



**STATEMENT OF JON JENSEN
ON BEHALF OF THE
INDEPENDENT INSURANCE AGENTS AND BROKERS OF AMERICA
SUBCOMMITTEE ON INSURANCE, HOUSING AND COMMUNITY
OPPORTUNITY**

**HOUSE COMMITTEE ON FINANCIAL SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES**

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Good morning Chairman Biggert, Ranking Member Gutierrez, and members of the Subcommittee. My name is Jon Jensen and I thank you for inviting me to testify today on behalf of the Independent Insurance Agents & Brokers of America (IIABA or the Big “I”) in order to provide our association’s perspective on the topic of terrorism insurance. I began my insurance career over 35 years ago and now serve as President of Correll Insurance Group, a South Carolina-based insurance agency with 12 offices and 132 associates. In addition, I have served as Chairman of the Government Affairs Committee for the Big “I” since 2011 and also represent my home state on IIABA’s Board of Directors.

IIABA is the nation’s oldest and largest trade association of independent insurance agents and brokers, representing a network of more than a quarter of a million agents, brokers, and employees nationwide. Big “I” member small businesses possess the unique ability to offer consumers a wide array of insurance products – property, casualty, health and life – from many

different insurance companies. Independent agents sell nearly 80% of all commercial lines policies in the country, and our expertise and experience with businesses and the commercial marketplace affords our membership a one-of-a-kind perspective with which to speak to the topic of terrorism insurance.

The scheduled expiration of the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) at the end of 2014 is quickly approaching, and I applaud the Committee for scheduling this hearing now and for proactively initiating its important review of the Terrorism Risk Insurance Program (TRIP). Although the threat of unprovoked, unpredictable, and possibly devastating attacks continues to loom large and creates complex and unique challenges for insurance providers, the existence of the TRIP has successfully helped preserve a stable and viable market for terrorism insurance. Continuing this stability and maintaining this narrow and limited public-private partnership is vitally important, and the Big “T” looks forward to working with members of the Committee to develop long-term solutions to the unique challenges created by the continued threat of terrorist attacks.

The Terrorism Risk Insurance Program

The enactment of the Terrorism Risk Insurance Act (TRIA) in November 2002 and the subsequent establishment of TRIP were key elements of our government’s response to the heinous, unprecedented, and unforgettable attacks of September 11, 2001.

America had never endured a terrorist attack of such magnitude, and the attacks quickly produced severe disruptions in the insurance marketplace and in our national economy. Insurers were forced to confront the reality that large terrorism events could indeed occur and that they posed very unique risks. The underwriting and pricing of these exposures proved nearly impossible due to the inability of carriers to assess and measure the likelihood and magnitude of future terrorism events, and many insurers simply stopped providing terrorism coverage to commercial policyholders as a result. The inability of businesses to secure adequate terrorism coverage also had significant and negative repercussions across broad sectors of the national economy. The commercial real estate market, for example, was acutely affected as insurance for new construction projects could not be obtained and therefore funding from lenders could not be secured.

The original enactment of TRIA and its extension in 2005 and again in 2007 successfully stabilized the insurance marketplace and helped eliminate the market disruptions and uncertainties that followed the September 11th attacks. Congress wisely structured the program so as to involve the private sector as much as possible and created a successful and limited public-private partnership that has operated at virtually no cost to taxpayers. The private sector remains solely responsible for terrorism-related losses related to personal insurance (auto and homeowners), group life, reinsurance, and numerous other lines of coverage, and less than one-half of property-casualty premiums are written in lines covered by the terrorism risk insurance program.

TRIP also has numerous cost sharing provisions that limit the exposure of the federal government should the worst happen and a need for the backstop arise, and the portion of

terrorism-related losses that are the responsibility of the private sector has increased over time. The program now has a “trigger” of \$100 million in aggregate industry insured losses that must be incurred before any federal dollars are spent (a significant increase from the \$5 million trigger incorporated in the original law), which limits the application of the existing program to only severe events. If a terrorist attack of this size and scope did occur, each insurance company would have a deductible equal to 20% of its commercial property-casualty premium volume and would also be responsible for a 15% share of relevant losses above its retention level. The insurance marketplace retention of losses (i.e. the amount covered by deductibles and the copayment mechanism) must add up to at least \$27.5 billion (an amount that has also increased significantly over time), or the federal government may recoup the difference through a surcharge on commercial policies. Lastly, there is an annual \$100 billion cap on the program.

Ongoing Need for Limited Federal Role

The Big “I” believes the continued operation of TRIP or a similar public-private partnership is essential given the continued threat of terrorism and the unique and unpredictable nature of this devastating risk.

The factors and marketplace realities that caused Congress to enact and reauthorize TRIA remain in place today. It is widely believed that the size and severity of a terrorist attack could threaten the capacity of the insurance market, and such risks still cannot be assessed by traditional methods. Insurers do not have access to the data and information to perform proper underwriting, as much of the information that does exist is available only to governmental agencies that fiercely guard it for security and law enforcement reasons.

Despite the significant and meaningful progress that has been made in protecting our country from terrorists, the threat of terrorism remains with us daily. Those government officials most directly involved in protecting us from such threats – from the Secretary of Homeland Security to the Director of the National Counterterrorism Center – regularly remind us that such threats continue to evolve and have become more decentralized and diverse in recent years. The evolving nature of terrorist threats makes it even more difficult for insurers to assess and make meaningful judgments about possible terrorist events, and this unfortunate reality is why it is so important to have a thoughtful terrorism risk insurance program in place.

TRIP has had an incredibly beneficial impact on the nation’s economy, but terrorism coverage will once again become extremely difficult – or impossible – for many businesses to obtain if the program is allowed to expire with no policy solution in its place. The private sector simply lacks the ability and capacity to fill the considerable void that would be created if the program expires, and such an outcome would be especially troubling for the countless small and medium-sized businesses that already struggle to remain profitable in a challenging economic environment and are unable to self-insure. The vast majority of businesses in this country are of this size, and these commercial enterprises will be unable to properly protect their assets, property, and investments against the threat of terrorism without such a partnership. This problem is particularly acute in urban and suburban areas. In short, we believe the termination of TRIP would have destabilizing effects on the economy in many regions of the country.

Conclusion

It has been eleven years since the terrorist attacks of September 11, 2001, and I am certain the memory of those events and the ensuing weeks and months remain vivid to all those in this room. Although our nation has thankfully been spared from further events in recent years, the threat of terrorist attack is as great as ever, and our country must take the steps necessary to protect itself from a similar future event. We must also take the steps necessary to protect our national economy against such events and ensure that terrorism insurance is available in a meaningful way to our nation's businesses and job-creators.

The Big "I" believes that TRIP has worked well and that some form of limited federal involvement is still needed to maintain a stabilized and viable market for terrorism insurance. We applaud the Committee for the foresight to delve into this subject matter this Congress and look forward to working with you as you consider solutions to address the unique nature of the risk presented by terrorist attacks.