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TERRORISM INSURANCE

Treasury Needs to Collect and Analyze Data to Better Understand Fiscal Exposure and Clarify Guidance

GAO Highlights

Highlights of GAO-14-445, a report to congressional requesters

Why GAO Did This Study

Congress passed TRIA in 2002 to help ensure the availability and affordability of terrorism insurance for commercial property and casualty policyholders after the September 11, 2001, terrorist attacks. TRIA was amended and extended twice and currently will expire at the end of 2014. Under TRIA, Treasury administers a program in which the federal government and private sector share losses on commercial property and casualty policies resulting from a terrorist attack. Because the federal government will cover a portion of insured losses, the program creates fiscal exposures for the government. GAO was asked to review TRIA.

This report evaluates (1) the extent of available data on terrorism insurance and Treasury's efforts in determining federal exposure, (2) changes in the terrorism insurance market since 2002, and (3) potential impacts of selected changes to TRIA. To address these objectives, GAO analyzed insurance data, information from 15 insurers selected primarily based on size of insurer, interviewed Treasury staff and industry participants, updated prior work, and developed examples to illustrate potential fiscal exposure under TRIA.

What GAO Recommends

Treasury should collect and analyze data on the terrorism insurance market to assess the market, estimate fiscal exposure under different scenarios, and analyze the impacts of changing program parameters. Treasury agreed with these recommendations.

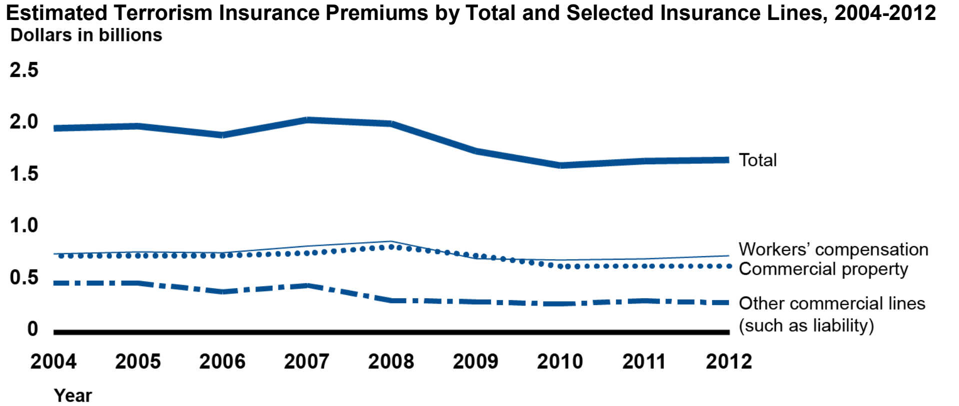
View GAO-14-445. For more information, contact Daniel Garcia-Diaz at (202) 512-8678 or garciadiazd@gao.gov.

What GAO Found

Comprehensive data on the terrorism insurance market are not readily available and Department of the Treasury (Treasury) analysis to better understand federal fiscal exposure under various scenarios of terrorist attacks has been limited. Treasury compiled some market data from industry sources, but the data are not comprehensive. Federal internal control standards state that agencies should obtain needed data and analyze risks, and industry best practices indicate that analysis of the location and amount of coverage helps understand financial risks. However, without more data and analysis, Treasury lacks the information needed to help ensure the goals of the Terrorism Risk Insurance Act (TRIA) of ensuring the availability and affordability of terrorism risk insurance and addressing market disruptions are being met and to better understand potential federal spending under different scenarios.

Available data show that terrorism insurance premiums and other market indicators are stable. For example, estimated terrorism insurance premiums have been relatively constant since 2010 (see figure). Insurers told GAO that, in 2012, terrorism insurance premiums made up on average less than 2 percent of commercial property and casualty premiums. According to industry participants, prices for terrorism coverage have declined, the percentage of businesses buying coverage seems to have leveled recently, and insurers' ability to provide it has remained constant.

Estimated Terrorism Insurance Premiums by Total and Selected Insurance Lines, 2004-2012



Source: A.M. Best, an insurance rating agency.

Insurers and other industry participants cited concerns about the availability and price of terrorism coverage if TRIA expired or was changed substantially, but some changes could reduce federal fiscal exposure. Some insurers GAO contacted said they would stop covering terrorism if TRIA expired. Changes such as increasing the deductible or threshold for required recoupment of the government's share of losses through surcharges on all commercial policyholders could reduce federal fiscal exposure. Most insurers GAO contacted expressed concerns about solvency and ability to provide coverage if their deductible or share of losses increased. Insurers were less concerned about increases to the thresholds for government coverage to begin or to the required recoupment of the government's share of losses.