



AMERICAN ACADEMY *of* ACTUARIES

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December 4, 2014

The Honorable Harry Reid
Majority Leader, U.S. Senate
S-221 Capitol Building
Washington, DC 20510

The Honorable Mitch McConnell
Minority Leader, U.S. Senate
S-230 Capitol Building
Washington, DC 20510

Re: Reauthorization of the Terrorism Risk Insurance Act

Dear Leader Reid and Leader McConnell:

On behalf of the American Academy of Actuaries'¹ Casualty Practice Council, we are writing to urge passage of reauthorization of the Terrorism Risk Insurance Act (TRIA), which is set to expire on December 31. We wish to underscore the importance of the terrorism risk insurance program and to raise concerns over its imminent expiration should Congress not act to reauthorize it before adjournment.

TRIA provides a needed backstop for extreme losses arising from acts of terrorism, a peril that is very difficult to fully insure in the private market, partly because of the extreme difficulty in predicting terrorism losses where terrorists adjust their methods to circumvent mitigation efforts. The program also assists insureds by providing an orderly claims settlement process and offers a recoupment mechanism by which the private sector reimburses the federal government for its outlays. Overall, this program brings stability to an insurance marketplace that has difficulty pricing and managing terrorism risk exposure, in part due to limited historical or experience data.

In the absence of TRIA, massive uncertainties regarding the anticipated frequency and severity of potential terrorist attacks make it extremely likely that premiums for terrorism risk insurance will be high and volatile and many commercial lines insurers would be devastated. In addition, because workers' compensation insurance policies cannot exclude terrorism, employers could face increased workers' compensation costs.

¹ The American Academy of Actuaries is an 18,000+ member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

A concerted effort to achieve a multi-year reauthorization of TRIA will bring much needed security and stability. A stop-gap, temporary extension of the program only extends an environment of uncertainty and thus reinsurers would face significant challenges in quantifying their exposure to terrorism losses. This reinsurer uncertainty can lead to limiting available capacity. Long-term reauthorization of TRIA is in the public interest and a necessary measure to preserve stability in the insurance marketplace.

We appreciate the opportunity to offer these comments. If you have any questions or would like to discuss these issues in more detail, please contact Lauren Pachman, the Academy's casualty policy analyst, at 202.223.8196 or pachman@actuary.org.

Sincerely,

Shawna Ackerman, MAAA, FCAS
Vice President, Casualty
American Academy of Actuaries

Terry J. Alfuth, MAAA, FCAS, FCA
Chairperson, Terrorism Risk Insurance Subcommittee
American Academy of Actuaries

cc: Members of the U.S. Senate