



AMERICAN ACADEMY *of* ACTUARIES

September 19, 2007

The Honorable Nancy Pelosi
Speaker, House of Representatives
H-232 U.S. Capitol
Washington, DC 20515

Dear Madam Speaker:

The American Academy of Actuaries'¹ Terrorism Risk Insurance Subgroup wishes to provide these comments to assist you in your consideration of the Terrorism Risk Insurance Revision and Extension Act of 2007. This group of actuaries is expert in the field of assessing risk exposures in the area of extreme events and has spent the past few years developing 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 addressing comments to the House of Representatives on prior legislation that ultimately provided for the current Terrorism Risk Insurance Extension Act, 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 consider as you prepare for floor debate.

In this work, generally, it has been our considered view that 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, there should be a mechanism to develop recommendations for a permanent way of dealing with the risk of terrorism. If a large insured chemical, nuclear, biological, or radiological (CNBR) or other terrorism event occurs in the absence of a national framework for dealing with terrorism insurance losses, many commercial lines insurers would be devastated and possibly unable to pay claims not just for terrorism events but also for their other policyholders.

With regard to H.R. 2761 specifically, we observe the following:

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.

- In Part (c)(4) of Section 103, “Terrorism Insurance Program,” the phrase “good faith actuarial analysis” is used. The actuarial community does not have an established definition for this phrase, nor does the insurance industry. It is not defined in H.R. 2761. While the drafters may have some particular concept in mind, it is not clear to us how the actuarial profession would respond to this language in practice. Without further clarification of this concept and consideration of how actuaries can effectively perform such analyses, we suggest that this phrase and the portion of the sentence containing it be deleted. However, we would be very interested in discussing how the actuarial profession could be effective in addressing the needs of the public in terrorism risk and insurance issues.
- In Part (e)(1) of Section 5, “Analysis and Study,” the President’s Working Group on Financial Markets is asked to consult with a number of professionals to analyze the long-term availability and affordability of terrorism risk insurance in the private market. Actuaries should be included on this list, as they are uniquely positioned to offer expertise on the availability and affordability of insurance.
- In Section 109, “Commission on Terrorism Risk Insurance,” a commission is established to identify and make recommendations to facilitate the availability of private market terrorism risk insurance coverage and to sustain and supplement the insurance industry’s ability to cover losses caused by terrorist acts, among other tasks with which it is charged. In Part (b)(1)(C), a number of positions on the commission are allocated to private citizen representatives of particular aspects of the insurance and finance industries. Actuaries should be included on this list because their expertise in the financing of the insurance industry is unparalleled.

The American Academy of Actuaries’ Terrorism Risk Insurance Subgroup would be glad to provide further assistance or additional information to the House of Representatives upon request.

Very truly yours,

William Von Seggern, MAAA, FCAS
Chair, Terrorism Risk Insurance Subgroup
American Academy of Actuaries
1100 Seventeenth Street NW, Seventh Floor
Washington, DC 20036

cc: House Minority Leader John Boehner
Members, House of Representatives

Contact:

Lauren Pachman, Esq.

Casualty Policy Analyst

American Academy of Actuaries

Phone: (202) 223 – 8196

E-mail: pachman@actuary.org

Enclosure