STATEMENT OF CHRISTOPHER NASSETTA
CEO, HOST HOTELS AND RESORTS, INC.
ON BEHALF OF
THE COALITION TO INSURE AGAINST TERRORISM

BEFORE A JOINT HEARING OF

THE SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE, AND GOVERNMENT SPONSORED ENTERPRISES
AND
THE SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS
OF
THE HOUSE COMMITTEE ON FINANCIAL SERVICES

REGARDING

PROTECTING AMERICANS FROM CATASTROPHIC TERRORISM RISK

September 27, 2006

Good morning Chairman Baker, Chairwoman Kelly, Ranking Members Kanjorski and Gutierrez, and members of both subcommittees. I applaud you for holding this important hearing on the terrorism insurance market. My name is Christopher Nassetta, and I am the CEO of Host Hotels and Resorts, Inc., a publicly traded real estate investment trust. Host owns or has controlling interest in 129 luxury and upscale hotel properties in 28 States and the District of Columbia. I am also the Chairman of The Real Estate Roundtable and the Vice Chairman of the National Association of Real Estate Investment Trusts, but am appearing today on behalf of the Coalition to Insure Against Terrorism (CIAT).

CIAT is a broad coalition of insurance consumers that was formed in the months following 9/11 to ensure that American businesses could obtain comprehensive and affordable terrorism insurance. As part of its effort, CIAT joined with the Administration and those in Congress who recognized that only the Federal government could provide the framework to make this coverage available to all those who required it. The diverse CIAT membership represents a broad range of businesses and organizations from virtually every sector of the U.S. economy: hotels, banking, energy, construction, entertainment, real estate, stadium owners, manufacturing, transportation, as well as public sector buyers of insurance. For example, the U.S. Chamber of Commerce, the National Association of Manufacturers, and the National Retail Federation are members. So are, to name a few sectors, transportation interests (e.g., the Association of American Railroads, the General Aviation Manufacturers Association, and the Taxicab, Limousine and Paratransit Association), utilities (e.g., American Gas Association, American Public Power Association, Edison Electric Institute, and National Rural Electric Cooperative Association), finance (e.g., American Bankers Association, America's Community Bankers, Mortgage Bankers Association of America), real estate (American Resort Development Association, National Association of REALTORS, Building Owners and Manufacturers International, International Council of Shopping Centers, and National Association of Industrial and Office Properties) and sports (e.g., the Baseball Commissioner, NCAA, NBA, NFL, and NHL).

Simply put, CIAT is the true consumer voice with respect to the subject of terrorism risk insurance. Collectively, the businesses and governmental organizations that form our coalition are the principal consumers of commercial property and casualty insurance in the United States. It is from this perspective that we offer our testimony today.

I am grateful to your subcommittees for holding this important joint hearing today, and for your invitation to testify. I would like to leave you today with three main points: first, that the key market conditions that necessitated TRIA's enactment have not changed; second, that, as proven in fourteen other industrial nations, there is a need for a long-term public-private partnership with a role for the federal government; and third, that we stand ready to assist your subcommittees and Congress in general in finding the proper long-term partnership.

TRIA and the Terrorism Insurance Marketplace

Prior to 9/11, insurers implicitly included terrorism coverage in all policies because the risks of loss from terrorist acts were perceived as minimal. It is important to note that on 9/11, everyone who had insurance had coverage for terrorism. I should point out that my company owned the World Trade Center Marriott which was destroyed by the collapses of the World

Trade Center towers; we lost not only property but valued personnel. In the aftermath of that terrible day, insurers and reinsurers had to reassess this threat substantially. Reinsurers, in particular, found that they could not quantify the risks posed by terrorism and effectively withdrew from the market. Primary insurers, consequently, were unable to effectively manage their exposure to terrorism risk since they were mostly unable to obtain reinsurance. Thus, when permitted by law, these primary insurers withdrew from the market as well – mostly by writing terrorism exclusions into their policies.

The tremendous economic impact of this market condition must not be forgotten. A Real Estate Roundtable study of the 14-month post-9/11, pre-TRIA period revealed that more that $15 billion in real estate related transactions were either stalled or cancelled because of a lack of terrorism insurance. The White House Council of Economic Advisors indicated that approximately 300,000 jobs were lost during that period. Fortunately, Congress and the President recognized the problem and joined together to enact TRIA in November 2002.

One of the purposes of this legislation was to ensure that the economy was strong enough to withstand a future attack. While there is no question that the economy has rebounded since 9/11, that purpose remains as important today as it was in November 2002. Simply put, the government has a responsibility to ensure that terrorism insurance will remain available: it is an essential part of our economic response to the threat of terrorism. It should be regarded as an integral part of our nation's Homeland Security strategy.

As much as TRIA has helped the insurance market – and the economy in general – there are a number of facts surrounding today's insurance market that have not changed since the statute's enactment in 2002.

First, and most unfortunately, the threat of terrorism remains. Terrorists continue to attempt acts against our governmental polices and our way of life. Where, how, and when they will strike continues to be an evolving picture. Quite simply, the threat of terrorism is an unpredictable, man-made risk. Not surprisingly, therefore, insurers and reinsurers have an extremely difficult time assessing and pricing terrorism risk insurance. This will, unfortunately, be the case until we see clear evidence that the overall threat to our society has subsided.

It is a simple, indisputable fact that markets like certainty. Unfortunately, there is almost nothing that can be considered "certain" about terrorism risks. This is why rating agencies such as Moodys and Fitch conclude that there will be numerous market repercussions if the federal backstop expires. Nowhere is this more evident than the commercial real estate market. For example, commercial mortgage backed security (CMBS) borrowers face the threat of default and potential bond downgrades in the absence of terrorism insurance coverage. In fact, based on its review of the coverage in place and the ongoing loan requirements for coverage, Fitch has declined to rate certain transactions.

Second, the reinsurance market currently only provides a fraction of the capacity needed to protect the U.S. economy from catastrophic terrorism losses. About two-thirds of the roughly $33 billion in 9/11 related claims paid were borne by reinsurers. After 9/11, reinsurers concluded that they could no longer quantify the tremendous risks of loss posed by the terrorism threat, and they effectively withdrew from the market. Today, the reinsurance industry estimates that there is only about $6 to $8 billion in global terrorism reinsurance capacity available – and only $1 to $2 billion in capacity available for nuclear, biological, chemical and radiological (NBCR) coverage. Meanwhile, it is estimated that potential terrorism losses could top $100 billion and that losses from a large NBCR event in New York City alone could reach $778 billion. Current capacity is nowhere near the level needed to provide protection to our economy without the TRIA backstop. Furthermore, even with the TRIA backstop, reinsurers are not meeting the capacity demand of primary insurers for their deductible and coinsurance layers. This suggests that private reinsurers simply want very little exposure to terrorism risk, and refutes the notion that the federal backstop is crowding out the private market.

Third, primary insurers remain largely averse to exposing themselves to potentially catastrophic terrorism losses without adequate reinsurance availability or a federal backstop. We saw this quite clearly last year when policies were written to include "springing exclusions" that would have voided terrorism coverage beginning January 1, 2006, had TRIEA not been enacted.

According to a Moody's report, 50-75% of all policies written prior to TRIEA's enactment included such exclusions. As the expiration of TRIEA next year draws near, we are beginning to see this phenomenon again. Many policyholders now shopping for policies with terms that run past year-end 2007 are again being asked to accept springing exclusions. This does not bode well for terrorism insurance availability in the absence of federal involvement. To put it bluntly: we saw the effect this had on the economy in the post 9/11, pre-TRIA period, and I certainly hope we are not doomed to repeat that history.

Fourth, even though TRIA covers NBCR perils, we have not seen any evidence that such coverage is being written except where mandated for workers compensation. Although industries and policymakers are concerned with these exposures, NBCR coverage was not included in TRIA's "make available" requirement, and unfortunately the private markets have thus far failed in this area. I am aware of no evidence to suggest this trend will change – particularly if federal involvement were to cease.

We applaud Financial Services Committee Chairman Oxley for requesting that GAO study the extent to which NBCR risks are measurable and insurable. As GAO notes, "insurability occurs along a continuum" and the fact that some NBCR coverage is available in some lines is no reason to believe that general availability will develop across most lines or most areas. The potential magnitude of catastrophic losses, the lack of knowledge about long-term consequences, and the United States' lack of historical experience with NBCR attacks makes insuring NBCR risks "distinctly different from insuring other risks." Indeed, "given the challenges faced by insurers in providing coverage for, and pricing NBCR risks, any purely market-driven expansion of coverage is highly unlikely in the foreseeable future."

A Long-Term Public/Private Partnership Is the Right Solution

The evidence is clear: simply allowing the federal backstop to expire will have dire economic consequences of the nature seen in the post-9/11, pre-TRIA period. It is imperative that lawmakers, insurers, policyholders and all other stakeholders come together to work on a long-term solution to the availability problem. For this reason, we applaud these subcommittees for holding today's important hearing and urge you to continue your examination as TRIEA's expiration draws nearer.

CIAT is aware of several proposals circulating for a long-term solution, and we are studying them with interest. The Real Estate Roundtable has developed an interesting proposal that would create a new mutual reinsurer to go between primary insurers and the federal government. Over time, the federal backstop would shift from the primary insurers to the mutual, and would only be activated if the terrorism losses exceeded a certain level.

Meanwhile, the American Insurance Association has come up with a set of principles that differentiates between NBCR terrorist attacks and "conventional" terrorism. Under this proposal, a long-term TRIA-like backstop would be in place for conventional terrorism, while the federal government would assume financial responsibility for all NBCR attacks – with the ability to recoup up to $10 billion through a policyholder assessment.

At present, CIAT has not endorsed any specific proposal. However, what we like about them is that they involve a public-private partnership that recognizes the federal government's responsibility to assist markets to function appropriately and to retain a federal backstop for only the most catastrophic losses that the insurance industry and the economy simply cannot absorb. Terrorism is not aimed at a specific business or property owner; it is aimed at our governmental policies and our way of life. Government assistance to help the market function appropriately must continue to be part of our economic response to the threat of terrorism. Contrary to what some would like to think is true, TRIEA is not crowding out the development of private terrorism insurance markets.

Another key element of these proposals is that they are long-term solutions. While the political realities of the day necessitated that TRIA be a temporary program, our experience since then has shown that this market is simply not going to fully resume as long as the threat of terrorism persists. And it does the market no good to have the threat of a backstop expiration hanging over our heads every few years. A long-term solution will give all market participants an element of what we crave the most: certainty.

Conclusion

Again, CIAT is not yet wedded to any one proposal for a long-term solution. Rather, we applaud them all for advancing the national dialogue on the issue, and they all deserve serious consideration. Going forward, we are committed to working with Congress, insurers, policyholders and other stakeholders on crafting a long-term solution that includes a role for the federal government.

Once again, we applaud the chairs and ranking members of these subcommittees for holding this important hearing today.