Statement of

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on behalf of the

American Council of Life Insurers

on

Examining the Terrorism Risk Insurance Program

before the

United States Senate
Committee on Banking, Housing and Urban Affairs

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Introduction

Chairman Dodd, Ranking Member Shelby and members of the Committee, my name is Michael J. Peninger and I am President and Chief Executive Officer of Assurant Employee Benefits – an operating division of Assurant, Inc., a premier provider of specialized insurance products (including group life insurance) and related services in North America and other selected markets.

Assurant is a multi-line insurer with approximately $24 billion in assets and $7 billion in revenues with more than 12,000 employees. The company is headquartered in New York City at One Chase Manhattan Plaza. Our offices used to be located in the North Tower of the World Trade Center when it was first bombed in 1993.

I am here today on behalf of the American Council of Life Insurers (ACLI). The ACLI is the primary trade association of the life insurance industry, representing 373 member companies that account for 93% of the industry's total assets in the United States. ACLI members offer life insurance, annuities, pensions (including 401(k) plans), long-term care insurance, disability income insurance, reinsurance and other retirement and financial protection products.

My colleague, Ed Harper, Senior Vice President of Assurant, is chair of the Group Life Coalition (an organization of some of the industry's top group life carriers) and the ACLI's Federal Legislative Strategy Group for Group Life.

Overview

I would like to thank the Committee for holding this hearing on the Terrorism Risk Insurance Program (TRIA).

We are all, unfortunately, well aware of the risks that our country continues to face from various domestic and international extremist and terrorist groups. In addition to implementing effective homeland security measures that will help prevent large-scale terrorist attacks, we must also sufficiently insure our nation's most vulnerable assets, including its critical infrastructure, and its citizens in case such attacks do take place. Terrorism insurance is a vital component of maintaining our robust economy and providing a safety net to those who financially depend on the victims of such attacks.

While much of the ongoing discussion on extending the TRIA program has focused on the property and casualty (P&C) insurance industry, it is also important to discuss how this issue affects the life insurance industry and its policyholders and beneficiaries, particularly with regard to group life insurance. While we certainly agree that there needs to be adequate terrorism insurance coverage for buildings, we also believe that the people who work or reside inside those buildings should be adequately covered for such events as well.

If Congress decides to extend TRIA, the ACLI and I urge you and your Committee to add group life insurance as a covered line (as the House did in the 109th Congress). The National Association of Insurance Commissioners (NAIC) has also adopted a resolution in support of the inclusion of group life insurance as well.

The Importance of Group Life Insurance

Group life insurance is a critical employee benefit and is usually part of an employee's benefit package that contains medical, disability and other coverages, and remains available and affordable (as it did before September 11, 2001). For millions of Americans, especially lower-income workers, it is the only life insurance that their families have and can rely on if they were to unexpectedly die. Almost $20 billion in death benefits were paid to group life beneficiaries in 2005 (which represented about 37% of all death payments).

Group life insurance represented about 45% of all life insurance in force - $8.26 trillion out of a total $18.4 trillion at the end of 2005. There were about 167 million certificate holders of group policies, with an average coverage amount of $49,500.

In addition, approximately 60% of ACLI member companies sell group life insurance. Group life insurers received about $29 billion in net group life insurance premiums in 2005 (which is a little more than 20% of the $142 billion of total net life insurance premiums received).

Potential Exposure to Group Life Death Claims

Unlike individual life policies whose insured individuals are generally scattered throughout a particular area(s) or region(s), group life policies usually have very high concentration risks. By its very nature, most, if not all, individuals of an insured group are often gathered in one or several locations (e.g., office buildings, factories) and a single catastrophic event in a particular city could cause many or all of them to die at once, resulting in a high number of death claims.

For example, if a terrorist attack were to kill 20,000 individuals insured under one or more group plans, based on an average coverage amount of $49,500, group life insurers could collectively be liable for almost $1 billion in death claims. If 100,000, 500,000, or one million people were to perish, potential claims would increase to almost $5 billion, $25 billion and $50 billion, respectively.

While these death totals and claims amounts may sound exaggerated, unfortunately they are not inconceivable, especially if a nuclear, biological, chemical or radiological (NBCR) attack were to strike in a densely populated area (e.g., New York City, Washington, D.C, Chicago, San Francisco). The amount of loss that a particular group insurer would incur would depend on several factors, including the amount of catastrophic reinsurance it has (if any) and the amount of available surplus that can be used to pay off its claims.

Insurers’ Limited Capacity to Cover Catastrophic Losses

Life insurers are required to put aside reserves and maintain surplus accounts for expected and unexpected death claims. For deaths that fall within a company’s expected mortality rates, claims are paid from allocated reserves and pooled mortality charges. For deaths that exceed its expected mortality rates (such as those resulting from a major terrorist attack), payments come from allocated reserves and its surplus accounts.

However, only a portion of a company’s surplus is generally available for unexpected claims (approximately 40-50%), and this amount may not be enough to meet its financial obligations. If surplus funds are insufficient and a company becomes insolvent, state guaranty associations would have to step in to provide a mechanism for outstanding claims to be paid to beneficiaries (up to certain statutory limits). In order to obtain the necessary funds to pay off these claims, these associations would then assess the remaining solvent insurers according to certain formulas (e.g., premium volume). Most states have separate guaranty associations for P&C and life/health insurance companies.

Therefore, while the life insurance industry as a whole would be able to absorb tens of billions of dollars in death claims resulting from a catastrophic attack(s), those small to medium-sized insurers, and possibly some larger-sized insurers, that receive an unexpectedly high number of claims (especially those whose main line of business is group life) would be forced into insolvency. Such insolvencies, besides affecting the employees and owners of the companies, also would affect the payment of benefits to all of the policyholders of the insolvent companies, not just the group life policyholders.

Group Life Insurers’ Vulnerability to Large-Scale Attacks

In addition to concentration risk, there are several other reasons why group insurers are highly vulnerable to major terrorist attacks. First, group policies are not currently designed or priced to account for the immediate or short-term deaths of hundreds of thousands or more people from a terrorist attack.

Unlike deaths from accidents, diseases, murders and natural disasters, which have been tabulated and analyzed over dozens of years and incorporated into mortality and morbidity tables (which helps determine pricing of policies), there is insufficient historical data in this country relating to deaths from terrorism that can be factored into such tables. Terrorism is by its nature, unpredictable, so it cannot be accurately forecasted or priced.

You may ask why insurers do not simply exclude terrorism coverage from group life policies. There are several reasons why this approach is problematic:

First, neither Assurant, nor the ACLI, are aware of any states (except for Kansas and North Carolina under very limited circumstances) that allow the use of terrorism exclusions (including those for NBCR events) by group (or individual) life insurers.

Second, we do not believe that it is good business, or sound public policy, to exclude coverage for deaths due to a catastrophic event. The importance of coverage would in fact be highlighted by the horrible nature of a terrorist attack.

Finally, unless the entire industry took the same approach, any group insurer that tried to prudently manage its risk exposure by excluding terrorism coverage would be placed at a severe competitive disadvantage in the marketplace.

You might also ask why group insurers do not purchase reinsurance protection for the terrorism risk. The short answer is that such coverage is not available in sufficient amounts. Immediately after 9/11, group life insurers were generally unable to obtain catastrophic reinsurance, especially for terrorist events. While such reinsurance has become slightly more available since, it comes with higher deductibles, various exclusions, and most importantly, with overall coverage limits that are substantially lower than were available prior to 9/11. Reinsurance is a fundamental risk spreading mechanism underpinning the insurance industry. Without adequate catastrophic reinsurance, many group life insurers risk financial ruin from a significant terrorist attack.

Group Life Should be Included in any TRIA Extension

While group life has been readily available to consumers, mainly for competitive reasons, if a major terrorist attack were to occur, it is very likely that some group insurers would be unable to fully pay their death claims. We also believe that group life insurance would not be widely available after such an event since many or most insurers would likely decide to exit the marketplace. It is for these reasons that we strongly urge Congress to include group life insurance in any TRIA extension.

Group life is very similar to workers compensation and most workers across the country are covered by both. The latter was included in the original TRIA legislation, as well as in its extension, and as a result, experienced a significant increase in the availability of related reinsurance. As with workers compensation, we believe that catastrophic reinsurance would become more available and less expensive for group life if it were included in a TRIA extension.

This additional reinsurance capacity would significantly reduce the risk of insolvency that many group insurers would face if a large-scale terrorist attack(s) were to occur.

Separate Recoupment Mechanisms Should be Created

If TRIA is extended again and group life insurance is included, we urge that separate recoupment mechanisms be created for P&C and group life insurers. Recoupment of amounts paid by the Treasury for losses relating to P&C insurance should only be made from P&C insurers. Similarly, recoupment for losses relating to group life insurance should only be made by group life insurers.

Group life insurers take on different types of risks than P&C insurers and the premium structures of the two industries are very different. Without separate recoupment mechanisms, in the event of a catastrophic terrorist attack that primarily results in P&C losses, group life insurers would have to reimburse the federal government for millions or billions of dollars for claims unrelated to their line of business and for which they received no prior premiums. The converse would also be true in the event of an event that killed thousands of people but spared properties.

Conclusion

We look forward to working with your Committee and others in Congress, at Treasury and in the Administration. Thank you for allowing me the opportunity to express our views on this very important matter. I will be glad to answer any questions that you may have.