United States Senate
Committee on Banking, Housing and Urban Affairs
Hearing on
"Oversight of the Terrorism Risk Insurance Program"

May 18, 2004

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On behalf of:

American Insurance Association (AIA)
Council of Insurance Agents & Brokers (CIAB)
The Financial Services Roundtable (FSR)
Independent Insurance Agents & Brokers of America (IIABA)
National Association of Mutual Insurance Companies (NAMIC)
National Association of Professional Insurance Agents (PIA)
Property Casualty Insurers Association of America (PCI)
Reinsurance Association of America (RAA)
Surety Association of America (SAA)
UWC – Strategic Services on Unemployment & Workers Compensation (UWC)

Thank you Chairman Shelby, Ranking Member Sarbanes, and Members of the Committee, for your leadership on this important issue of the Terrorism Risk Insurance Program, a program created by the Terrorism Risk Insurance Act of 2002 (TRIA) and that forms a critical element of our Nation's economic security against the clear and present danger we face. My name is John Degnan and I am Vice Chairman and Chief Administrative Officer of The Chubb Corporation (Chubb). I appear before you today representing our national property-casualty insurance trade association, the American Insurance Association (AIA), and a broad coalition of property-casualty insurance trade associations. Together, and for the reasons I will describe, we urge you to extend TRIA for an additional two years so that the market for terrorism risk insurance remains stable while legislators, regulators, the insurance industry, and U.S. businesses assess available data (including data from all three years of the program) and develop a long-term solution to manage terrorism risk. Enacting an extension now is very important so that: 1) the insurance business cycle is not disturbed; 2) the financial solvency of the insurance industry and its ability to respond to other catastrophes is shielded from terrorist attack; and 3) U.S. businesses remain confident that terrorism coverage will continue to be available and affordable.

The national trade associations on whose behalf I appear before you today represent virtually the entire property-casualty insurance industry, writing all lines of business in every jurisdiction in the United States. Their members, including Chubb, offer various types of insurance that provide coverage for terrorism risk pursuant to TRIA. TRIA has helped stabilize the private market for terrorism risk insurance. As the annual renewal cycle for 2005 commercial insurance policies begins this summer and TRIA's "hard" expiration date of year-end 2005 looms, insurers will be forced to make underwriting decisions without the certainty of the Federal backstop provided by TRIA. Moreover, where that coverage is made available for time periods subsequent to TRIA's expiration, the property-casualty insurance industry will be put at risk. For these reasons, all signs point to a return to the significant market instability that characterized the post-September 11 insurance market before the passage of TRIA. A return to the pre-TRIA insurance market will have a significant negative effect on the national economy, including employment, similar to that we saw prior to TRIA when billions of dollars of commercial transactions stalled because insurers did not have the capacity necessary to provide commercial property-casualty insurance that included coverage for terrorism losses. Accordingly, we urge Congress to extend TRIA now. A two-year extension this year will help avoid destabilizing the insurance market, and, in turn, the national economy, and will enable Congress, insurers, businesses and government officials to gather all available, relevant data – including market data from all three years of TRIA as insurer deductibles rise from 7% of prior year commercial premiums in 2003 to 15% of such premiums in 2005, to analyze that data without fear of market disruption, and to collectively develop a more permanent solution for managing our Nation's economic exposure to catastrophic terrorism. Congressional action now will avoid a premature expiration of the Federal backstop based on an analysis of incomplete information about TRIA's impact and the nature of the terrorism risk insurance market and the risk itself.

The tragic attack of September 11, 2001 forced all Americans to directly confront the previously unforeseen realities associated with a catastrophic terrorist attack on U.S. soil aimed primarily at civilians. The attack resulted in the most expensive insured loss, natural or man-made, in U.S. history. Insurers responded to September 11 claims in an unwavering manner, and without the benefit of a single dollar of Federal assistance. However, the devastating economic consequences of the attack, the specter of future terrorist attacks and the loss of available reinsurance for terrorism left insurers faced with the real possibility of financial devastation in the event of another attack of a similar magnitude. The attack also dramatically altered the future landscape of terrorism risk capacity and insurability, leaving no ready mechanisms to stabilize the market. Insurers and other businesses were forced to re-examine the nature of terrorism-related risks, as well as how such risks (which now more closely resemble war than any other peril) were being spread and managed. In a number of instances, as a matter of financial survival, insurers had no choice but to restrict the amount of insurance they made available for terrorism losses, as the risk was viewed as uninsurable and there was no market certainty. Congress provided definitional parameters of the terrorism risk and some capacity by enacting TRIA in November 2002, which enabled insurers to return to the market with some financial protection.

TRIA sets up a public/private "shared loss" mechanism whereby insurers are required to make commercial insurance available for losses caused by acts of foreign terrorism against U.S. targets to the same extent that they provide insurance for other types of insured losses. For workers' compensation insurance, coverage for terrorism risk is mandatory, as current state laws generally do not permit insurers to exclude coverage for war or terrorism risk. In addition, 22 states currently require insurers to provide coverage for damage caused by fire following a terrorism event and while some of these state laws provide exceptions for fire following "TRIA-type" terrorism, TRIA's expiration could jeopardize those exceptions. Insurers are permitted to charge for the coverage they "make available" pursuant to TRIA, subject to existing state law and regulatory approval, and policyholders are free to reject it, except where the coverage is required by state law. TRIA's mandatory availability provision runs through 2004 and Treasury has until this September to extend the provision through 2005.

In the event of a terrorist act, the Federal government will assist the insurance industry in paying 90% of the resulting insured losses, provided: 1) the Treasury Secretary certifies that an "act of terrorism" occurred; 2) insurers have complied with TRIA's conditions for payment of the Federal share, including TRIA's "make available" and policyholder disclosure requirements; and 3) insurers have incurred losses in excess of an annual individual deductible, calculated as a percentage of the prior year's direct earned premium for covered commercial insurance lines. The insurer deductible started at 7% in 2003, is 10% this year, and rises to 15% in 2005. The public/private shared loss under the program is subject to an annual statutory limit of $100 billion, with every dollar up to that limit either being wholly or partially paid by property-casualty insurers.

In essence, TRIA creates a Federal backstop to the private commercial property-casualty insurance system in the event of further catastrophic terrorist attacks, and provides some market certainty by establishing statutory caps for insured terrorism losses that apply to both the insurance industry and the Federal government.

There is no question that TRIA has helped stabilize the terrorism insurance marketplace. Since TRIA's enactment, affordable terrorism risk insurance has been more readily available to commercial policyholders, as insurers have passed on the benefit of the backstop to consumers. This market-stabilizing effect enabled billions of dollars of business transactions previously stalled to go forward without threatening the solvency of the commercial enterprises involved or their insurers. A recent Mortgage Bankers Association (MBA) survey of its 40 largest commercial/multi-family mortgage banking firms revealed that a substantial majority of those survey respondents believe that TRIA has made terrorism insurance both more available and less expensive. MBA also noted that failure to extend TRIA would likely have an adverse impact on the commercial real estate market by re-creating the pre-TRIA environment that had led to rating agency downgrades of commercial mortgage-backed securities due to lack of adequate terrorism insurance. *Statement of the Mortgage Bankers Association, Joint Hearing of the House Financial Services Committee's Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises and Subcommittee on Oversight and Investigations, "A Review of TRIA and its Effect on the Economy: Helping America Move Forward," at pp. 2-3 (April 28, 2004).*

TRIA also has helped insurers manage exposure to terrorism risk, and write or renew high-risk policyholders that might have been uninsurable (or only insurable on unfavorable terms) without TRIA. This is because TRIA provides individual insurance companies with some certainty as to the dollar amount of risk that they retain. Moreover, TRIA's thoughtful use of the insurance industry's infrastructure to deliver the Federal share of compensation to impacted businesses has allowed Treasury to establish and administer the program with minimal investment and ongoing expense. There is no doubt that the stability TRIA provides to policyholders and insurers alike has calmed a market struggling to come to terms with the uncertainties of 21st century terrorism and its ongoing challenge to our homeland security apparatus.

While TRIA was designed to be a three-year bridge to development of what was envisioned as a functional, wholly private sector terrorism insurance market, TRIA has not – and indeed cannot – change the underlying characteristics of terrorism risk in the United States. These characteristics weigh heavily in favor of a continued Federal terrorism insurance backstop.

- **The commercial property-casualty insurance sector continues to lack both the necessary capacity and sufficient marketplace data to handle catastrophic terrorism losses on its own.**

Under certain event scenarios, estimated insured losses from another catastrophic terrorist attack on U.S. soil could exceed $250 billion. *Tillinghast Towers Perrin, Workers' Compensation Terrorism Reinsurance Pool Feasibility Study, Summary of Study Findings and Conclusions, p. V (2004) ("Terrorism experts have developed plausible scenarios in which the estimated total insured losses from a single event could exceed $250 billion.").* For example, if the World Trade Center attack had occurred later in the day at lower floors, the losses could have been two to three times as severe. These levels would approach the entire commercial property-casualty industry's estimated capacity of about $150 billion; capacity needed to back all commercial risk. Obviously, the risk of financial ruin for the industry – and the concomitant impact on policyholders, the U.S. economy and national security – is simply too great, absent continuation of a Federal backstop. Because insurers must be able to respond to multiple insured events, sometimes in a short time frame, the traditional risk spreading mechanism of reinsurance is essential. A significant terrorism event, the consequences of which can no longer be spread through reinsurance, will compromise the industry's ability to respond to a subsequent hurricane or other natural catastrophe.

Moreover, private market mechanisms remain insufficient to spread the risk of catastrophic terrorism in a meaningful way. In its recently released Workers' Compensation Terrorism Reinsurance Pool Feasibility Study, Tillinghast Towers Perrin cited "lack of capacity" as the primary reason why a voluntary workers' compensation terrorism reinsurance pool would not be a viable mechanism to handle mega-terrorism risk. This conclusion is not unique to workers' compensation insurance, but would apply to the ability of a pool to address catastrophic terrorism in other lines such as property and business interruption.

TRIA's mandated study – to assess the program's effectiveness, the likely capacity of the private terrorism risk insurance market after TRIA expires, and the affordability and availability of terrorism coverage – is only in its initial phase and will be delivered to Congress by Treasury in mid-2005, just months before TRIA is to sunset. Even then, because the prior year's market data tends to be available in the first or second quarter of the subsequent year, Treasury will have little opportunity to analyze 2004 data before the June 30, 2005 statutory reporting deadline. Equally important, Treasury will not be able to assess market data from 2005, when insurers must take into account deductibles that rise to 15% of the prior year's direct earned premium from TRIA-covered lines. Should Congress defer a decision on a TRIA extension until mid-year 2005, insurers, businesses and government officials will not have sufficient time to act on any recommendations and insurers will have no choice but to act now, under the assumption that TRIA will not be extended. Congress, other governmental officials, insurers and the businesses they insure need time to consider all available data – the results of studies undertaken by Treasury and others – and to implement a thoughtful and more permanent solution to the terrorism problem, without the "Sword of Damocles" in the form of financial devastation, hanging over their heads. The stabilizing effects of TRIA must remain in place.

- **Because the United States continues to be on high alert for the constant and very real threat of further attacks, catastrophic terrorism remains an uninsurable risk in the traditional insurance marketplace.**

The Administration has repeatedly alerted Americans to the increased possibility of terrorist attacks. Since September 11, the United States has been on a constant high state of alert for terrorist activity. In fact, New York remains on an even higher alert level than the rest of the Nation. In addition, both Department of Homeland Security Secretary Tom Ridge and National Security Adviser Condoleezza Rice recently warned of possible attempts at terrorist activity in the United States during this election campaign season. And, as President Bush has reminded us, we are engaged in a long-term war on terrorism and the situation is not expected to improve before TRIA's currently scheduled expiration date. War and terrorism are not fortuitous. Acts of terrorism, like acts of war, are premeditated, planned and executed with a specific purpose by individuals (in the case of terrorism) and governments (in the case of war) that have no interest in predictability, discernable pattern, or advance warning. As war and terrorism are risks of the same character, both types of risk are uninsurable for the same reasons.

- **To date, terrorism risk cannot be modeled or predicted with any accuracy.**

Natural catastrophe modeling does not aid the terrorism modeling process. Modeling for natural catastrophes is far more mature than terrorism modeling. Past natural catastrophes are predictive of the nature, frequency and severity of future natural catastrophes. Most natural disasters also occur with at least some prior warning. Because of this element, insurers can track when and where natural catastrophes are likely to strike, the type of damage they will cause, and which areas are most vulnerable.

Unfortunately, the same cannot be said for terrorism. Past terrorist attacks are not predictive of future terrorist attacks and the full range of possible terrorist attacks can never truly be known. Terrorists rely on surprise to maximize the impact of an attack, so the attack usually comes without warning. In fact, whether an event is a "terrorism" attack might not be known until after it occurs. This "man-made" threat, which is limited only by the imagination of a terrorist, is one that simply cannot be forecast.

The relative infancy of terrorism modeling contributes to the risk's uninsurability. While modeling firms have worked diligently to produce terrorism risk models to predict terrorism events in the United States, they have <u>not</u> been able to model accurately for the <u>frequency</u> of terrorist attacks, because it is the terrorists who alone control that variable. These models instead focus only on predicting the impact terrorism has on its victims. Office towers can be built or retrofitted to withstand earthquakes in Los Angeles or hurricanes in Miami (making them more insurable), but few businesses would want to turn their offices into hardened bunkers. Even then, terrorist excel in adapting to overcome such loss mitigation measures.

The possibility of nuclear, biological, chemical, or radiological attacks (NBCR) reinforces the conclusion that catastrophic terrorism risks are uninsurable. NBCR demonstrates that even the severity component of a terrorist attack is difficult to predict. Potential terrorism scenarios now routinely include discussion of NBCR events. The anthrax attacks perpetrated through the U.S. postal system, (including the U.S. Senate's own mail facility), even though limited in scope and severity, only serve to underscore the random quality and myriad potential consequences associated with such events. As a result, insurers remain reluctant to provide NBCR coverage for terrorism risks in their policies beyond that required in workers' compensation insurance or already "made available" for other types of insured loss.

- **Unlike other risks of loss, terrorism is an interdependent risk.**

Loss control or mitigation techniques employed by one commercial business may not protect that business from catastrophic loss. The World Trade Center is the most compelling – but not the only – example of the interdependent nature of terrorism risk. The World Trade Center was a model of security and disaster planning, yet nothing done at the World Trade Center could have prevented planes leaving airports with hijackers aboard, and nothing done at the World Trade Center could have prevented planes being used as weapons from flying into the towers. The interdependent nature of terrorism risk, with vulnerability measured by the weakest link in the chain, minimizes the effectiveness of even the best business-by-business loss control programs.

- **Information about terrorism risk is incomplete.**

Contrary to traditional evaluation of insurance risks, information availability and sharing about terrorism risk is asymmetric. Insurers and policyholders do not have access to classified information in the hands of the U.S. government, and therefore cannot evaluate the risk of terrorism properly. This "information vacuum" makes risk transfer and management decisions about terrorism a dicey proposition.

Because of these characteristics, terrorism risk defies normal underwriting and rating principles, effectively limiting the ability of property-casualty insurers to advance a private mechanism for that risk. The combination of these intrinsic characteristics of terrorism risk argues in favor of a Federal backstop that will provide both certainty and stability to the marketplace. A Federal backstop will also help mitigate the continuing absence of a viable reinsurance market. During the policy renewal period following September 11, 2001, reinsurers largely declined to provide capacity against the risk of foreign terrorism in the United States. Reinsurers continue to consider terrorism risk uninsurable in the traditional sense, and are not expected to provide the market with sufficient capacity when TRIA expires. Thus, the Federal government must continue the role it has filled under TRIA: supplying capacity that is unavailable in the private reinsurance market in order to provide the reinsurance protection that is critical as long as even a possibility for catastrophic loss exists.

Aside from the inherent systemic issues associated with insuring catastrophic terrorism and the insufficient capacity reinsurers are able to bring to the market, there is strong consensus among commercial policyholders, state insurance regulators, and the insurance industry that continuation of a Federal backstop is essential. There also is strong consensus that, because of insurance and business cycles, extension simply <u>cannot</u> wait. Congress must take action in 2004 in order to avoid the kind of market dislocation that was so destabilizing prior to TRIA's initial passage. The national trade associations that I am testifying on behalf of today are united in support of a two-year TRIA extension that will continue the pattern of certainty and stability, while giving all parties the time necessary to determine the best mechanism for managing terrorism risk and preserving national economic security should such an event occur in the future.

The devastating results of the September 11 attack illustrate the significant threat that terrorism poses to the security of the Nation's fiscal health. Businesses – particularly those considered critical to the Nation's infrastructure – must be ever mindful of the devastating impact that a terrorist attack can have on their financial condition and prospects for survival, as well as the catastrophic ripple effect that cascading business failures could have on the economy. This is especially true of the U.S. property-casualty insurance industry. After September 11, the possibility of future terrorist attacks and the loss of available reinsurance for terrorism risk left insurers facing the very real possibility of financial ruin should another event of similar magnitude occur. TRIA helped to significantly ease that financial "Catch-22."

We urge Congress to take immediate action to extend TRIA for an additional two years for several important and inter-related reasons discussed below.

1. TRIA's "hard" end date is inconsistent with rolling expiration dates provided by underlying insurance policies.

TRIA has a "hard" expiration date of December 31, 2005, after which date Treasury will be unable to certify any terrorist act. By contrast, the underlying insurance policies that rely on TRIA are written every day of the year, generally for a 12-month term (although some commercial property insurance policies covered by TRIA are multi-year). This sequential mismatch will create confusion for policyholders and uncertainty for insurers, because policies written before, but extending beyond, December 31, 2005 will have a coverage term that extends beyond the backstop. As a result, insurers will have no choice but to evaluate every policyholder considered for coverage during this period as if the backstop does not exist for at least part of the coverage period.

2. Treasury's "make available" decision adds to the uncertainty.

TRIA directs Treasury to decide by September 2004 whether to extend current "make available" provisions to 2005, the third year of the program. A number of business groups have publicly urged extension of the "make available" requirement, because the private terrorism insurance market is not fully stable and is likely to de-stabilize in TRIA's absence. Insurers have expressed concern about the potential mismatch between policies sold during 2005 and the hard sunset date. For example, if "make available" were extended through 2005, carriers would be required to "make available" terrorism insurance on policies becoming effective on December 1, 2005, even though TRIA would remain in effect for only ***one month***. The ensuing confusion in terms of coverage, premiums charged and exposures being assumed will significantly disrupt the insurance market, particularly for workers' compensation and commercial property insurance. Despite somewhat differing perspectives on the "make available" requirement, policyholders and insurers agree that it is critical to extend the backstop beyond December 31, 2005. Securing the extension in 2004, rather than 2005, would avoid difficult implementation of the "make available" provision during the third year of the program.

The hard end dates for "make available" (December 31, 2004, unless extended by Treasury) and TRIA protection (December 31, 2005) do not coincide with state regulatory requirements or implementation timelines of property-casualty insurers. Post-TRIA policy forms must be approved by most of the states prior to their use in the market, and that process has already started. New forms submitted for state regulatory review must delineate the scope (if any) of terrorism coverage provided in the policy. Without a doubt, some of those policy forms are premised on TRIA expiring at the end of 2005. In many states, insureds must be notified of any unfavorable changes to the coverage being provided under their policies, including the terrorism coverage afforded because of TRIA, at least 30 (and in some cases up to 75 or 90 days) days prior to the renewal date for their policy. This effectively means that insurers must start notifying insureds of the changes occasioned by TRIA's expiration in October 2004, because one year policies incepting in January 2005 may very well not have TRIA terrorism coverage for at least that part of their term that extends in 2006.

State cancellation/non-renewal requirements add more complexity. Insurers that cancel or non-renew certain policyholders because of concern about post-TRIA exposure levels will have to comply with a myriad of state cancellation and non-renewal notification requirements, generally ranging from 30 days to 90 days. Carriers that are unable or unwilling to offer the capacity for workers' compensation and/or commercial property insurance (that, by law, must include at least some insurance for terrorism) to insureds that have significant terrorism exposures will have no choice but to cancel or non-renew these policies, causing additional market disruption. Policyholders who receive such notices will need to seek out other insurers from whom they can obtain needed coverage.

3. Once policy forms are approved, system changes must be implemented.

New policy forms (along with any required policyholder notices) will need to be loaded into insurance company systems, a process that often takes several months, because many states typically require state-specific policy language (resulting in multiple versions of the same form) and have state-specific notice requirements. These changes must be in place before any policies using the new forms can be underwritten consistent with state regulatory requirements.

Implementation of new policy forms will affect the full range of commercial policyholders. For large commercial policyholders, the underwriting process will take several months. Many of the large commercial policyholders that benefit most from TRIA have relatively complex insurance arrangements that generally require two to three months of negotiation prior to being finalized. As a result, the first policies that are likely to be affected by TRIA's "hard" sunset (i.e., those that are up for renewal subsequent to January 1, 2005) will be negotiated in the late summer or early fall of 2004. In addition, ongoing uncertainties surrounding TRIA's hard sunset date may more immediately and adversely impact small to mid-size commercial insurance policyholders. These businesses comprise the majority of the commercial lines marketplace. They rely on TRIA perhaps to a greater extent than many of their larger counterparts, because their operating margins are thinner, and they have less leverage in the marketplace.

4. Insurance, the underpinning of the U.S. infrastructure, needs a TRIA extension until a long-term solution is in place.

Commercial insurance spreads risk for all critical U.S. infrastructures. If the solvency of the insurance industry were compromised, the ramifications for the U.S. economy and national security would be catastrophic. Indeed, the importance of property-casualty insurance to the physical and economic infrastructure of the United States cannot be overemphasized. Insurance helps immunize the U.S. economy from the adverse effects of the risks inherent in economic growth and development. Insurance also provides the funding necessary to rebuild physical and economic infrastructure in the event of catastrophic losses to persons or property, whether caused by hurricane, earthquake, fire, defective products, or other calamity. Examples of the necessity of insurance to the Nation's critical infrastructure abound in every significant economic sector, including:

- **Construction** - Construction projects cannot go forward unless property-casualty insurance is in place to protect against loss arising out of construction activities. Without insurance in place, contractors engaged in building projects will not build (because surety bonds are not available); permits will not be issued (because most statutes require "builder's risk" and contractor's liability insurance); necessary financing cannot be obtained (because lenders typically require insurance as a condition to lending money) and work cannot commence (because workers' compensation insurance is a statutory workplace requirement).

- **Commercial Lending** - Businesses cannot obtain financing for property acquisitions or new business initiatives, because property-casualty insurance is an essential prerequisite for mortgage and other commercial lending activities.

- **Real Estate Development and Commercial Leasing Activities** - These activities account for nearly one-quarter of U.S. Gross Domestic Product. The inability of tenants to obtain property-casualty insurance to protect owners of office buildings and other commercial properties frustrates these activities and causes significant economic dislocation, particularly in urban areas, as demonstrated by the dramatic slowdown in the New York City real estate market after September 11.

- **Employment** - Businesses cannot employ workers without providing them workers' compensation insurance.

- **Transportation, Shipping and Transit** - Motor vehicles (including trucks, buses and cars) cannot be operated on public roads without property-casualty insurance because proof of financial responsibility (in the form of insurance) is a statutory prerequisite.

- **Business Recovery** - In the event a business sustains a property loss to its production facility (for example, in the form of a fire), property-casualty insurance provides that business with the money necessary to: 1) rebuild the property lost by the fire; 2) preserve its income stream while the property is being repaired and its operations are being restored; and 3) meet its payroll obligations to its employees. Without such insurance, employees could very well lose their jobs if the business cannot recover from the property and income losses sustained from the fire.

- **Research and Development** - The development of pharmaceuticals, software and other new products, requires companies to put business assets at risk and expose themselves to new liabilities. Property-casualty insurance allows businesses to protect against first party losses to new product prototypes, shields against new legal liabilities created by introducing new products into the stream of commerce, and to otherwise "hedge" against the risks inherent in innovation and invention.

- **Global Commerce** – Property-casualty insurance plays a critical role in global commerce. The international partners of U.S. businesses and the legal requirements of other countries make the continued availability and affordability of property-casualty insurance essential to preserving this Nation's place in global markets.

Terrorism risk is exactly the kind of problem that threatens to compromise U.S. critical infrastructure. The potential for catastrophic terrorism loss, especially without the benefit of a Federal backstop, exacerbates the solvency challenges faced by insurers. As noted earlier and based on figures provided by the Insurance Information Institute in its *III Fact Book for 2004*, currently the U.S. property-casualty insurance industry has approximately $300 billion in surplus. Roughly half that figure represents monies set aside to cover homeowners and automobile insurance losses, leaving approximately $150 billion to support all types of commercial insurance losses, including (but not limited to) losses from terrorism. If an event of greater magnitude than the September 11 attack were to occur, the ramifications for the insurance industry, the U.S. economy, and U.S. national security could be dire. Moreover, if the U.S. property-casualty insurance industry were to become insolvent, the economic reverberations would be felt throughout the world.

In short, without a robust and financially sound property-casualty insurance industry, none of the other aforementioned critical infrastructure industries – which look to their insurers in the event of a loss to make them "whole" again – would be able to recover economically from a major terrorist attack, or for that matter, from any other type of catastrophe. One terrorist attack may very well be enough to render the insurance industry unable to absorb a subsequent catastrophic loss of any kind.

Conclusion

TRIA's public-private partnership is working to stabilize the commercial insurance markets that underpin our entrepreneurial, free-market economy. However, because war and terrorism are societal risks, they remain uninsurable. The aim of a terrorist is not to hurt the insured, but rather to attack the United States. To ask the insurance industry to absorb loss resulting from an attack against our Nation (one directed at the United States to alter its behavior) places the U.S. economy and our national security at great risk. Without a risk-spreading mechanism, the right attack could very well bring the insurance industry to its knees and significantly destabilize our economic infrastructure, achieving a primary aim of the terrorist. We simply cannot afford to let TRIA expire and leave this important matter to chance. A two-year extension is critical.

TRIA must be extended in a manner that: 1) avoids the types of market dislocations it was designed to address, 2) protects our ability to both recover economically from a terrorism loss and respond to other catastrophic events that take place thereafter; and 3) allows insurers, businesses and government officials to develop a more permanent solution to the terrorism insurance problem. Because of the regulatory and operational lags that are inherent in the insurance system, Congress must act in 2004, even though the law itself does not expire until year-end 2005.

Thank you for this opportunity to explain the importance of a two-year TRIA extension.