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Commentary

Is terrorism insurable? Is TRIA good public policy?
The answers to both questions mandate the renewal of TRIA.

Terrorism, Insurance, and TRIA: Are We Asking the Right Questions?

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"There are no right answers to wrong questions." (Ursula K. Le Guin, *Planet of Exile*)

In the midst of the vigorous national debate regarding whether the Terrorism Risk Insurance Act of 2002 (TRIA) should be reauthorized, Ursula Le Guin's popular quotation is especially pertinent. Opponents of TRIA generally ask the same relatively facile question: Can't insurers cover terrorism losses without federal support? With this as their starting point, the Consumer Federation of America (CFA) April 2004 report fast-tracks to the myopic conclusion that "it is clear that TRIA is no longer needed."[1]

Unfortunately, the kind of bumper-sticker logic exemplified by the CFA has a lot of popular appeal. We Americans have always had a passion for "normalcy." One measure of normalcy is the ability of insurance companies to cover loss events.[2] In 1920, tired of the Great War and Teddy Roosevelt's swashbuckling, 60 percent of American voters swept Warren G. Harding into the presidency based on his promise to return us to "normalcy."[3] Twenty-six years later, following the next World War, the all-American word, "normalcy," appeared within the opposite message: Newly elected Harry Truman warned us (in referencing the demands of reconstructing our economy): "We will not measure up to those responsibilities by the simple return to 'normalcy' that was tried after the last war." Fortunately, most Americans remember Truman, not Harding.

Normalcy implies knowing what the rules are and playing by them. But what are the "new rules"? How are we going to define our new "normalcy"? September 11 was unlike any event we have ever experienced. It was the wake-up call to the "clash of civilizations and the remaking of world order" that Samuel Huntington predicted in his influential 1996 treatise of the same title.[4]

Other nations have concluded that a government role in insuring against terrorism is essential.

For most underwriters, the last three years have necessitated an intense inquiry into this new world order. If we have learned anything since September 11, it is that terrorism is inherently complicated, multi-faceted, and quickly changing. There is no bumper-sticker solution, no silver bullet. One thing seems clear: Our collective national dialogue urgently needs to improve. At a time when Americans urgently need to find common ground and breakthrough solutions, being so divided on this critical issue plays right into the hands of our enemies.

Maybe we are rushing to define mutually acceptable answers when what we need are the "right questions." In this column, we take a summary look at the arguments for and against TRIA and the "traditional" insurability question. Then, we will consider some of the new things we are learning about the important new questions we are discovering.

TRIA: Whither the Great Debate?

Property and casualty insurers understand the importance of TRIA. We have been looking forward to an active, public debate. Opponents of TRIA have, at best, been open to a limited dialogue. Certain subjects, like a permanent role for the federal government in providing a backstop, are simply "off the table for discussion," despite the fact that other nations have concluded that a government role in insuring against terrorism is essential.

TRIA Opponents' View

Here is the (abridged, from the heart, and with some poetic license) case that the CFA and other TRIA opponents seem to be making:

> Let's face it, you insurers blew it. After the 1993 WTC attack, you should have anticipated the events of September 11.[5]
>
> And isn't the business of insurance the business of taking risk? Isn't this just one more risk, like earthquakes or hurricanes?
>
> And didn't you insurers have a great year in 2003?[6] We not only think you can afford another $40 billion dollar loss, we think you should be able to afford a loss ten times greater.[7]
>
> After all, isn't this really a big city problem? For most of America, nothing has changed. Why should Peoria and Pottstown pay for problems in New York and Washington, D.C.? If TRIA is reauthorized, it should apply only to the largest cities that ISO (Insurance Services Office) thinks are the highest risks.[8]
>
> You insurers need to take this risk with "no overall cost to the taxpayers."[9] This is the business you chose. Deal with it.

Insurance Industry's Response

The insurance industry's equally impassioned response might sound something like this:

> We blew it? How can you expect insurers to have greater foresight than President Bush says he or anyone in either his administration or the Clinton administration had prior to September 11?[10]
>
> Are you aware of the strict regulatory environment with which insurers must comply? Are you aware that almost half of our capital base is committed to personal lines? Are you also aware that A.M. Best estimates our cur-

> rent loss reserves to be deficient by almost $30 billion — and that the costs of potential terrorism losses aren't even reflected in those reserves?[11]
>
> There are some risks that go beyond the limits of what we can do or what our investors or policyholders expect us to do. Our first obligation is to preserve the integrity of our balance sheet for the protection of all our policyholders.
>
> And by the way, the loss on September 11 was shared by almost 200 insurers and reinsurers. Today, that loss would be almost all net to whatever insurers are unlucky on that day, even with TRIA in place, because of the huge retentions as a percent of our capital bases that most of us are already assuming now in the second year of TRIA (and the retentions go up by 50 percent next year).[12]
>
> What makes Dallas or Atlanta less likely a target than Houston or Philadelphia? Would you not have said the same thing about Oklahoma City before Tim McVeigh proved you wrong? Your argument would bar TRIA coverage for many possible targets.

The gap is wide between the opponents of TRIA and the advocates for a permanent public and private sector solution. All too often, as an underwriter, my impression is that we are racing too quickly past the basic question of whether terrorism is really "insurable" at all.

Is Terrorism Insurable?

This is the simple, critical question we cannot seem to answer. I am really not sure if it has even been asked. Unlike France, Germany, Spain, and England, we have seen fit to develop only a "temporary" solution through the private and public sector partnership we call TRIP (the Terrorism Risk Insurance Program).

The answer to the "traditional insurability" question is not entirely black and white. According to my property-casualty agent licensing manual, there are seven characteristics necessary to create an "insurable risk":[13]

1. loss must be definite and definable;
2. loss must be accidental;
3. the chance of loss should be calculable by the insurer;
4. the "law of large numbers" should apply;
5. loss must be great enough to create an economic hardship;
6. insurance must be offered at a reasonable cost; and
7. loss must not be catastrophic in nature.

Let's examine how terrorism stands up against these seven conditions. Clearly, a terrorism loss is accidental *from the standpoint of the insured.* We can also agree that terrorism exposes prospective insureds to economic hardship, i.e., there is an "insurable interest." Terrorism losses are also "definite and definable" because they are "*definite in terms of time and place*" and are "*measurable in financial terms.*"[14] So criteria 1, 2, and 5 support the claim that insurers could assume this risk. This is not insignificant. My best guess is that opponents of TRIA base their entire argument on these three points. Unfortunately, there are four other conditions that also must apply.

Can Insurers Calculate the "Chance of Loss" at a "Reasonable Cost"?

Let's consider insurability conditions 3 and 6 together since they are closely related. To be able to determine the "chance of loss," we need to be able to estimate frequency. To calculate a "reasonable cost" we also need to quantify the combined impact of severity with frequency. After almost three years of intensive research, most insurers have reached the conclusion that this simply is not possible. There are four important reasons for this conclusion:

- Asymmetric Information

  Unlike natural catastrophes, insurers have almost no credible data about terrorism. The war against terrorism is like a life-and-death chess match where our opponents can see our moves but we cannot see theirs. No clock limits the time our adversaries can take to decide their next move. But as soon as they make their move, an impatient clock called Public Opinion forces us to do something quickly, somewhere. Critical information about emerging risks or even thwarted or planned attacks is normally classified and not available to insurers or modeling firms. The modeling of terrorism by AIR, Equecat, and Risk Management Solutions (RMS) is still in its infancy. These models rely heavily on expert opinions, and each contains different assumptions producing significantly different results. Until much more information is available, all terrorism pricing is best understood to be an informed guess and nothing more.

With no way to calculate frequency or severity accurately, there is no way for insurers or regulators to know what really constitutes a "reasonable" premium.

- Dynamic Uncertainty

A terrorist loss may be accidental *from the standpoint of the insured*, but the heart of the underwriting problem is that there is nothing fortuitous about terrorism itself. Like the asymmetric information issue, this distinguishes terrorism from natural catastrophes. The unique problems of insuring terrorism exposures are explored in an excellent recent research paper by Wharton's Howard Kunreuther and Erwann Michel-Kerjan.[15] They point out that, unlike traditional insurance exposures, terrorism presents a "dynamic uncertainty." It is "dynamic" because, unlike earthquakes or hurricanes, terrorists can quickly change their targets and their method of attack to whatever they perceive offers their best chance of success and will cause the greatest damage. Concrete blocks in front of a building may limit the likelihood of a truck bomb attack, but a suicide bomber can still enter the lobby. (Some years back, there was talk about how much greater the damage from Hurricane Andrew would have been if it had taken a slightly different course; if terrorists had controlled Andrew, you can be assured that insurers would not have been so fortunate.)

- Interdependent Security

Kunreuther and Michel-Kerjan also astutely cite "interdependent security" as an issue unique to terrorism. Simply stated, we are only as protected as the weakest link in the chain of security to which we are exposed. They cite the crash of Pan America's flight 103 in 1988 as the classic example of "interdependent security":

> ...The explosion was caused by a bomb loaded at Gozo Malta on Malta Airlines where there were poor security systems, transferred at the Frankfurt Airport to a Pan Am feeder that then loaded onto Pan Am 103 at London's Heathrow Airport. The bomb was designed to explode only when the aircraft flew higher than 28,000 feet, which would normally not occur until the plane started crossing the Atlantic to its final destination, New York ... The terrorists who placed the bomb knew exactly where to check the bag. They put it on Malta Airlines, which has minimum security measures and Pan Am was helpless.

- The Regulatory Pricing "Catch 22"

With no way to calculate frequency or severity accurately, there is no way for insurers or regulators to know what really constitutes a "reasonable" premium. In fact, the pricing of terrorism insurance under TRIA presents a "Catch 22" for all insurers. The source of the problem is that TRIA does not preempt state regulators from look-back discretionary criticism of our pricing filings. Simply stated, if no loss occurs, any premium we collect is likely in hindsight to be characterized as "excessive." If a loss does occur, however, low take-up ratios almost guarantee a large if not debilitating charge to the affected insurer's capital base.

The good news here is that only two of these four obstacles are inherent to terrorism. The Catch 22 pricing issue and the asymmetric information problem are within our control. The asymmetric information issue is currently high on the research agenda of the RAND Corporation's new Center for Terrorism Risk Management Policy.

Our running total insurability score: 3 YES and 2 NO.

The Biggest Obstacle to Insurability: Severity

Condition 7 is the single largest obstacle to the insurability of terrorism: "Loss must not be catastrophic in nature." My licensing manual is emphatic on this point:

> A risk is not considered insurable if it is likely to subject a great many exposure units to the same loss at the same time. … Catastrophic perils cannot be predicted, and catastrophic losses cannot be shared in any economically realistic fashion. For these reasons, losses caused by catastrophic perils such as war, nuclear risks, and floods are usually excluded from insurance coverages in the private sector.[16]

About a month after September 11, Warren Buffett addressed this mandate succinctly in his much publicized special shareholder letter. In citing three "principles" for "underwriting discipline," Buffett noted that, to be successful, underwriters must "limit the business they accept in a manner that guarantees they will suffer no aggregation of losses from a single event or from related events that will threaten their solvency. They ceaselessly search for possible correlation among seemingly-unrelated risks."[17]

All Commercial Lines Are Vulnerable

The immediate underwriting lesson of September 11 was this new challenge of managing what Buffett calls "seemingly-unrelated" risks. No one in the insurance or reinsurance profession imagined that the largest loss in the history of the insurance industry would include the largest loss ever in almost every major line of business: property insurance, business interruption, workers compensation, aviation, accident and health, and liability. A new core competency became immediately necessary, requiring the management of multiple lines subject to correlated catastrophic risk. Aside from putting a ceiling on our maximum probable loss, one of the great underwriting benefits of TRIA is that it has provided the market stability and the time needed to develop this new core competency.

How large a loss do we need to consider post-September 11 in our underwriting plans and capital

Exhibit 1

Differences in Workers Compensation Benefits Depending on Where Catastrophe Strikes

State	Average Fatality Benefits	September 11 Recurrence Fatality Loss (approximately 2,950)
D.C.	$613,000	$1,808,350,000
Connecticut	$589,000	$1,737,550,000
New York	$462,000	$1,362,900,000
Maryland	$417,000	$1,230,150,000
California	$300,000	$885,000,000
Illinois	$295,000	$870,250,000
Virginia	$225,000	$663,750,000

management? Under certain event scenarios, a recent Tillinghast report estimates, insured losses could exceed $250 billion.[18] If the World Trade Center attack on September 11 had occurred a few hours later, or if the planes had hit lower floors, the insured losses could have been two to three times the estimated loss. This would have eliminated all of the estimated $150 billion in commercial capital and surplus, even if some pool had been in place to mutualize this risk across the property-casualty industry.

Workers Compensation Is More Vulnerable Than Most

Nothing keeps property-casualty insurer CEOs awake at night more than the potential impact of terrorism on workers compensation (WC). Although potential liability and property losses are real concerns, WC is the largest commercial line, with $42 billion in 2002 direct written premiums (including state funds).[19] This is also the one commercial line that presents the largest possible risk-of-ruin to individual insurers because there are no policy limits. Insurers must pay 100 percent of all medical expenses and wage loss benefits. Individual insurers need to consider the possibility that though they may share in an industrywide loss, they could also be the only insurer to suffer a loss. The latter presents the underwriting equivalent of uncorrelated loss that financial people call "basis risk."

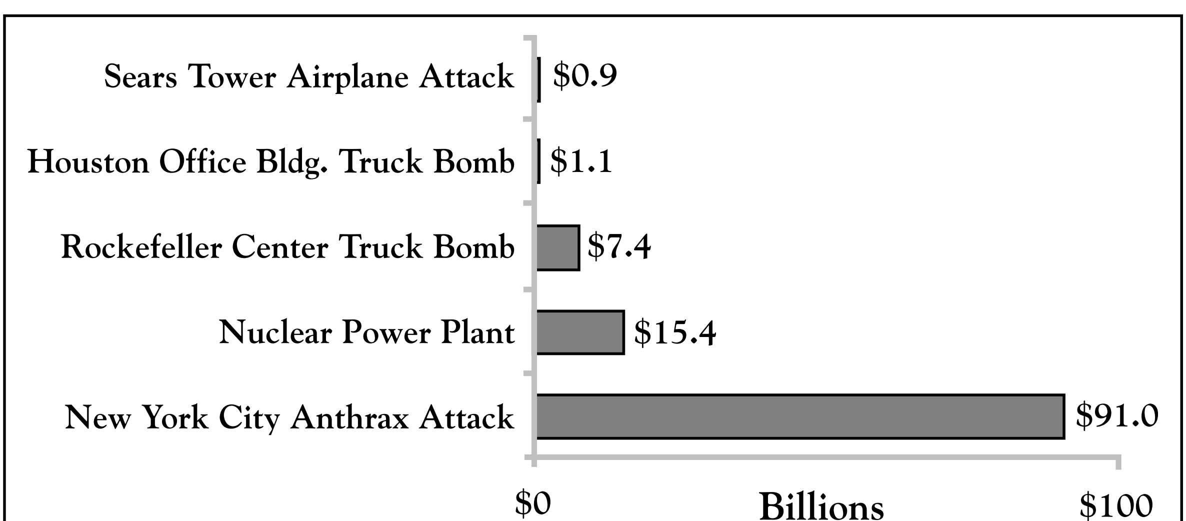
Another variable is that statutory benefits vary significantly from one state to another. Exhibit 1 shows the large differences in WC average fatality benefits in a number of key states.[20] We then calculate the possible loss to an insurer or to the industry if a loss in the order of September 11 were to recur (with slightly less than 3,000 deaths at one location).

To put this in concrete September 11 terms, if the plane that struck the Pentagon (which is in Virginia) had been able to strike a large office building across the Potomac in Washington, D.C., the difference to one or more reinsurers in the loss represented by comparable office buildings in each state would be almost 300 percent (i.e., $664 million versus $1.8 billion, assuming all other variables are equal).

Depending on the attack mode, the extent of the possible catastrophe is even more extreme. In the

Exhibit 2

Probable Costs of Potential Terrorist Attacks



Source: Towers Perrin, "Workers Compensation Terrorism Reinsurance Pool Feasibility Study" (March 2004): 42. This $90 billion figure would be a worst-case scenario. According to RMS, a plausible major truck bomb attack might cause losses of $4 billion and a large-scale anthrax attack $32 billion.

same Tillinghast report mentioned above, the modeling firm RMS provides estimates of potential WC insured losses from different possible attacks in Exhibit 2.

Large insurers (with at least $1 billion in capital) tend to worry most about nuclear, biological, chemical, and radiological attacks. At industry meetings discussing TRIA, coverage for these risks is the minimum backstop insurers feel the industry needs. For the vast majority of WC underwriters, however, a truck bomb like the one that exploded in front of Oklahoma City's Murrah Federal Building could present the risk of ruin if TRIA is not reauthorized. In 2002, almost 70 percent percent of the 278 insurance groups underwriting WC had less than $300 million in consolidated capital.[21]

Before moving to our final insurability issue, two additional points are important to emphasize in the consideration of severity:

- Surplus Impairment Risk

  Statutory accounting requires insurers to set aside reserves for the ultimate liabilities arising from the insurance policies they underwrite. Insurers are *not allowed to post reserves for losses that have not occurred.* Therefore, insurers are not allowed to post reserves to cover catastrophe losses from natural perils or terrorism until they actually occur. As a result, a terrorism loss would deplete an insurer's capital and surplus base intended for the security of all policyholders.

- Lack of Traditional Reinsurance

  A final consideration is that an affordable and available commercial reinsurance market has not emerged since TRIA was enacted, nor is a market likely to develop any time soon. From my own recent dealings with numerous reinsurers and the 13 other insurers who sponsored the American Insurance Association-hosted Workers Compensation Terrorism Reinsurance Pool study, one thing is clear: The availability of reinsurance is inversely proportionate to the perception of risk. Without TRIA, the only option left to underwriters is to strictly "ration" their capacity by opting not to quote business that would otherwise be attractive to them.

Revised Insurability Score: 3 YES, 3 NO.

Terrorism and the Law of Large Numbers

Finally, can insurers obtain a spread of risk sufficient to satisfy the "law of large numbers"? Before November 26, 2002, the voluntary private market answer was definitely "No" (at least for any commercial business in a high risk location). TRIA addressed this problem to some extent by requiring insurers to "make available" terrorism insurance (as defined by the law), thereby shoring up the market for property insurance in major urban centers. This allowed many delayed projects to move ahead. However, since, with the exception of workers compensation, the "make available" requirement left the decision to obtain coverage strictly in the hands of the buyers, only those insureds that believed themselves to be "at risk" purchased the coverage. From an underwriting standpoint, the resulting "adverse selection" is normally the prelude to serious trouble.

Only those insureds that believed themselves to be "at risk" purchased the coverage.

This situation presents the possibility that, despite TRIA's positive intentions, if a similar attack were to recur, there could be *fewer policyholders with terrorism coverage* for property and business interruption today than there were on September 11. This is because today insureds that decide not to purchase terrorism coverage have clear terrorism exclusions on their policies. On September 11, insurance policies contained no such exclusions.

A recent Marsh survey[22] of 2,400 policyholders gives us some cause for optimism, suggesting that TRIA's enforced supply is improving consumer demand. Here are some of the key findings:

- Over the final three quarters of 2003, the property take-up rate increased steadily from 23.5 percent in the second quarter to 32.7 percent in the fourth quarter. The overall three-quarter take-up rate was 27.3 percent.

- During the same period, pricing declined overall by 42 percent.

- Companies with total insured value between $500 million and $1 billion have the highest take-up rate at 39.7 percent.

- The five specific industry groups showing the highest take-up ratios are energy (40.5 percent), media (35.3 percent), food and beverage (34.7 percent), habitational and hospitality (31.5 percent), and health care (31 percent).

- Not surprisingly, the Northeast has both the highest take-up ratio and the highest rate of both terrorism premiums and overall premiums.

If TRIA is not extended, other long-term solutions are urgently needed.

The positive indicators in the Marsh survey are confirmed by a similar survey conducted recently by the Mortgage Bankers Association (MBA). A substantial majority of MBA's 40 largest mortgage banking firms believe that TRIA has made terrorism insurance both more available and less expensive.[23]

The good news is that the people who appear to need terrorism insurance the most are buying it. The bad news is that, unless better spread of risk is achieved, insurers will not have enough terrorism premiums to cover a large loss (and avoid a hit to their capital base). This will be a particularly severe problem in 2005 (year three of TRIA) when insurer deductibles jump from 10 percent to 15 percent of the prior year's direct earned premium.

Final Insurability Score: 3 YES, 4 NO

Conclusion

If the "right question" is whether the federal government should play a role in providing economic protection against terrorism, the above assessment suggests that the answer is "Yes."

The insurance industry should not be asked to shoulder the burden for this uninsurable risk on its own. The public sector must have a permanent role because it has a permanent responsibility. After all, who were terrorists attacking on September 11, tourists in airplanes, office workers in the World Trade Center, or the foreign policies of the federal government?

Clearly, there is nothing office workers can do to prevent a 747 from crashing into their windows. Who knows most about the risks and who has the greatest control over the likelihood of an attack? Clearly, the answer is the federal government.

The "Right" Question: Is TRIA Good Public Policy?

Once again, maybe we are all asking the wrong questions. Recent, cutting-edge research by the RAND Institute for Civil Justice suggests that the right question is not whether terrorism insurance is just another form of insurable risk or whether the insurance industry can afford to pay a possible loss.

> The distinguishing features of the terrorism insurance market — and the ones that may ultimately have driven the enactment of subsidies [through the free reinsurance offered by TRIA] — are the external effects associated with terrorism. A construction project foundering in Manhattan due to a lack of affordable terrorism insurance coverage may be seen as a national pride public policy issue, while similar foundering associated with windstorm or earthquake insurance coverage is not.

The RAND authors conclude that terrorism insurance is "best understood as a strategy of influencing behavior in the context of a war effort." Rather than simply being in the background to pay for insurance, the government's support of terrorism insurance programs is "intended to foster moral hazard when there are social benefits associated with moral hazard. In this light, government-sponsored terrorism insurance appears to have more in common with war-risk life insurance (government insurance provided to soldiers) [and] deposit insurance... than with programs aimed at remedying the problems in catastrophe insurance markets (such as the National Flood Insurance Program)."[24]

TRIA Has Succeeded — Why Mess With Success?

At no immediate cost to the public, TRIA has succeeded in achieving most of its critical goals. After 18 months, commercial property take-up ratios are increasing. The development of the terrorism insurance market may well be replicating the similar pattern we saw in the early 1980s with the rollout of environment impairment liability insurance (EIL), and in the 1990s with employment practices liability insurance (EPLI). Like terrorism insurance, both EPLI and EIL were severity-prone lines with virtually no credible data. Like terrorism insurance, EIL and EPLI struggled with adverse selection in their early years. Over time, as insurers became more refined in their underwriting and consumers grew more familiar with the new policies, the insured base broadened, making both EIL and EPLI standard protections today within many industry groups.[25] Terrorism insurance appears to be headed in a similar, positive direction.

The pending sunset of the TRIA law at the end of 2005 makes the improvement in take-up ratios highly unlikely to continue. Unless a reauthorization of TRIA is passed before the fall of 2004, insurers will need to start making difficult decisions on policies that include any period of time in 2006. As this column is being written, the House and Senate are considering these issues. Now is the time for all stakeholders in this issue to encourage both the extension of the "make available" requirement to 2005 and the reauthorization of TRIA through 2007. If TRIA is not extended, other long-term solutions are urgently needed.

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Endnotes

1. Hunter, J. Robert, "The Terrorism Risk Insurance Act: Should it be renewed?" *Consumer Federation of America* (April 2004). This report is available for download in a PDF format at www.consumerfed.org. The report states, "The primary question before Congress in considering any extension of TRIA beyond 2005 is what is the best estimate of the risk of terrorism available in the marketplace and can the private sector handle such risk absent taxpayer back-up."
2. Huntington, Samuel P., *The Clash of Civilizations and the Remaking of World Order*, (Simon & Schuster, 1996).
3. Ibid.
4. Ibid.
5. In his September 9, 2003, ruling against the defendants' motion to dismiss, Federal Judge Hellerstein surprised insurers and many others by concluding "…airlines reasonably could foresee that crashes causing death and destruction on the ground were a hazard that would arise should hijackers take control of a plane… The intrusion by terrorists into the cockpit, coupled with the volatility of a hijacking situation, creates a foreseeable risk that hijacked airplanes might crash, jeopardizing innocent lives on the ground as well as in the airplane." http://www.washtimes.com/business/20030909-092450-1634r.htm.
6. A.M. Best Special Report, *P/C Industry Reports Dramatically Improved Operating Results* (April 2004).
7. In *Insuring against Terrorism: The Policy Challenge*, Wharton's controversial but thought-provoking Kent Smetters argues that, assuming the insurance industry were "mostly unfettered" by government policy, "insurance and capital markets are capable of insuring large terrorism losses, even losses ten times larger than the $40 billion loss incurred on September 11, 2003." (Page 1.)
8. Consumer Federation of America, ibid.:10. "There is certainly no need for a plan in Tier 3, that part of the nation outside of New York, D.C., Chicago, San Francisco, Boston, Seattle, LA, Houston and Philadelphia."
9. Ibid.:10.
10. From President George W. Bush's press conference of April 13, 2004: The President: Well, I think, as I mentioned, it's — the country wasn't on war footing, and yet we're at war. And that's just a reality, Dave. I mean, that's — that was the situation that existed prior to September 11, because the truth of the matter is, most in the country never felt that we'd be vulnerable to an attack such as the one that Osama bin Laden unleashed on us. We knew he had designs on us, we knew he hated us. But there was a — no-

body in our government, at least, and I don't think the prior government, could envision flying airplanes into buildings on such a massive scale. http://www.whitehouse.gov/news/releases/2004/04/print/20040413-20.html

11. A.M. Best Special Report, ibid.:4.
12. And while there is room for one or two to not apply, "it is desirable that all or most all of them exist wherever possible." Morgan Stanley, *Insurance — P&C: Terrorism Back in the Limelight* (March 2004).
13. BISYS Educational Services, *Merritt Licensing Sourcebook, Property and Casualty, 2000 Edition*: 1-4.
14. Ibid.:1-4. Note, too, that insurers might argue that some possible losses, such as a chemical, biological, radiological or nuclear attack, present potential complicated claims that disqualify terrorism as "definite and definable." The many unknowns from the quality of the air after September 11 remain a significant risk, long-term, to workers compensation and accident and health insurers. It could take decades to know the final tally. Although open to debate, an objective assessment of this condition assuming conventional weapons attack could reasonably favor insurability.
15. Kunreuther, Howard, and Erwann Michel-Kerjan, *Dealing with Extreme Events: New Challenges for Terrorism Risk Coverage* (Wharton University, February 2004).
16. BISYS, ibid.:1-4.
17. Buffett ,Warren E., *Special Letter to Shareholders* (Berkshire Hathaway, October 2001).
18. Tillinghast Towers Perrin, "*Workers Compensation Terrorism Reinsurance Pool Feasibility Study*.
19. AM Best, *Aggregates & Averages 2003*.
20. ACE Actuarial, based on NCCI reported average incurred losses.
21. AM Best, *Aggregates & Averages, 2003*.
22. Dalton, Jill, *Property Terrorism Insurance: 2004*, (Marsh, 2004).
23. Statement of the Mortgage Banker's Association, Joint Hearing of the House Financial Services Committee's Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises Subcommittee on Oversight and Investigations, *A Review of TRIA and its Effect on the Economy: Helping America Move Forward* (April 18 2004):2-3.
24. Lakdawalla, Darius, and George Zanjani, "Insurance, Self-Protection, and the Economics of Terrorism," (RAND Corporation, 2003). Available only online at www.rand.org/publications/WR/WR123/.
25. There are at least two important differences between these two coverages and terrorism insurance: (1) Neither presents the catastrophe potential of terrorism as policies contain per claim and annual aggregate limitations; and (2) Both have developed adequate claims frequencies to develop a reasonably reliable rate-making process.