

12. (1.75 points)

For the Terrorism Risk Insurance Program:

a. (0.75 point)

Briefly describe the roles of:

- federal government
- state government
- private insurers

b. (0.5 point)

Briefly describe two reasons for government involvement.

c. (0.5 point)

Evaluate the program's effectiveness.

SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 12	
TOTAL POINT VALUE: 1.75	LEARNING OBJECTIVE: B1/B3
SAMPLE/ACCEPTED ANSWERS	
Part a: 0.75 point	
<ul style="list-style-type: none"> • Federal Government <ul style="list-style-type: none"> ○ Provide funds for losses in excess of set amounts of loss resulting from terror attack ○ Acts as reinsurer to private companies ○ Act as reinsurer to insurer Terrorism losses ○ Reinsurers the high layers of the coverage that provided by the private insurers. Partnership with private market • State Government <ul style="list-style-type: none"> ○ Not involved ○ No role ○ Does not have a role other than regulating the insurer as normal. • Private Insurer <ul style="list-style-type: none"> ○ Offer and handle claims for terrorism coverage and pay losses up to attachment point ○ Writes TRIA & provides primary coverage ○ Write and maintain policies. Cede some of the loss and premium to federal government ○ Write terrorism coverage. Primary insurer up to certain level. ○ Partnership with the fed gov't. Writes the insurance and cedes to federal gov't the high layers of the coverage it cannot retain. ○ Provide the primary coverage for terror exposed properties, up to point where Federal reinsurances begins. 	
Part b: 0.5 point	
<ul style="list-style-type: none"> • Fill Unmet Needs <ul style="list-style-type: none"> ○ Make terrorism coverage available – after the 9-11 terrorist attacks, insurance companies were unwilling to provide the terrorism coverage without the financial backing of the federal gov't ○ Fill unmet need – Private insurers not willing to provide terrorism coverage (CAT nature) ○ Provide availability of coverage that was rapidly disappearing from private market after 9/11 ○ Losses from terror (like 9/11) are too large for private insurers to handle alone; they would go insolvent on their own. • Achieve Collateral Social Purpose <ul style="list-style-type: none"> ○ Social purpose – Terrorism coverage encourages business continuation after terrorist attack (↓business interruption) ○ Social goal of reducing the economic disruption that would occur after a terror attack if businesses were unable to secure terrorism insurance coverage. ○ Provide economic stability in even of act of terrorism ○ Having gov't as reinsurer will prevent large scale market disruptions 	

SAMPLE ANSWERS AND EXAMINER'S REPORT

Part c: 0.5 point

- Ineffective
 - The program has not been very effective. There has been less demand for terrorism coverage than originally thought. It is filling an unmet need, but can do little social good if most businesses don't purchase terrorism insurance.
 - It has been somewhat effective in providing the coverage; however, the initial idea was to transfer this to the private market and that government involvement was temporary. The many temporary extensions show this is not the case.
 - Few risk exposure since creation, so little utilization → overall serves purpose but not entirely effective at filling a need.
 - It's been mildly effective. It's allowed consumers to purchase this coverage as intended but the private market has not started to sell this coverage. The original intent of TRIP was for the government to step away after private market started offering which hasn't happened.
 - Program has been marginally successful. The demand was not as great as initially anticipated so many business would still face terrorism costs/possible ruin. However, it has made the coverage available satisfying 1 of the 2 goals in b).
 - The program is not very effective. Demand was not as high as anticipated. Private insurers could provide this coverage if it is backed by catastrophe bonds.
 - Not very effective. Program was supposed to be temporary yet it is still federally run as insurers do not want to entirely own this risk. Also there is not fully adequate funds.
- Effective
 - However, it has been effective in proving coverage for those insurers that want it.
 - Program effective in increasing availability of coverage, but it has not been tested by an actual terrorist attack so it may be that this coverage is unnecessary.
 - Has been effective, but not really utilized to the extent of the 9/11 losses. So lack of losses have reduced usefulness and there has not been much experience to work with to project potential future costs.
 - It has been effective at providing coverage while allowing time for insurers to build models, understand the risk and build capital for events.
 - Been effective so far, as high risk concentration areas (Washington DC, LA, NYC) continue to be insured.

EXAMINER'S REPORT

Most candidates got the material's big picture, but missed out some details that prevented them from getting full credit.

Part a

- Most papers were missing the part that private companies are required to retain part of the risk. It's not 100% ceded. Occasionally, candidates remarked on the state's role in monitoring filed rates and potential for insolvency. Candidates were only given full credit if they explicitly mentioned that state government has no direct role in TRIA.

Part b

- "Unmet need" is the catchy phrase, almost everyone wrote it, and explained that private companies were not willing to provide coverage. When candidate wrote "unmet need" but did not explain why the coverage was unavailable they did not get credit. But only a

SAMPLE ANSWERS AND EXAMINER'S REPORT

little more than half remembered the preventing market disruption part.

Part c

- This was a very open-end question. Most gave the answer low participation as the indication of ineffectiveness. This answer was given full credit only if the candidate expounded upon why low participation rates demonstrate ineffectiveness of the program. Another common response was that it provided the needed coverage, thus is effective. This response was given full credit.