

Testimony of Janice M. Abraham

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Hearing: “The Terrorism Risk Insurance Act of 2002 and Terrorism
Risk Insurance Program”**

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Introduction

Mr. Chairman, Ranking Member Waters, and Members of the Committee, thank you for the opportunity to testify today on the importance to our nation’s education institutions of having a terrorism risk insurance plan in place under The Terrorism Risk Insurance Act (TRIA). My name is Janice Abraham and I am the President and CEO of United Educators (UE), speaking today on the concerns of schools, colleges, and universities.

United Educators is an A rated risk retention group, a liability insurance company, owned by more than 1,200 schools, colleges, and universities throughout the United States. Our goal is singular and focused: to help schools and colleges recover as quickly as possible if a terrorist event occurs. The certainty of a terrorism insurance plan in place to support their rapid recovery is crucial. Although United Educators insures institutions in Los Angeles, Boston, and other major cities, we are mindful that terrorists found Oklahoma City a target, and close to 92,000 fans will gather in Lincoln, Nebraska to watch a football game this month. In our view, this is not a rural or urban issue, this is a having a plan to recover in the event of a catastrophic loss.

Collaborating to Protect Educational Institutions

United Educators has a particular interest in providing terrorism insurance because our policyholders fit the profile of potential targets: icons of America, soft targets – they have open campuses, a high concentration of people in a location, and they often serve as substantial economic engines in their community. Colleges and universities are potential targets at every Saturday afternoon football game. Their research labs are targets, especially of terrorists who would seek to harm the nation’s national security apparatus. And they are targets whenever they host major speeches or presidential debates.

United Educators views the Terrorism Risk Insurance Program as a national terrorism risk management plan that enables our colleges and universities to manage their risk responsibly through a four-way collaboration between:

1. The policyholders: our 1,200 schools, colleges, and universities
2. United Educators, their primary insurance company
3. Our reinsurers
4. The Federal government

Without any of these partners, the terrorism risk management plan falls apart due to the interdependency of these partners as part of the supply chain of terrorism coverage. Let me briefly explain the roles of each.

Policyholders

Policyholders, through their insurance deductibles, have the first level of risk. They are also obligated to have well-documented and tested crisis response plans that ensure the security of research labs and safe evacuation plans for large gatherings such as an athletic event or concert.

United Educators

Second, United Educators, as their primary insurer, underwrites the terrorism risk, taking into consideration the schools’ vulnerabilities and its crisis response and recovery plans. And we take on considerable risk of loss. For UE and our reinsurers this could be in excess of \$30 million plus the co-

pay, based on the current legislation. One hundred percent of our general liability policy holders have the terrorism insurance endorsement now. As of January 2, 2014, that number will decline as policies are underwritten extending beyond the TRIA effective date. Many institutions will be left without protection for terrorism unless the program gets extended.

Reinsurers

Third, UE's reinsurers support our high limits of coverage, particularly in the case of multiple catastrophic events, such as a coordinated terrorist event that occurs on multiple campuses throughout the country. Currently, while United Educators has a per event policy limit, we do not have an aggregate annual limit, meaning that we know we are covered regardless of how many events occur in a given year. But that is only possible because TRIA caps the liability of the private sector for catastrophic terrorist events. We have been told by our reinsurers that this broad, no aggregate coverage, essential for UE to protect the multiple universities we cover, will disappear if the federal program is not extended.

Federal

So that makes the federal government a fourth and critical collaborator, by capping the liability and providing stable and predictable limits on terrorism losses, allowing all insurers and reinsurers to offer sufficient capacity to protect our colleges and universities, even for multiple events in a year.

The Impact of TRIA on Education and Insurance

If the Federal government steps away from being a partner in this terrorism risk management plan, I think the following will happen:

Many of the colleges and universities we insure will be shut out of the terrorism insurance market because reinsurers will not be willing to provide reinsurance without the capping of liability provided by the federal plan. UE could not responsibly provide coverage knowing that our balance sheet could be hit by a coordinated terrorist attack at multiple schools resulting in claims from multiple policyholders.

The same would happen to many other small and mid-sized insurers – many of which are mutual companies that, like us, focus on a particular segment of business or geographic area. The vast

majority of insurers are, like United Educators, under \$1 billion in revenue and would be crippled by a catastrophic terrorism loss of over \$100 million without the TRIA program. The irony is that this would result in less insurance capacity in the market to support terrorism risks, less affordable coverage, inadequate coverage, and a much less competitive market for businesses. If the government allows the caps on catastrophic terrorism losses to expire, only a few larger insurance companies will be left to offer coverage, and even they may have limited appetite to fill the gap left by TRIA. And even to the extent they remain in the market, they will operate without the healthy pressure of competition from small and mid-sized companies.

You may hear that there is plenty of capital now in the insurance industry right now, and it's true—there is. But that capital has to support all of the risks in the market—not just terrorism. If history is any judge, the capital that is present today won't always be there. We can't predict if and when catastrophic terrorist and natural disasters will occur.

One of the best things about the US insurance industry is its diversity and competitiveness. It may be counter-intuitive, but by capping the limits on private sector liability for catastrophic terrorism losses, the terrorism insurance plan actually encourages more competition and more options for policy holders. And it enables our nation's colleges and universities to have that effective four-way partnership to responsibly manage the risks that are inherent in being the highly visible targets that so many of them are.

For this country's educational institutions, the results of failing to extend TRIA would be either not purchasing terrorism coverage, relying on government grants or private gifts to recover after a catastrophic event, or purchasing the cover, with the exclusions and uncompetitive pricing I described earlier and passing the cost on to students.

If the purpose of terrorism insurance is recovery, getting the economy going as quickly as possible after a catastrophic terrorist event, the stability and assuredness of a continuing terrorism insurance program—continuing our four-way partnership, collaboration, and inter-dependency—is essential to ensure a speedy recovery for businesses and schools and a functional insurance marketplace after an event. I don't think anyone here wants, after a catastrophic terrorist event, for the government to hand out recovery money based on political pressures.

What we want is an orderly recovery with insurance companies paying claims and supporting a speedy recovery. The terrorism insurance plan would allow us to do this.

Thank you again Mr. Chairman, and I would be pleased to answer any questions the Committee may have.