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Statement No. 182

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Statement of the Shadow Financial Regulatory Committee

On

A Proposed Federal Backstop for Terrorism Insurance and Reinsurance

September 23, 2002

Updated estimates of insured property and casualty losses from the destruction of the World Trade Center now total approximately $35 billion. In the weeks immediately following the attack on September 11, 2001, those losses and uncertainty concerning the future course of terrorism caused reinsurers around the world to threaten withdrawal of terrorism coverage. Primary property and casualty insurance companies indicated that, unless the government stepped in to provide last resort coverage, they would seek to exclude terrorism risk from new and renewal insurance contracts beginning in 2002. There was substantial concern that a shortage of terrorism coverage would have large spillovers on the availability of real estate lending and on new construction. In our prior statement on this subject (Statement No. 172, December 3, 2002), we suggested that insurance markets were beginning to digest the September 11th attack and that, "over time – and a relatively short time – private insurance markets will be able to price and devote the resources necessary to provide terrorism coverage efficiently."

Since that time the dire predictions of many observers have not come to pass. Insurers and reinsurers have raised over $30 billion in new capital with at least another $10 billion in new issues pending. Although primary insurers excluded terrorism coverage from their basic commercial property programs in the large majority of states that approved such exclusions, separate stand-alone coverage initially became available with total limits in the $250 million range. Limits as high as $1 billion are now available, and further increases in available limits are likely. While the prices of coverage are often high, the insurance brokerage was not clear-cut late last year, is certainly less compelling now. If some intervention is appropriate, the thresholds for government involvement should be materially higher than in either the House or Senate bills.