



A M E R I C A N A C A D E M Y *of* A C T U A R I E S

October 15, 2007

Honorable Christopher Dodd
Chairman, Senate Banking Committee
534 Dirksen Senate Office Building
Washington, DC 20510

Honorable Richard Shelby
Ranking Member, Senate Banking Committee
534 Dirksen Senate Office Building
Washington, DC 20510

Dear Senators Dodd and Shelby:

The American Academy of Actuaries¹ Terrorism Risk Insurance Subgroup wishes to assist you in your consideration of the Terrorism Risk Insurance Program Reauthorization Act of 2007. Members of the subgroup are expert in the field of assessing risk exposures in the area of extreme events and have spent the past few years performing analyses to assist Congress, the administration, and state insurance commissioners in their efforts to address the public policy aspects of terrorism risk.

Our work has included making formal comments to the President's Working Group on Financial Markets as well as commenting to the House of Representatives on prior legislation that ultimately led to the current Terrorism Risk Insurance Extension Act of 2005, which will expire at the end of this year. We also have made members of our group available for consultation with congressional committee staff. We are pleased to provide you with the attached copy of our response to the President's Working Group to aid you in your deliberations.

The magnitude and unpredictability of large potential insurance losses due to terrorist events requires a federal backstop to make terrorism coverage widely and readily available. In addition, a mechanism should be established to develop recommendations for a permanent method of dealing with terrorism risk. If a large insured terrorist event occurs in the absence of a national framework for dealing with such losses, many insurers would be devastated and possibly unable to pay claims, not just for the terrorist event

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.

itself but also for other unrelated covered losses. Beyond the issue of paying claims, the severe financial consequences of such a loss in the absence of a national framework would likely cause significant post-event market disruption affecting insurance consumers in many market segments.

The American Academy of Actuaries' Terrorism Risk Insurance Subgroup would be glad to provide further assistance or additional information to the Senate on issues involving terrorism insurance and the management of the financial consequences of terrorism risk exposure. Please feel free to contact us through Lauren Pachman at the Academy as issues arise.

Very truly yours,



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Enclosure