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July 6, 2015

Via email to Aaron Brandenburg (abrandenburg@naic.org)

Anthony Albanese
Chair, Terrorism Insurance Implementation (C) Working Group

c/o Aaron Brandenburg, Statistical Information Manager
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Terrorism Insurance Implementation (C) Working Group Exposure Draft

Dear Mr. Albanese:

The American Academy of Actuaries¹ Terrorism Risk Insurance Subcommittee is pleased to provide these comments on the Terrorism Insurance Implementation (C) Working Group's June 19, 2015, draft Terrorism Risk Insurance Supplement and Instructions.

The end of the Instructions reads as follows: "If terrorism coverage is offered without a corresponding premium, no premium should be entered in Columns 1 and 2. However, that coverage may still have losses. A policy should be counted regardless of whether premium is separately charged for the terrorism coverage." As written, this Instruction may have unintended consequences. There are many policies (homeowners', auto, life, workers' compensation) that offer some element of terrorism coverage because coverage may exist for terrorist acts even though no explicit terrorism risk insurance is being provided in exchange for a premium. Such coverage is incidental in the context of the policy, but it represents real loss exposure for the insurer. This could result in inconsistent reporting by companies completing the Supplement, particularly in terms of policy count. For example, if a homeowners' policy does not explicitly exclude all terrorism, should a responding company note a policy count with zero premium or should the company include the relevant premium?

If the Supplement is intended to capture such incidental exposures, companies are likely to report nearly all policies in many lines in every part of the country, and the resulting data could be so overly inclusive as to be meaningless. If, on the other hand, the Supplement is intended to only capture policies with some explicit recognition of terrorism coverage, the language in the final

¹ The American Academy of Actuaries is an 18,500+ 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.

section of the Instructions should be revised to reflect that intent. As written, the Supplement requires the reporting of any policy that could possibly pay a claim in a terrorist event (e.g., a personal auto crushed by a building when it collapses after a car bomb). We recommend that the language be revised to clarify exactly how companies should report policies that include incidental exposure, such as private passenger auto physical damage.

Additionally, Column 6 (“Reinsurance Premium Ceded”), may be intended to record whether reinsurance is in place to cover terrorism losses. However, if no premium is associated with policies on direct, respondents would enter zero in the reinsurance column as well, resulting in no indication that reinsurance coverage exists for the loss. If the revisions above are accepted, for the non-premium bearing report, column 6 could be a check box indicating whether reinsurance is available.

The Subcommittee appreciates this opportunity to provide comments to the Terrorism Insurance Implementation Working Group. If you have any questions about our comments, please contact Lauren Pachman, the Academy’s casualty policy analyst, at pachman@actuary.org or (202) 223-8196.

Sincerely,

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