

Congress of the United States
Washington, DC 20515

June 22, 2006

The Honorable John Snow
Secretary of the Treasury
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220-0002

Dear Secretary Snow,

The Presidential Working Group on Financial Markets (PWG) has been studying the long-term availability and affordability of terrorism risk insurance as required by the Terrorism Risk Insurance Extension Act (TRIEA) of 2005. As Members of Congress interested in encouraging a functioning domestic, private marketplace for terrorism insurance, we write to confirm that the PWG's report – which will have an integral role to play in developing this long-term solution – is addressing a number of issues needed to achieve this important goal.

The release of the Department of Treasury's preliminary study last summer informed Congressional debate and provided valuable information about the insurance marketplace. However, as we work toward a permanent resolution, a number of issues require further study, including: the lack of a vibrant terrorism reinsurance market, difficulty in calculating terrorism risk, impediments to a functioning private insurance market, efforts to increase take-up rates and reduce government exposure and the specific challenges posed by nuclear, biological, chemical and radiological (NBCR) attacks.

We respectfully request that the following issues be examined in the upcoming PWG report in order to produce the most comprehensive and useful information as the discussion progresses about how to provide the American economy with a long-term solution for ensuring the availability and affordability of terrorism risk insurance.

Lack of a Viable Reinsurance Market

The key difference between a \$40 billion insured loss today, and the \$40 billion loss on September 11, 2001 is simple and stark: on 9/11, reinsurance was available to handle approximately two-thirds of insured terrorism losses. By contrast, despite an economic incentive to sell coverage if it were profitable, today only a limited amount of private sector terrorism reinsurance is available. The Reinsurance Association of America estimates that only between \$6 and \$8 billion of reinsurance is available to cover foreign acts of terrorism, of which virtually none is available for NBCR coverage. The factors dampening the development of private reinsurance and potential market-based

alternatives that would encourage further development of private reinsurance merit a thorough examination by the PWG.

Difficulty in Calculating Risk

Terrorism differs from most other insurable risks because it is a man-made phenomenon whose frequency changes based on America's ability to stop terrorists from carrying out their cowardly acts of hate. This stark reality has confounded attempts to model the frequency of terrorist attacks or to mitigate losses associated with their occurrence. Additionally, the asymmetric nature of information related to terrorism means that neither insurers nor policyholders have access to the classified generalized or specific threat information needed to evaluate properly the many complex risks associated with terrorism. Further, insurers have no basis for assessing the potential severity of future attacks as terrorists have indicated a desire to inflict mass casualties and the skill to coordinate attacks on multiple targets contemporaneously. The unique nature of terrorism risk, the lack of accurate information regarding its probability and the uncertainty of severity warrant recognition by the PWG report.

Impediments to a Free Market Response

Currently, insurers lack flexibility to provide nationwide terrorism risk coverage as part of traditional insurance packages. In particular, price controls stifle insurers' abilities to charge a risk-based rate for services that are demanded by consumers. This regulatory environment often creates impediments to new capital and entrants that might otherwise provide additional capital.

While we strongly support allowing market forces to work -- and would vigorously oppose any attempt to make the marketplace for terrorism insurance more reliant on the government -- we recognize that the current marketplace for this product is imperfect. A simple expiration of TREIA, without any further federal action, would leave these impediments in place. We simply ask that in this report, the PWG recognize and review the current laws and regulations that depress the growth of long-term terrorism insurance options.

Increasing Take-up Rates and Decreasing Government Exposure

Both the Terrorism Risk Insurance Act (TRIA) and its extension included two provisions that have contributed to the greater availability and affordability of terrorism risk insurance: a requirement that insurers "make available" coverage, coupled with a federal backstop to define potential losses and provide certainty. While take-up rates for terrorism risk insurance continue to grow in many business sectors and communities, we believe that focus must remain on increasing these rates to protect consumers and taxpayers. By exploring ways to encourage greater take-up rates, the PWG can help determine how overall capacity and risk-spreading capability can be expanded -- ultimately reducing taxpayer exposure stemming from post-event, ad hoc government funding.

Nuclear, Biological, Chemical & Radiological Risk

One of the greatest challenges associated with insuring against catastrophic terrorism risk is the inability to predict with any certainty the probability or severity of an NBCR event. Projected scenarios range from affecting a few people or buildings to the massive loss of life or property damage associated with a “dirty” bomb or a suitcase nuclear explosive.

The anthrax attacks perpetrated through the U.S. postal system (including the mail facility for the U.S. House and Senate), even though limited in scope and severity, underscore the indeterminate quality and myriad potential consequences associated with such events. This indeterminate scope and unpredictable nature of NBCR risk also greatly complicates efforts to make this coverage widely available to consumers – and as a result, insurers remain reluctant to provide NBCR coverage for terrorism risks in their policies beyond that required by state law, causing coverage to be generally unavailable in the marketplace. For these reasons, NBCR terrorism has been expressly referenced in the study provisions of the TRIA extension, and we look forward to reviewing the PWG’s conclusions on how to handle this difficult issue.

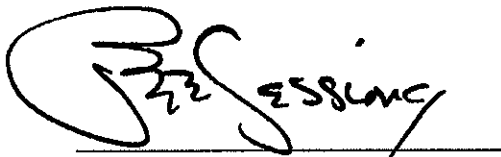
We urge the PWG to include the issues outlined above in their report. Related to these issues are a number of associated, specific questions that we believe could be answered in advance of the report’s release without prejudicing the final product. If you could provide us with feedback on the following questions by August 1st, it would be immensely useful in further illuminating the policy debate as the PWG conducts its study process:


- Do the Department of Treasury and other PWG Members believe that adequate available and affordable reinsurance and primary insurance exists now or will exist by December 31, 2007 when the program – including the federal backstop and “make available” provisions included in the current TRIEA – is set to expire?
- What financial mechanisms are available to the marketplace to enhance the private market capacity to take on terrorism risk upon expiration of TRIEA, particularly for NBCR coverage?
- What additional steps could be taken by the federal government to create a market less reliant on government intervention for insuring terrorism risk?
- What steps can the federal government take now to ensure the availability of NBCR coverage and help the marketplace to insure against catastrophic NBCR losses that will enable our economy and society to deal responsively and responsibly with such an occurrence, given that the insurance industry is not generally built to deal with the mass exposures associated with NBCR coverage?
- How would future federal government involvement in NBCR terrorist losses affect how insurers, reinsurers and other sources of private capital view and underwrite conventional terrorism risk?
- In what ways can the public and private sector encourage greater take-up rates to build capacity to cover losses and spread risk while reducing taxpayer exposure to terrorism risk?


We greatly appreciate the patriotic service that you and the members of the PWG are providing to your country through studying this problem and helping to determine how America will deal with some of the economic ramifications that would likely follow a terrorist attack on our country. We believe these key aspects associated with terrorism risk insurance would enhance the substantive value of your report and greatly influence the debate regarding the future of terrorism risk insurance.


We look forward to working with you on the PWG study in the coming weeks and months and eagerly anticipate reviewing the product upon which you are working so faithfully and diligently. If you have any questions about this letter or require further clarification, please do not hesitate to contact Josh Saltzman in Congressman Sessions' office at Josh.Saltzman@mail.house.gov or 202.225.2231.


Sincerely,



Pete Sessions
Member of Congress

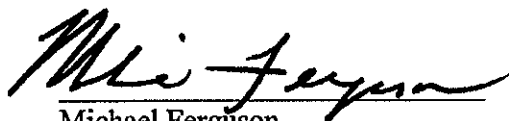

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