000
Lancashire Insurance Company UK Ltd	100,000,000	200,000,000
Montpelier Re	50,000,000	50,000,000
Validus/Talbot US	100,000,000	100,000,000
Total	1,595,000,000	2,200,000,000
National Indemnity Company	500,000,000	1,000,000,000
Total incl Berkshire	2,095,000,000	3,200,000,000
Source: Aon Risk Solutions		

Aon notes that the standalone terrorism market was in place to cover global terrorism exposures before 9/11 and has emerged as a growth area for terrorism risk in a post-9/11 insurance world.

According to Aon, capacity has increased by over 130 percent since 2006, to a technical level of $2.2 billion and a normal "per risk" level of $1.6 billion (which is reduced to $750 million or less in certain problem postal code/ZIP code zones).

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NAIOP
COMMERCIAL REAL ESTATE
DEVELOPMENT ASSOCIATION

September 18, 2013

The Honorable Jeb Hensarling	The Honorable Maxine Waters
Chairman	Ranking Member
Committee on Financial Services	Committee on Financial Services
House of Representatives	House of Representatives
2129 Rayburn House Office Building	B301C Rayburn House Office Building
Washington, DC 20515	Washington, DC 20515

Re: Full Committee Hearing on "The Terrorism Risk Insurance Act of 2002"

Dear Chairman Hensarling and Ranking Member Waters:

NAIOP, the Commercial Real Estate Development Association, is the leading organization for developers, owners, investors and related professionals in office, industrial, retail and mixed-use real estate, and comprises 15,000 members and 47 local chapters throughout the United States. On behalf of our members, we want to commend you for holding this full committee hearing to examine the federal terrorism risk insurance program.

The continued availability of terrorism risk insurance is critical to the health of the commercial real estate industry. Terrorism insurance is required by almost every lender for a developer to obtain credit. The federal program created under the Terrorism Risk Insurance Act of 2002 ("TRIA") after the attacks of 9/11 helped avoid economic dislocation and paralysis in our industry by providing a framework whereby the insurance industry could continue to offer terrorism risk insurance. Unfortunately, while private insurance capacity for terrorism risk has improved, private risk capacity remains constrained.

As the policyholders and purchasers of insurance, our members in the commercial real estate development industry are keenly aware that TRIA will expire in 2014, and believe this successful program must be renewed to maintain the continued availability of terrorism risk

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insurance. This is an issue that affects not just New York or other big cities, but all communities throughout our nation where major commercial and industrial development occurs. We urge the Committee to move quickly to renew the terrorism risk insurance program, and look forward to working with you and your committee staff on this effort.

Sincerely,

Thomas J. Bisacquino
President and CEO

CRE Finance Council®
The Voice of Commercial Real Estate Finance

September 18, 2013

The Honorable Jeb Hensarling	The Honorable Maxine Waters
Chairman	Ranking Member
Committee on Financial Services	Committee on Financial Services
House of Representatives	House of Representatives
2129 Rayburn House Office Building	B301C Rayburn House Office Building
Washington, DC 20515	Washington, DC 20515

Re: Full Committee Hearing on "The Terrorism Risk Insurance Act of 2002"

Dear Chairman Hensarling and Ranking Member Waters:

Thank you for holding the important hearing September 19th to highlight the need to reauthorize this vital legislation. On behalf of our over 250 members, we are fully supportive of Congressional efforts to extend the current legislation. Further, we also appreciate your attention to this issue at present, so as to minimize near certain disruption to finance markets in the waning days before expiration next year.

The CRE Finance Council is the collective voice of the entire $3.1 trillion commercial real estate finance market. Our principal missions include setting market standards, facilitating market information, and providing education at all levels. Because our membership consists of all constituencies across the entire CRE finance markets, the CRE Finance Council has been able to develop comprehensive responses to policy questions that promote increased market efficiency and investor confidence.

The continued availability of terrorism risk insurance is critical to the health and liquidity of the commercial real estate finance markets. Terrorism insurance is a near universal requirement for CMBS and portfolio loans alike and has been since TRIA's inception. The federal program created under the Terrorism Risk Insurance Act of 2002 after the attacks of 9/11 helped avoid economic dislocation and paralysis in our industry by providing a framework whereby the insurance industry could continue to offer terrorism risk insurance. Better yet, TRIA does this while providing taxpayers assurance that if an event did happen, we would have in place prior to any event the mechanisms to deal with the claims and recoup most, if not all, federal outlays.

Our members and their respective borrowers are keenly aware that TRIA will expire in 2014, and believe this successful program must be renewed to maintain the continued availability of terrorism risk insurance. This is an issue that affects not just large metropolis centers, but all communities throughout our nation. We urge the Committee to move quickly to renew the terrorism risk insurance program, and look forward to working with you and your committee staff on this effort.

Sincerely,

Stephen M. Renna
President & CEO

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September 18, 2013

The Honorable Jeb Hensarling
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Hensarling and Ranking Member Waters:

The American Hotel & Lodging Association applauds the leadership of the House Financial Services Committee in holding hearings to consider the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA). The lodging industry calls on Congress to act quickly to continue this important private/public partnership.

AH&LA is a 100-year-old association of state and city partner lodging associations throughout the United States with some 10,000 property members nationwide. We represent more than 4.9 million guest rooms and over 1.8 million employees in the United States. AH&LA's membership ranges from the smallest independent properties to the largest convention hotels.

Without TRIPRA, the lodging industry will face substantial difficulty in obtaining terrorism risk coverage which is often required for securing loans for development projects. The Terrorism Risk Insurance Act (TRIA) was enacted in the months following the September 11, 2001 attacks and provides a federal plan for economic continuity and recovery in the event of another severe terrorist attack against the United States. TRIPRA ensures a market exists for businesses to secure terrorist risk coverage often required under the terms of bank loans. Importantly, TRIPRA protects American taxpayers as the program mandates that "first dollar losses" be paid by insurers and policy holders and is only triggered in the event of a major event and after individual insurer loss thresholds are met. In addition, the program has operated virtually cost-free to the taxpayer since being enacted.

The lodging industry has seen no evidence that the terrorism risk market is prepared to provide coverage without the private/public partnership TRIPRA provides. TRIPRA has allowed for terrorism coverage prices to stabilize and adequate coverage to be secured with minimal risk to taxpayers. Our members will soon begin to see renewal notices with exclusion clauses if TRIPRA is not renewed by Congress.

AH&LA applauds your efforts to extend this vital program and calls on Congress to act quickly.

Thank you for your consideration of our views.

Sincerely,

Katherine G. Lugar

President and CEO

Cc: Members of House Financial Services Committee

ACCIDENT FUND HOLDINGS, INC.

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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.

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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.