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The Honorable Christopher J. Dodd
Chair, Committee on Banking, Housing and Urban Affairs
U.S. Senate
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Dear Mr. Chair:

Kenneth J. Goldsmith
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We understand that tomorrow your Committee will mark up legislation to reauthorize the Terrorism Risk Insurance Act (TRIA). We urge your Committee to approve legislation that is permanent or that extends TRIA for a term of years that is as long as possible.

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The ABA believes it is very important to pass a long-term or permanent reauthorization of TRIA, which was enacted after September 11, 2001, in order to create a program that helps stabilize the commercial property and casualty insurance markets and ensures the continued availability of terrorism insurance for U.S. businesses. Terrorism insurance is required by banks and financing institutions prior to approving loans on commercial real estate projects and development. Insurance companies are reluctant to offer terrorism insurance without TRIA, which is set to expire at the end of December 2007. In order to prevent market disruption, it is critical for Congress to act promptly so that new policies for 2008 can be written by insurers and purchased by policyholders prior to TRIA's expiration.

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TRIA has helped stabilize the price of terrorism insurance by reducing the amount of risk borne by insurers. Without this federal backstop, many insurers would not provide terrorism coverage. The unpredictability of terrorism diminishes the ability of the private market to underwrite this risk, which is significantly more difficult to predict and model than other kinds of risks. The risk is so variable and difficult to predict that insurers and reinsurers will only put limited amounts of capital at risk. The government backstop helps to consolidate the risk of catastrophic events so that the consequences of modeling mistakes are shared by the federal government and the private insurance industry, rather than by individual insurers alone.

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A government backstop is especially needed in the area of insurance coverage for nuclear, chemical, biological, and radiological attacks. At the present time, there is little insurance available for such attacks apart from coverage mandated by state law, such as workers' compensation.

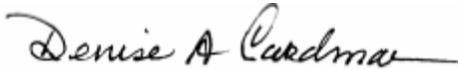
The government-industry partnership benefits policyholders and the economy. Some critics of TRIA improperly characterize it as an “industry bailout” bill. Such rhetoric is both overblown and misplaced. After September 11, and prior to TRIA’s enactment, exclusions from terrorism risk were approved in 45 states and the District of Columbia. It is therefore reasonable to assume that without sufficient reinsurance, or another financial loss-sharing mechanism like the federal backstop, most insurers could simply exclude terrorism risk from their coverage.

The federal government, because of its massive national security apparatus and its superior access to information, is in the best position to partner with the insurance industry to provide terrorism insurance. Moreover, experience has shown that the government will likely provide assistance to victims of a major terrorist attack; it behooves the federal government to be involved prior to the attack in order to receive the benefits of advance planning, risk management, capital accumulation, and the opportunity to use the underwriting and claims expertise of the insurance industry.

We urge your Committee to approve legislation that would provide for the permanent or long-term reauthorization of TRIA.

Sincerely,

Sincerely,

A handwritten signature in cursive script that reads "Denise A. Cardman". The signature is written in black ink and is positioned above the typed name.

Denise A. Cardman
Acting Director

cc: Members of the Committee on Banking, Housing and Urban Affairs