



National Association of Professional Insurance Agents

Terrorism Insurance Field Hearing

March 5, 2007

New York, New York

Statement to the Subcommittee on Capital Markets, Insurance, and Government-Sponsored Enterprises of the House Financial Services Committee

Thank you for the opportunity to share the concerns of the members of the National Association of Professional Insurance Agents (PIA) regarding terrorism insurance. PIA represents approximately 11,000 agency owner-principals of independent insurance agencies across the United States.

Our statement will address our basic concerns and thoughts for a long-term solution to insuring for possible terrorist threats as well as personal testimony from PIA members as to the situations they face each day and why terrorism insurance is so important to their daily business.

PIA supports the creation of a long-term mechanism for terrorism coverage to ensure the viability of the existing domestic insurance market. Terrorism insurance is an important part of the nation's economic safety net because it allows insurers to manage terrorism risk in a cost effective manner. PIA believes that legislation must be passed well before the December 31, 2007 expiration of the Terrorism Risk Extension Act of 2005 because insurance companies are evaluating policy renewals now. We applaud the Subcommittee for holding hearings early in the year in order to pass effective legislation well before the year's end.

NBCR Enhancements

An important component to include in terrorism insurance legislation is the expansion of nuclear, biological, chemical and radiation (NBCR) coverage. Attacks of this nature must be addressed because the severe magnitude cannot be absorbed by the insurance industry without federal participation.

PIA encourages Members of Congress to set the trigger level for a federal backstop at a level that allows small company participation in the program, not just cover large insurers.

Terrorist attacks do not target specific businesses or industries. Rather, they are directed at the U.S. government and the nation's entire economic system. Likewise, terrorist attacks do not target specific geographic regions. Below are statements from Professional Insurance Agents across the country who rely on TRIA in order to serve policyholders in their communities. Therefore, it remains critical that Congress and the federal government continue to work with the insurance industry to ensure that terrorism insurance remains available and affordable for consumers and American businesses.

Acts of terrorism continue to pose an unprecedented challenge for the insurance industry. It remains difficult, if not impossible, for underwriters to accurately determine premiums based on

400 N. Washington St., Alexandria, VA 22314-2353

Tel: (703) 836-9340 Fax: (703) 836-1279 www.PIANET.com piaweb@pianet.org

sound actuarial calculations. Insurers are unable to accurately predict the frequency or severity of loss to effectively spread risk.

TRIA is an important part of the nation's economic safety net because it allows insurers and commercial insurance buyers to manage terrorism risks in a cost-effective manner. Without TRIA's financial backstop in place, the federal government would be left to cover the short-term and long-term costs associated with terrorist attacks.

A report commissioned by the American Insurance Association, the National Association of Mutual Insurance Companies, The National Council on Compensation Insurance, the Property Casualty Insurers Association of America, the Reinsurance Association of America, and the Financial Services Roundtable, concludes that even absent another major terrorist attack, the economic drag produced by a lack of a federal terrorism insurance backstop would have severe consequences. "U.S. gross domestic product (GDP) may be \$53 billion (0.4%) lower, household net worth may be \$512 billion (0.9%) lower and roughly 326,000 (0.2%) fewer jobs may be created." The report is the work of a widely respected research organization, the Analysis Group, Inc. Among the conclusions of the report is the observation that, without TRIA, "an attack roughly the size of the 9/11 attacks would mean the loss of tens of thousands of jobs due to reduced insurance coverage. In addition, thousands of additional commercial bankruptcies could ensue."

TRIA is Not Just a "New York State of Mind:"

Insuring against terrorist attacks is not just a "New York state of mind." An inaccurate perception has developed that TRIA primarily benefits large businesses in major urban areas, especially in the Northeast. To the contrary, the need for TRIA is not confined to any one city, state or region of the country. Terrorism coverage is being required more and more by lenders of their commercial insurance borrowers, on any sizable commercial loan anywhere. Having this coverage available and affordable for small and mid-size commercial insureds—the customers of PIA agencies throughout the United States—is critical.

PIA insurance agents across the country have reported compelling examples of the continuing need for terrorism insurance coverage in communities of all sizes. Businesses and individuals in areas as diverse as Memphis, Tennessee; Cincinnati, Ohio; as well as rural areas of Louisiana and Mississippi have all experienced this need, as reported by members of our Association.

For example, a client of a PIA member purchased a medium sized shopping center in Memphis, Tennessee. The mortgagee would not make the loan unless the insured has terrorism coverage.

An independent insurance agent in Ohio said, "Please let our Members of Congress know that they need to renew TRIA, so that my insurance clients in Ohio can obtain affordable terrorism insurance coverage. Without TRIA, they will be left unprotected and our local economy will suffer."

Another PIA insurance agent who owns an agency in South Louisiana notes that his business serves the insuring needs of the petrochemical industry, a major sector in the state and one that

has been identified as a potential target of terrorist attacks. As a result, many of the small-to-mid-size businesses insured that serve the needs of the petrochemical industry continue to require terrorism coverage. The ability of these firms to continue in business depends on both the availability and affordability of terrorism/TRIA coverage.

A number of businesses in central Mississippi are required to have terrorism coverage as a part of their business insurance. There, a number of contractors that work for the gaming industry are required to have such coverage, as are long-haul truckers carrying hazardous cargo. The economic impact of failing to renew TRIA beyond the present sunset could have devastating consequences on a large number of businesses.

Conclusion:

The independent insurance agents who are members of the National Association of Professional Insurance Agents need a viable insurance marketplace in order to provide their customers with terrorism insurance coverage options that are affordable. We commend Congress for realizing that there is an ongoing need for a more permanent solution to insuring against terrorist attacks, and that this is not a task that the private market can handle on its own, either now or in the foreseeable future.

Our Association was founded in 1931. As a result, our association has previous experience with the issue of insurance during times of war. Our archives detail how, following the attack on Pearl Harbor on December 7, 1941, one of our clients' major concerns was obtaining affordable insurance that would cover war risks. In 1942, Congress responded by creating a backstop program for war risk insurance that remained in effect until 1947, assuring that the clients of PIA agencies has the coverage they needed.

Today, the United States is engaged in a protracted War on Terror, which many say poses an even greater risk. As a nation, we cannot fail to act to assure that this risk can be insured. We must not do less now than we did during World War Two.

We urge this Committee to move without delay to pass legislation that enables the continued availability of terrorism insurance coverage, either on a multi-year or permanent basis.

Thank you very much.