AMERICAN ACADEMY of ACTUARIES

August 2, 2010

Treasury's Office of Financial Institutions Policy
Attention: President's Working Group on Financial Markets Public Comment Record
Room 1417 MT
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Re: President's Working Group on Financial Markets: Terrorism Risk Insurance Analysis

To the President's Working Group on Financial Markets:

The Terrorism Risk Insurance Subgroup (Academy subgroup) of the American Academy of Actuaries[1] thanks the President's Working Group on Financial Markets (President's Working Group) for this opportunity to provide comments in response to the request appearing in the Federal Register of June 17, 2010.

Key Factors

1. What are the key factors that determine the availability and affordability of terrorism risk insurance coverage? How are these factors being measured and projected today? What factors will determine the availability and affordability of terrorism risk insurance long-term? The President's Working Group on Financial Markets discussed various factors in its 2006 report, referenced above; how have these factors changed or developed since then?

The primary insurance cost issue affecting the availability and affordability of terrorism risk insurance coverage is the potential that a single terrorist attack, using weapons of mass destruction, could cause a huge aggregate loss from a massive number of individual insurance claims.

Since September 11, 2001, insurers have worked to improve their understanding of terrorism risk. Unfortunately, this improved understanding of terrorism risk does not provide easy answers to the complicated questions being asked by insurers or by regulators, legislators, and other policymakers. Rather, we now better understand the magnitude of the tremendous uncertainties and estimation problems that face insurers, reinsurers, and other potential suppliers of capital that could be used to finance terrorism risk.

[1] The American Academy of Actuaries ("Academy") is a 16,000-member professional association whose mission is to serve the public on behalf of 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.

Without TRIPRA or some other federal framework for terrorism risk insurance, the uncertainties regarding potential attacks make it extremely likely that premiums for terrorism risk insurance will be high and volatile and that availability of terrorism coverage will be limited. Without a federal framework for terrorism risk insurance, coverage such as workers' compensation, which are required to cover claims made by employees injured in terrorist attacks, will become much riskier for insurers and thus more expensive and/or less available over time.

Accordingly, the Academy subgroup has concluded that some federal framework for terrorism risk insurance is necessary for terrorism coverage to be widely and readily available.

2. What are the key factors that determine the amount of private-market insurer and reinsurer capacity made available for terrorism risk insurance coverage? How have these factors changed since 2006, when the President's Working Group on Financial Markets issued its last report? How will such factors evolve in the long-term and upon what factors will available capacity most depend?

One key factor is the availability of a federal backstop. Other key factors that influence capacity include the ability to estimate the potential exposure to loss resulting from terrorism events, the ability to obtain reasonable pricing of insurance to cover those events, and the level of insurer/reinsurer capital.

Economic Factors

3. How, in general, has the state of the financial markets and economy, and the financial condition of commercial property and casualty insurers, affected the availability and affordability of terrorism risk insurance; and how does that compare with effects on the availability and affordability of other lines or types of commercial property and casualty insurance? Please comment on potential entry of new capital into, as well as any exits from, the terrorism insurance and reinsurance markets.

The Academy subgroup does not believe that the current state of the financial markets and the economy has had any significant impact on the availability and affordability of terrorism risk insurance.

Underwriting

4. What changes and improvements have taken place in the ability of insurers to measure and manage their accumulation of terrorism risk exposures, and how (as well as to what extent) are primary insurers using available methods? Has improved risk accumulation management led to more availability? Has there been any improvement in modeling of frequency and terrorist behavior? What has been learned from the near-9 years of experience in managing and assessing terrorism risk since September 11, 2001? Overall, how has modeling improved and/or continued to develop since 2006, when the President's Working Group on Financial Markets issued its last report? How is modeling expected to evolve further in the long-term?

Estimates of the potential losses from terrorist events rely on quantitative approaches that have evolved from those used for natural disasters. There are models that identify potential targets and target areas. Insurers have used this information, along with stochastic analysis, to attempt to understand their exposure. However, with little or no historical frequency of loss, there is little data on which to model terrorism losses. Many of the modeling outcomes have been provided on a deterministic event basis, i.e., the modeled estimate of damages and losses in the defined event.

Since the 2006 report, a notable industry-wide initiative has been undertaken to improve exposure data. Insurers have sought to increase their knowledge of exact location information, construction details, and replacement costs for each property. This initiative is driven by information needs in both terrorism and natural catastrophes. Rating agencies have begun asking insurers for information about exposure data quality, and modelers have introduced tools to provide needed improvements.

The firms that develop terrorism models are continuing to improve their estimation of frequency and severity. They have learned about intended, planned, failed, and executed attacks and the impact of counterterrorism measures taken in the U.S. and around the world. Modeling firms use this history and their judgment to estimate future possibilities and their frequencies.

Since 2006, additional research has been incorporated into the models of property damage and injuries resulting from bombings in urban environments, potential terrorist targets have been added, and frequency estimates have been updated.

Terrorism models continue to be updated to incorporate new findings on weapons effects, new potential target facilities, new attempted attacks, new intelligence, and information regarding attack modes used worldwide.

5. What role do mitigation and loss prevention play in underwriting and pricing terrorism risk insurance? How has mitigation developed since 2002, what improvements have been made since 2006, to what effect has the availability of terrorism risk insurance had on mitigation and vice versa; and, how will mitigation evolve in the long-term?

Since 2001, some prevention and mitigation efforts have been undertaken by the private sector. These measures include enhanced private security and screening of visitors, barriers in high-profile buildings, and security cameras. Insurers take mitigation efforts into account when underwriting risks; however, these mitigation efforts are not likely to have much impact on the most extreme terrorism events.

6. What is the state of information sharing between and among the private and official sectors related to terrorism risk: (a) how much reliance is placed on open and private source intelligence; (b) how has it affected the availability and affordability of terrorism risk insurance; and, (c) how will such information processes further develop and affect the availability and affordability of terrorism risk insurance in the long-term?

The organizations that create terrorism models consult with experts in the development of the assumptions underlying the models. This includes weapons-effects models, historical event information data, and unclassified threat assessment information. Modelers also share methods with the government pertaining to terrorism risk modeling.

Coverage

7. What changes and improvements have taken place with regard to the types of terrorism risk insurance coverage available in the market? What changes and improvements have taken place since 2006? Have there been improvements and changes in forms, are there special terms or conditions? What is the state of standalone, "TRIA-only" coverage? Is available coverage limited to, or broader than that required to be made available under TRIA?

Terrorism coverage changes have, to a large degree, been directly related to specific definitions in federal law. The Insurance Services Office (ISO) provides policy language for many insurers. Prior to the 2007 reauthorization of TRIA, the federal definition of a "certified act of terrorism" was limited to foreign acts. During that time, ISO had two types of terrorism exclusion forms: "certified acts" exclusions and "other acts" exclusions. Domestic acts of terrorism were classified as "other acts." The certified acts exclusion could be used in a situation in which a policyholder rejected the offer of certified acts of terrorism coverage. Other-acts exclusions could be used at the option of the insurer.

With the 2007 reauthorization of TRIA, the federal definition of a "certified act" of terrorism, previously limited to foreign acts, was revised to include domestic acts as well. ISO "certified acts" exclusions were updated to reflect this new definition. Also, "other acts" exclusions were removed from ISO programs for property insurance. Use of certified acts exclusions continues to be limited to situations in which the policyholder rejects the offer of certified acts of terrorism coverage. No post-reauthorization change has been required for coverage provided under a policy issued without terrorism exclusions. Such a policy generally covers both certified acts of terrorism and other acts of terrorism, subject to the same terms and conditions as other events covered or excluded under the policy.

In states with a statutory requirement for fire coverage, terrorism exclusions (both prior to and since 2007) do not apply to fire following terrorism.

8. What are the differences in availability and affordability of terrorism risk insurance coverage for foreign and domestic terrorist acts?

Generally, the source of the terrorist act is much less important than the severity of the event and its impact on the capital of insurers. The availability and affordability of coverage for domestic acts has probably been enhanced by including domestic acts in the definition of "certified acts" and is now similar to the availability and affordability of coverage for foreign acts.

9. Did the Terrorism Risk Insurance Program Reauthorization Act of 2007's amendment to the definition of "act of terrorism" lead to more availability due to the requirement that such coverage be made available, or was such coverage available prior to

2007; conversely, did the amendment lead to less coverage due to the broadened scope of "act of terrorism" exclusions, or were exclusions revised to distinguish between coverage of foreign and domestic terrorist acts?

Generally, the inclusion of domestic acts under the federal backstop has probably improved the availability of terrorism insurance in the marketplace. Insurers are more likely to have the capacity to provide this coverage without risking insolvency due to an extreme domestic terrorist event now that the federal backstop applies to domestic acts.

10. What are the differences in availability and affordability of terrorism risk insurance coverage for losses at U.S. locations, as compared to such coverage for losses at non-U.S. locations? What are the differences as compared between TRIA-covered locations and non-TRIA locations?

The Academy subgroup has no information on this, but the broker community may have some helpful information.

Policyholder Demand

11. How has the demand for terrorism risk insurance changed since 2006, when the President's Working Group on Financial Markets issued its last report? Please comment on take-up by policyholder sector, location, line, and other relevant characteristics. How have any changes in demand influenced the willingness of insurers to allocate capital to terrorism risk insurance? Has there been any impact on the amount of capital allocated to non-terrorism coverage or among lines of insurance?

The Academy subgroup does not have specific information on take-up rates for terrorism insurance, but the broker community may have some helpful information.

12. To what extent have businesses used captive insurance companies to provide terrorism risk insurance, and what is the potential for the use of captive insurers to insure against such risk long-term? How have stand-alone terrorism captives developed, and how will these evolve long-term, including after the expiration of the Program in 2014?

Captives typically do not have sufficient surplus to cover catastrophic events; however, they generally have enough surplus to provide some level of security. The Academy subgroup is not aware of any captive that has been set up specifically to provide terrorism coverage. TRIA and the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) require the offer of terrorism insurance on the same terms and conditions as for other perils covered by policies in the lines of insurance subject to these acts. To the extent that a captive is subject to the TRIA/TRIPRA mandatory offer provisions, and their insureds (owners) opt for the coverage, the captive is required to provide such coverage and is covered by the federal backstop.

While TRIA/TRIPRA is in effect, a captive that had already been set up could have access to recoveries for terrorism losses at levels considerably lower than they would be had the same premium been written through a standard insurer, because the captive's direct written premium pertains solely to the limited exposure. This method offers maximum access to the benefits of the federal program for an otherwise self-insured entity.

13. Have state approaches (such as those applicable to mandatory coverage, permitted exclusions, and rate regulation) made coverage more or less available and affordable? Have there been any changes in state insurance regulation of terrorism risk insurance since the Terrorism Risk Insurance Program Reauthorization Act of 2007 was enacted? To what extent has the availability and affordability of terrorism risk insurance been influenced by state insurance regulation, and what role is state regulation expected to have long-term? Please comment on state-approved terrorism related rate loads.

Some states initially disapproved original insurer terrorism rate filings and later approved those filings, once the rates had been reduced. Given the requirement of mandatory offer, such a state action has the effect of making terrorism insurance coverage more affordable.

However, if the federal terrorism risk insurance program is permitted to expire, insurers would no longer be required to offer terrorism coverage to every client. In such a scenario, state disapprovals could reduce, perhaps considerably, the availability of terrorism insurance.

Certain coverages, such as workers' compensation, may be defined by state law in a manner that provides for terrorism risk insurance coverage. In that case, an insurer needing to limit its accumulation of terrorism risk exposure would have no means by which to do so, other than by avoiding the underlying exposure.

If a state did not approve exclusions for terrorist attacks not covered by TRIA/TRIPRA, such a state action could expose insurers to very large losses and potentially affect the availability of underlying non-terrorism coverage. A state's failure to approve terrorism exclusions could affect the financial solvency of the insurer and the insurer's ability to pay claims (on terrorism or other losses).

14. What are the differences in availability and affordability of terrorism risk insurance between the licensed/admitted market and the non-admitted/surplus lines market, and to what degree are those differences attributable to the degree and manner in which each market is regulated?

Given the "mandatory offer" provision of TRIA/TRIPRA, there are likely few differences in availability and affordability of terrorism risk insurance between the admitted and non-admitted markets.

Price of Insurance

15. What improvements have taken place in the ability of insurers to price terrorism risk insurance? How are rating organizations assisting insurers in pricing, and how have rating factors developed?

The Academy subgroup response concerns the ability of insurers to estimate costs associated with potential terrorist attacks. Costs are one element of an insurer's pricing decision, but pricing per se is outside the purview of the Academy subgroup's response.

A component of the pricing amount for a policy is the expected loss to the exposure. Probabilistic modeling is and has been used by some organizations as a starting point in the pricing process.

One example includes advisory loss costs for terrorism developed by ISO and filed for use by insurers. The ISO values have been refined in terms of increased granularity of territorial definitions and in the number of different values employed across the different territories. These advisory loss costs reflect the detailed probabilistic modeling that differentiates risk by the estimated frequencies attributed to different potential targets and the amount of damages that might result due to terrorist attacks at those targets. Particular attention is placed on the differences in risk in areas exposed to well-known potential targets versus the risk in areas of widespread homogeneity.

16. What have been the trends in pricing of terrorism risk insurance? Please comment on the extent to which such coverage is not priced and charged-for. How has pricing changed since 2006, when the President's Working Group on Financial Markets issued its last report? To what do you attribute any changes?

Again, the Academy subgroup response concerns the ability of insurers to estimate costs associated with potential terrorist attacks. Costs are one element of an insurer's pricing decision, but pricing per se is outside the purview of the Academy subgroup's response.

Since 2006, model-based loss costs used for pricing have been refined to distinguish among various levels of coverage. This pertains to the application of exclusions that may be in place in the underlying policy for non-terrorism events, including fire following terrorist attacks in standard fire policy states and coverages that may be specifically purchased in an individual policy.

17. How has the recent "soft market" impacted the availability of and affordability of terrorism risk insurance? What would be the impact on the availability and affordability of terrorism risk insurance should the market "harden" in near future?

The committee does not have specific information on the availability and affordability of terrorism risk insurance. Generally, "soft markets" are characterized by excess capital in the insurance industry, which provides greater capacity to write insurance. Insurers in soft markets will tend to offer more coverage at lower prices. Conversely, a "hard market" refers to a scenario in which there is inadequate capital in the insurance industry. This reduces insurers' capacity to write insurance. In "hard" markets, insurers will be less likely to write less profitable or more volatile coverage. Terrorism risk insurance is inherently volatile, relative to other lines, so it is reasonable to expect a reduction in the availability of terrorism risk insurance in harder markets.

18. How were primary insurers' pricing decisions affected by the Terrorism Risk

Insurance Program Reauthorization Act of 2007, particularly as to the requirement to make available coverage for acts of terrorism being no longer defined as limited to those committed on behalf of any foreign person or foreign interest?

The Academy subgroup's response to this question concerns anticipated costs associated with the provision of terrorism risk insurance, which is an important element of pricing decisions. Individual insurer pricing decisions are outside the scope of the Academy subgroup's response.

Terrorism models have been parameterized to include many aspects of terrorism exposure as well as the federal backstop, including deductibles, co-insurance, event type, and whether an event is domestic or foreign.

Reinsurance

19. What is the current availability and cost of reinsurance to cover terrorism risk? Please distinguish by line or type of insurance being reinsured and on what basis (treaty or facultative). How has the terrorism reinsurance market changed since 2006, when the President's Working Group on Financial Markets issued its last report? To what do you attribute any changes?

The magnitude of potential insurance claims due to terrorist events makes permanent federal legislation necessary to make terrorism coverage widely and readily available. The Academy subgroup is not in a position to provide a specific market analysis of reinsurance. We can, however, offer several general observations.

First, we have seen no evidence that there is sufficient private reinsurance capacity to address the type of extreme events the Academy subgroup has modeled. Several of those events are an order of magnitude larger than the reported reinsurance capacity even under TRIA or TRIPRA. Without a federal framework for terrorism risk insurance, certain modeled events could be two orders of magnitude greater than reported reinsurance capacity.

Second, standard reinsurance contract language often excludes terrorist acts covered by TRIA or TRIPRA and all "biological, chemical, or nuclear pollution or contamination."

Reinsurance markets face the same difficulties as primary insurers in pricing coverage in terms of the state of the art of catastrophe modeling tools. The available terrorism models are subject to great uncertainty. Thus, in the short term, reinsurers face significant challenges in quantifying their exposure to terrorism losses. This uncertainty will continue to limit available capacity.

In the long term, the amount of private reinsurance capacity will be related to the confidence that the markets develop in their pricing tools and their understanding of risk. It would require a very significant increase in capacity for the private market to absorb the risk now covered by TRIA, even under TRIA's $100 billion cap. Given current market conditions, it is difficult to envision the markets being able to generate significant additional terrorism reinsurance capacity in the short term.

20. At what policyholder retention levels are insurance programs being structured by policyholders to cover terrorism risk (e.g., deductibles, self-insurance, captives); and, with regard to insurers, how are reinsurance programs being structured and at what attachment points? Please comment on the availability and affordability of reinsurance for terrorism risk.

The Academy subgroup does not have specific knowledge of the terms and conditions of various insurance programs. However, under the federal framework, terms and conditions for terrorism risk insurance need to be the same as the underlying coverage.

Regarding the availability and affordability of reinsurance, please see the Academy subgroup's response to Question 19.

21. Are reinsurers allocating more capital to terrorism risk insurance, and has capacity changed since 2006, when the President's Working Group on Financial Markets issued its last report? Are insurers willing to pay the cost of terrorism risk reinsurance, and is that a factor affecting the allocation of capital to the risk; how much additional capital could be attracted long-term?

Please see the Academy subgroup's response to Question 19.

22. How have provisions of the Terrorism Risk Insurance Program Reauthorization Act of 2007 affected the terrorism risk reinsurance market? More specifically, how has maintaining and not increasing the insurer deductible percentage applied against direct earned premiums (from Program lines), as well as not decreasing the Federal share of losses above the insurer deductible, affected the provision and development of private reinsurance?

The Academy subgroup does not have direct knowledge of the effect on the reinsurance market of the TRIPRA renewal in 2007.

23. To what extent have alternate risk transfer methods (e.g., catastrophe bonds or other capital market instruments) been successfully or unsuccessfully used for terrorism risk insurance, and what is the potential for the long-term development of these approaches?

The Academy subgroup's responses have benefited from the expertise of representatives of AIR Worldwide. AIR Worldwide has directly supported a large portion of the transactions for raising risk capital through catastrophe bonds and has modeled most of the catastrophe bonds issued as services provided to investors.

Investors do not generally have the risk analysis expertise for extreme events that exists in insurance and reinsurance companies. Therefore, they look to the practices and risk assessments used by those companies, as well as to rating agencies, for guidance. Rating agencies have not indicated any willingness to use probabilistic terrorism loss models for ratings.

Claiming the same risk uncertainties cited by insurers and reinsurers regarding terrorism, as well as the fact that terrorism catastrophe bonds cannot be rated, investors have expressed little appetite for such investment vehicles to date.

Thus, the issues limiting the availability of reinsurance for terrorism risk also limit the use of alternative risk transfer methods.

Losses Associated with Chemical, Nuclear, Biological, and Radiological (CNBR) Acts

24. What is the current availability and affordability of coverage for CNBR events? For what perils is coverage available, subject to what limits, and under what policy terms and conditions? Is there a difference in the availability and affordability of coverage for CNBR events caused by acts of terrorism? To what extent have various States allowed insurers to exclude coverage for CNBR events (Please comment on requirements for workers' compensation and fire-following coverage.)? How have exclusions developed?

Response: TRIPRA clearly provides that coverage for terrorism is subject to the terms and conditions of the underlying policy. Thus, under the current federal program, coverage for CNBR events caused by terrorists depends on whether the underlying policy would have covered the peril absent terrorist involvement.

Under commonly-used workers' compensation policies, no exception applies to the applicability of coverage if the loss is due to a CNBR event. Such coverage would be available up to the full limits of the policy.

Property policies are more complicated in CNBR scenarios. Commonly-used property policies have various provisions that exclude coverage for nuclear reaction, radiation, or contamination. However, damage from certain perils (fire, for example) resulting from a nuclear reaction may be covered. Property policies often contain specific exclusions that could apply in the event of a terrorist attack involving biological or chemical events. Whether coverage applies would depend on the specific facts associated with a particular loss event and the coverage stipulations included in the policy. If such coverage is found to apply, it would usually be available up to the full limits of the policy.

Also, whether liability coverage applies in the event of a CNBR attack would depend on the coverage stipulations included in the policy and the specific facts associated with the event.

In a post-TRIPRA environment, insurers would have available specific endorsements to exclude coverage for CNBR events initiated by terrorists. Industry use of such endorsements would reflect each insurer's evaluation of the risk/reward trade-off associated with coverage of this peril.

25. Is it the case that some insurers appear unwilling to provide coverage for CNBR events caused by acts of terrorism, despite TRIA limits on an insurer's maximum loss exposure? If so, why?

Individual insurer decisions whether to offer coverage are beyond the scope of the Academy subgroup's response.

However, insurers writing workers' compensation are currently providing large amounts of coverage for CNBR events.

Under TRIA/TRIPRA, individual insurer terrorism deductibles can be very large. Where insurers have the option not to provide CNBR coverage on the underlying policy, they may evaluate the potential premium for providing CNBR coverage as not being commensurate with the level of exposure.

Availability of coverage for CNBR events has likely increased since 2006, due to insurer and reinsurer perceptions of no losses to date, low correlation with other catastrophic perils, and the availability of additional capital.

26. In the long-term, what are the key factors that will determine the availability and affordability of terrorism risk insurance coverage for CNBR events? The President's Working Group on Financial Markets previously reported that there appeared to be little potential for market development. Has anything changed since 2006?

The key factor is that the exposure is too great to underwrite. In the absence of a federal framework for terrorism risk, insurance coverage for terrorism risk is likely to be volatile, expensive, and of insufficient quantity.

CNBR events can cause the largest losses of all terrorism risks. Given the magnitude of potential claims due to CNBR events and the tremendous uncertainty associated with evaluating the likelihood of such events, there are essentially two long-term scenarios:

1. Absence of a federal framework for terrorism risk insurance: In this case, there is likely to be a limited and volatile market for terrorism coverage for CNBR events. To the extent that state laws and regulations mandate inclusion of coverage for CNBR events caused by terrorists, these requirements are likely to reduce the availability of standard coverages. Even so, a terrorist attack using CNBR weapons in this scenario has the potential to cause massive insolvencies of standard insurers, complicating the task of national recovery from an already-devastating event.

2. Presence of a federal framework for terrorism risk insurance: If properly designed, a federal framework would allow for terrorism coverage to be widely available. While the underlying uncertainty about the frequency and severity of terrorist events would remain, the volatility of premiums for this coverage in a federal framework would be considerably less than its volatility in the absence of such a framework.

There is one significant difference between the reinsurance and insurance marketplaces in the terrorism insurance context. In general, reinsurance coverages are not mandated by law or regulation to cover any particular perils. Thus, reinsurers are free to draft contracts that exclude coverage for claims their primary company clients must pay. On the one hand, this allows reinsurers more power to manage their exposures, as their basic business model tends to attract substantial concentration risk. On the other hand, this means that primary companies cannot rely on casting off risks they may have felt forced to undertake.

Again, assuming the lack of a federal framework for terrorism risk insurance, we see no prospect, even long-term, of a significant reduction in the uncertainty associated with estimating terrorism risk exposure. Accordingly, we see no prospect of any rapid increase in the amount of private capital invested in terrorism risk reinsurers.

Deductible and Co-Share Levels

27. Under the Program, an insurer's annual deductible is a percentage of certain direct earned premiums (as defined by TRIA and regulation). TRIA, as originally enacted, graduated the percentage applied for each year. The Terrorism Risk Insurance Program Reauthorization Act of 2007 established a set percentage of 20 percent for each Program year beginning in 2007. Please comment for each year since 2006 as to whether direct earned premiums in TRIA lines and insurer deductibles have increased or decreased? If so, in what amounts? Please provide data as available.

The industry-wide deductibles under TRIA as of 2010 are:

	(1)	(2)	(3)	(4)
TRIA Program Year	Previous Yr's Earned Premium in 1,000s	Ded.	Industrywide Ded. in 1,000s (1)*(2)	Percent Change in Ded. (3) from Prior Yr.
2006	202,908,056	17.5%	35,508,910	
2007	175,098,424	20.0%	35,019,685	-1.4%
2008	176,855,955	20.0%	35,371,191	1.0%
2009	168,061,365	20.0%	33,612,273	-5.0%
2010	157,969,859	20.0%	31,593,972	-6.0%

Beginning in 2007, commercial automobile, burglary, theft, and surety insurance are not covered under TRIA.

These totals are based on A.M. Best's industry-wide, countrywide data. Individual insurer deductibles will vary based on their lines of business and premiums.

28. How might any increases to the insurer deductible level or decreases to the Federal share above such deductible levels, prior to the Program's expiration in 2014, affect the availability and affordability of terrorism risk insurance? Please comment on the degree, amount or increment of any recommended increase.

Insurer reaction to deductible changes and changes in the level of federal participation is unclear. If the changes are relatively modest, there is likely to be little impact on availability and affordability of terrorism risk insurance. Changes that significantly affect an insurer's potential exposure to a covered loss could result in increased costs or the reduced availability of coverage. Insurers constantly manage their total exposure based on available capital and reinsurance.

Expiration of the Program

29. Describe efforts undertaken by the insurance industry and/or policyholders since 2006, when the President's Working Group on Financial Markets issued its last report, to ensure the availability and affordability of terrorism risk insurance after 2014 when the Program expires, and long-term?

The Academy subgroup knows of no formal efforts by the industry or by policyholders to ensure availability of coverage after expiration of TRIPRA in 2014.

30. Please comment on any anticipated state approaches to ensure the continued availability and affordability of terrorism risk insurance after the Program expires in 2014 (such as those approaches taken by the States after September 11, 2001 and before TRIA was enacted on November 26, 2002).

The Academy subgroup knows of no formal efforts by states to develop mechanisms to ensure provision of terrorism insurance after 2014. Over the years, various states have developed mechanisms to help provide coverage for natural catastrophes. Examples include windpools in a number of states (e.g., North Carolina, Texas), state reinsurance pools (e.g., Florida), and direct insurance organizations (e.g., Citizens Property Insurance Corp. in Florida and the California Earthquake Authority).

One concern is that states will not have the ability to gather the capital necessary to support these funds. In addition, the federal government has the ability to limit total industry and government liability (e.g., the $100 billion cap in TRIPRA). Without this type of authority, it would be difficult for states to create viable alternatives to TRIPRA.

31. Please comment on any other developments in markets that might affect the continued availability and affordability of terrorism risk insurance.

The availability and affordability of terrorism risk insurance could be affected by a number of factors. Some of these include:

- Actual pattern of terrorism events in the U.S. and abroad
- New information that affects industry opinion about the frequency or severity of insured terrorism events
- Natural catastrophe (e.g., hurricane and earthquake) events that are large enough to significantly affect industry capital
- Other events that might affect industry capital (e.g., events in financial markets, changes to overall industry profitability)

32. In the absence of the Program, in what forms, at what levels, under what terms and conditions, and at what price might terrorism risk insurance be available; and, at what

duration (i.e., long-term)? Please distinguish from state-mandated coverage, such as workers' compensation and fire insurance.

While it is difficult to know exactly what will happen in the absence of the Program, the expectation is that there will be a significant reduction in the availability of coverage. Without the federal backstop, there will be insufficient capital to support a number of plausible terrorism events.

As a result, insurers will need to reduce their exposure to terrorism events, particularly large terrorism events. This could result in a number of actions:

- Changes in deductibles, limits, or available coverage for a number of terrorism events, particularly in locations in which the insurer has a concentration of insureds, or events are more likely or more expensive
- Non-renewal of accounts to limit insurer exposure to the most expensive events and control concentration
- In cases of mandatory terrorism coverage (workers' compensation and fire in certain states), a reduction in the number of insureds in which the insurer provides any coverage at all to control exposure to the most expensive events
- As a result of the capital requirements set forth by rating agencies, insurers will be discouraged from writing terrorism coverage

The Academy subgroup appreciates the opportunity to provide comments to the President's Working Group in response to the request appearing in the Federal Register of June 17, 2010. Please do not hesitate to contact us through Lauren Pachman (Pachman@actuary.org), the Academy's casualty policy analyst, should you have any questions concerning our comments.

Sincerely,

William VonSeggern
Chairperson, Terrorism Risk Insurance Subcommittee
American Academy of Actuaries