



AMERICAN ACADEMY *of* ACTUARIES

July 28, 2004

The Honorable Michael G. Oxley
United States House of Representatives
Washington, DC 20515

Dear Representative Oxley:

Enclosed please find a copy of our monograph "*P/C Terrorism Insurance Coverage: Where Do We Go Post-Terrorism Risk Insurance Act?*" With the uncertainty of the occurrence and magnitude of another terrorist attack on American soil, the Extreme Events Committee of the American Academy of Actuaries¹ has released this monograph examining the impact of terrorism on property and casualty insurers. We hope this analysis will be helpful in evaluating the merits of legislation to extend the Terrorism Risk Insurance Act of 2002 (TRIA), which recently was introduced in the U.S. House of Representatives and the Senate.

TRIA, which is implemented by the U.S. Department of the Treasury, is a federal program providing reinsurance to property and casualty insurers in the event of terrorism from a foreign source. The act helps commercial property owners to obtain affordable terrorism insurance by requiring insurers to offer terrorism insurance while providing reinsurance to cover much of the large terrorism losses. If no action is taken to extend the Act, then the program will end on December 31, 2005.

The Academy's Extreme Events Committee monograph analyzes four major points about the need for a federal backstop program:

- difficulty of quantifying the losses from an extreme terrorist attack, making it difficult to understand and pool the risk,
- perception by the insuring public that terrorism targets are concentrated in major urban areas, making it difficult for an insurer to diversify the risk,
- threat of insurer insolvency(ies) from an extreme terrorist attack; and
- legal, regulatory, financial, and actuarial hurdles the industry will have to overcome in finding a new way to manage the risk.

In addition to bringing your attention to the monograph, we would also like to address a related matter. We suggest that in looking at any legislation drafted to extend TRIA that group life insurance should be

¹ The American Academy of Actuaries is the public policy organization for actuaries practicing in all specialties within the United States. A major purpose of the Academy is to act as the public information organization for the profession. The Academy is non-partisan and assists the public policy process through the presentation of clear and objective actuarial analysis. The Academy regularly prepares testimony for Congress, provides information to federal elected officials, comments on proposed federal regulations, and works closely with state officials on issues related to insurance. The Academy also develops and upholds actuarial standards of conduct, qualification, and practice, and the Code of Professional Conduct for all actuaries practicing in the United States.

included in any new proposal. Based on specific points raised in our 2003 submission to the U.S. Department of the Treasury, we continue to be of the opinion that there are many significant arguments for including group life insurers under a new law.

First, workers are likely to be concentrated geographically, and may often be working in the same facility or traveling together. They are also likely to present attractive targets for terrorists. A catastrophic event of any type can impact multiple lives covered under a particular group plan, and generate significant exposure to loss for the insurers of those groups. Catastrophic reinsurance and its availability are important for group life carriers, and TRIA would supplement the diminished reinsurance capacity available to them.

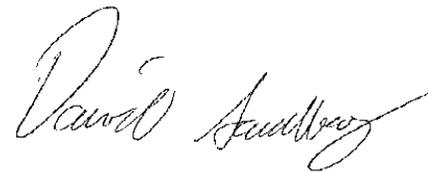
Second, more Americans are covered by group life insurance than by individual life insurance. Even though people may have access to individual life insurance, it is often less convenient and more costly, and may be subject to medical pre-screening and underwriting. As a result, group life coverage through the employer is often the only coverage an individual has during his or her working years, the time during which they are most likely exposed to terrorist attacks. It is important that group life insurers be able to protect their financial viability so that benefits can be paid when due. The extension of TRIA to group life will help achieve this end.

Thank you for your attention in this matter and please feel free to contact either Greg Vass, Senior P/C Policy Analyst or Steve English, Senior Life Policy Analyst at 202-223-8196.

Sincerely,

A handwritten signature in black ink that reads "John J. Kollar". The signature is fluid and cursive, with the first name and middle initial being more prominent.

John Kollar, Chairperson
P/C Extreme Events Committee

A handwritten signature in black ink that reads "Dave Sandberg". The signature is cursive and somewhat stylized, with the first name being the most legible part.

Dave Sandberg, Chairperson
Life Financial Soundness /
Risk Management Committee

cc: United States House of Representatives
United States Senate