

TESTIMONY
OF
JACQUES E. DUBOIS
CHAIRMAN AND CEO, SWISS RE AMERICA HOLDING
ON BEHALF OF
SWISS RE
BEFORE
THE UNITED STATES SENATE COMMITTEE ON BANKING, HOUSING AND URBAN
AFFAIRS

“OVERSIGHT OF THE TERRORISM RISK INSURANCE PROGRAM “

May 18, 2004

Good morning Chairman Shelby, Ranking Member Sarbanes, and Members of the Committee. My name is Jacques Dubois and I am Chairman and CEO of Swiss Re America Holding Corporation. We have filed written testimony for the record. Thank you for your leadership on this urgent matter and for giving us this opportunity to comment regarding the Terrorism Risk Insurance Act.

First, a few words about Swiss Re. Founded in Zurich, Switzerland in 1863, Swiss Re has insured risks in the US since 1880. Today Swiss Re has global revenues of approximately \$28 billion and total assets of \$130 billion. Swiss Re is the world's second largest reinsurer and the world's largest life and health reinsurer and is also North America's largest reinsurer. Our company insures risks globally, operating from 70 offices in 30 countries. We employ 2300 people in the US and 9000 worldwide. We are also members of the Reinsurance Association of America and the American Council of Life Insurers.

More to the point of today's hearing, Swiss Re has responded to virtually every major US catastrophe over the last 100 years. In fact, for Swiss Re, prior to 9/11, our largest single loss relative to capital was the San Francisco earthquake in 1906. Swiss Re plays an important role in the US insurance industry and is active in discussions regarding terrorism risk and terrorism losses. Our 9/11 claims totalled \$3.3 billion and we were the largest insurer of the World Trade Center.

Although reinsurance is not subject to TRIA, Swiss Re has a keen interest in the law for two reasons:

- First, US terrorism risk stems, in large measure, from terrorists' efforts to influence government policy. Terrorist attacks seek to undermine US institutions and culture. Prior to September 11 terrorism had not been perceived as a significant risk. But 9/11 demonstrated the enormous potential for loss caused by terrorist attacks. We feel very strongly that government must

play a partnership role with the insurance industry in coping with these losses. Insurers, reinsurers, property owners, business owners, employees and government and its institutions – all of us are at risk for terrorism.

- Second, in short, TRIA has worked. TRIA has provided protection to insurers that limits losses in the event of an additional terror attack. This has allowed insurers to perform their traditional roles in bearing risks against losses from perils that the industry can effectively price and underwrite such as hurricanes, floods, fire, auto accidents and other events.

As a reinsurer, we are not required to provide terrorism reinsurance coverage. And, for the most part, we do not now provide terrorism reinsurance because we cannot quantify the frequency or severity of possible events. There are a few exceptions:

- We provide partial protection for clients in containing their TRIA retention exposure.
- We provide modest catastrophe cover for our group life clients.

In both cases, what we provide is a fraction of what our customers need and want and what we had provided prior to 9/11.

What these two exceptions have in common is that we can quantify our maximum exposure. To accept risk without fully understanding our exposure would be irresponsible to our shareowners and to our customers.

The impossibility of predicting frequency and severity of terrorism attacks is the primary reason why the reinsurance market has been cautious in offering terrorism risk protection. Although much work has been done on models to assess terrorism risk, forecasts of the frequency and the magnitude of terrorism losses are extremely problematic. Statistical data is simply unavailable to begin to quantify

this risk. And we must accept the fact that it may never be possible to capture, in a model, the intentions of human minds that strive to inflict maximum devastation and human suffering.

Nevertheless, a limited reinsurance market for terrorism risk has developed. Insurers can buy some terrorism coverage for their TRIA retention. They must, however, retain a substantial amount of the risk. Covers are usually subject to limits per event as well as an annual aggregate limit. Further, most contracts have exclusions for events involving nuclear, radiological, biological or chemical weapons. But, in total, the coverage available is insufficient even to cover TRIA's deductibles.

Swiss Re's position is that the insurance and reinsurance market is not currently prepared to absorb terrorism risk regardless of our limited improvements in our ability to assess risk. The attack on the WTC caused insured losses estimated at up to \$40 billion including \$ 21 billion in property and business interruption lines alone. Total insured and uninsured losses have been estimated at about \$100 billion. Loss estimates from 9/11 exceed the largest losses from natural catastrophes the industry has ever suffered:

Hurricane Andrew 1992: \$ 21 billion

Earthquake Northridge 1994: \$17 billion

Winter storms in Europe 1999/2000: \$ 9 billion

Potential losses from a terrorism attack conceivably could be much larger than total insured losses of 9/11 or the largest conceivable natural catastrophe loss. Swiss Re is currently co-sponsoring with nine other organizations a study by RAND Corporation aimed at assessing terrorism risk and loss potentials. Study results will be released over the next 2 years. In addition, Swiss Re assisted in another study by RMS, a leading risk modeling organization, which also analyzed terrorism scenarios. This study found that insured losses of \$ 80 billion are possible for Worker's Compensation and Life insurance lines of business. Further, LOMA, a research and education

association for the life insurance and financial service industry, has also released a study on terrorist events such as a smallpox attack that could result in deaths in excess of 30 million. Just as with 9/11, these losses have not been factored into insurance prices and cannot be absorbed within the industry's capacity.

This issue is extraordinarily complex. We know that if a major terrorism event were to occur, it would likely hit several insurance lines of business simultaneously, as illustrated by the WTC event. The September 11 tragedy caused insured losses in individual life, group life, aviation, property, business interruption, worker's compensation, and accidental death. In the light of these uncertainties, our cautious approach toward terrorism risk is dictated by our responsibility to our shareholders, clients and employees.

We urge you to pass a 2-year extension of TRIA. The extension will allow TRIA to continue to provide protection to the insurance and reinsurance industry as well as to provide additional time to assess terrorism risk.

Certain group life writers have petitioned for inclusion of group life insurance in TRIA. We support their petition. Adding group life to TRIA will provide group life insurers the protection they need to insure the lives of people in the workplace. Group life insurers are not free to manage their risk through terrorism exclusions. State regulators will not allow it. As a public policy matter, state regulators have decided that this basic insurance now covering 158 million Americans is vital. The regulators are right. Group life should be included in TRIA. In fact, Swiss Re believes that individual life insurance should also be included but we await the conclusions of the Rand Corporation and US Treasury studies.

In closing, Congress should extend TRIA for an additional two-year period. Swiss Re is committed to working with the Federal Government to develop solutions that involve all stake holders. In the

weeks and months following 9/11, Swiss Re met with members of Congress and the US Treasury to discuss possible approaches to this challenge. We recommended that the federal government consider adopting the UK's working solution, Pool Re. Pool Re and other solutions should again be considered. We believe that a public-private partnership between the federal government, industry and insured parties is the best way to deal with the risks involved. We believe government has an ongoing role and responsibility due to the relationship between government policy and the motivations and actions of terrorists.

Thank you.