

10. (2.25 points)

a. (0.5 point)

Briefly describe two goals of the Terrorism Risk Insurance Act of 2002.

b. (1 point)

Describe two reasons why private insurers were unwilling to provide terrorism insurance immediately following the terrorist attacks of September 11th, 2001.

c. (0.75 point)

Briefly describe three changes to the Terrorism Risk Insurance Program that might reduce the burden on taxpayers.

SPRING 2017 EXAM 6U SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 10	
TOTAL POINT VALUE: 2.25	LEARNING OBJECTIVES: B1, B2, B3
SAMPLE ANSWERS	
Part a: 0.5 point	
<p>Any two of the following:</p> <ul style="list-style-type: none"> • Keep the regulation of insurance at the state level • Stabilize the market after an attack of terrorism occurs • Provide an unmet need • Provide temporary consumer protection by providing affordable / available terrorism insurance • To minimize economic disruption • Provide a private + federal government solution to fund terrorism insurance while the private market stabilized • Increase affordability / availability of terrorism insurance for P/C market • Allow insurance to be continually available to affected consumers • Social: minimize business interruption after a terrorist attack 	
Part b: 1 point	
<p>Any two of the following:</p> <ul style="list-style-type: none"> • Not enough public data to accurately price terrorism risk • Terrorism risk didn't have enough data to provide for actuarially sound rates • # of policies could experience heavy losses impinging solvency making insurers unwilling to write coverage • Terrorism losses are catastrophic and they can potentially bankrupt insurers • Terrorism was / is unpredictable because of high severity + low frequency. The losses were shown to be catastrophe [sic] • Terrorism is an intentional human act. It's not accidental. Thus, not insurable. • For a risk to be insurable, it must be fortuitous. Terrorism losses are not accidental. • Reinsurers stopped offering coverage and private insurers didn't want to assume all that risk w/o reinsurance 	
Part c: 0.75 point	
<p>Any three of the following:</p> <ul style="list-style-type: none"> • Decrease federal quota share of existing terms / have private insurers take on a greater % • Exclude additional definitions of terrorism besides bio attacks / bioterrorism • Use global reinsurance market to cede high excess layer of TRIA coverage so that the government keeps even less net retention • Decrease participation rate below 85% • End the program. It was supposed to be temporary • Look into methods of funding similar to catastrophe bonds. • Lower the maximum amounts TRIA will cover • Increase the standards of a terrorism event that the TRIA will start cover [sic] • Reduce the top limit gov will cover in case of a cat • Increase the insurance company's deductible • Increase the recoup amount • Return terrorism coverage to private insurers 	

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- Increase the threshold for the size of loss that triggers coverage
- Increase the minimum loss to be counted as a certified act of terrorism
- Increase the recoup amount that the program will recoup all losses from insurers instead of potentially stopping at \$27.5B
- Let TRIA program expire instead of renewing (it was supposed to be temporary)
- Require the insurer to pay a premium for the TRIA reinsurance coverage
- Create additional exclusions beyond existing [*sic*]
- Create a guaranty fund for terrorism, assessing all companies a certain % of written premium
- Explicitly rule out reimbursement of nuclear, chemical, biological, radiological acts [*NCBR*]
- The government could instead focus efforts on partnering with private companies to develop sophisticated models to price the risk accurately so that private insurers can take on more of the risk over time.

EXAMINER'S REPORT

Candidates were expected to understand the purpose and the mechanisms / structure of the TRIA program. Candidates were expected to show they understood that TRIA is a backstop to private insurance and not primary insurance provided by the federal government.

Part a

Candidates were expected to know the background and goals of the TRIA program.

Common errors include:

- Stating that the goal was for the government to provide insurance directly.
- Stating both an "unmet need" and availability / affordability argument as two separate answers, when they are the same idea.

Part b

Candidates were expected to understand the characteristics of terrorism coverage that would make insurers hesitant to provide coverage after 9/11. Candidates were expected to list two reasons and give an explanation or more detail for each reason.

Common errors include:

- Stating that terrorism coverage is catastrophic without more detail such as risk of insolvency
- Stating that the government wasn't directly providing insurance.
- Stating that the risk was fortuitous and therefore uninsurable.

Part c

Candidates were expected to understand the structure of the TRIA program to develop recommendations on how to reduce the burden on taxpayers.

Common errors include:

- Stating that borrowing from the Treasury instead of taxing would save taxpayers money.
- Stating that the federal government is directly providing insurance instead of serving as a backstop.