

**NAIC Property and Casualty Insurance (C) Committee
Terrorism Risk Insurance Implementation (C) Working Group**

Testimony of

**J. Kevin A. McKechnie,
Senior Vice President & Director
American Bankers Association Office of Insurance Advocacy
to be presented
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Renewal of the Terrorism Risk Insurance Act Is Needed

Good morning Mr. Chairman and members of the working group. I'm Kevin McKechnie, Senior Vice President & Director of the American Bankers Association's Office of Insurance Advocacy. Members of the American Bankers Association, as well as the ABA Securities Association and American Bankers Insurance Association, have extensive experience in the lending, insurance brokerage, and securities underwriting markets. With that experience, we believe that the Terrorism Risk Insurance Act (TRIA) must be renewed to ensure our capital markets, and the economy at large, are not interrupted.

Insurance companies are unable to accurately and efficiently underwrite and price risks associated with terrorism. TRIA provides an essential reinsurance backstop for insurers, which in turn allows them to fill the need for terrorism coverage policies for our citizens and business communities at reasonable prices and with sufficient limits. Without TRIA, the private market for terrorism insurance would likely be minimal or nonexistent, particularly in metropolitan areas where the coverage is needed most. This federal

program fills an essential void in the private insurance market without taking it over. However, TRIA is set to expire at the end of 2014.

The prospect of TRIA not being reauthorized has created significant uncertainty for ABA's member banks, as well as the insurers that underwrite terrorism risk and the securities underwriters that rely on it. The threat of TRIA's lapse alone has already caused significant market disruption. Insurance policies with terrorism coverage for any term extending beyond 2014 cannot be issued to commercial customers without conditional coverage. As a result, multi-year commercial loan products, which require property insurance policies backing them, are at risk. The consequence is that new loans and refinancings are only being issued on a short-term basis, or in some cases, not at all. Existing loans are also in jeopardy because insureds cannot comply with loan conditions requiring evidence of terrorism insurance coverage.

Were TRIA to lapse, a variety of undesirable market conditions would result:

- Lenders would not be able to underwrite or syndicate large commercial loans;
- Companies would not be able to secure coverage for terrorism risk, a necessary precedent to securing real estate-related credit; and
- Existing loans made with the condition that terrorism risk coverage be continuous would be found in default.

The states are not in a position to prevent this harm from occurring; they, too, are subject to the domino effect of negative economic consequences that would result from TRIA's lapse.

As a result, our organizations strongly support a 5-year reauthorization of TRIA as soon as possible. We have taken this message to Capitol Hill and to the Treasury Department's Federal Insurance Office. Enclosed with this written testimony are our comments to the President's Working Group on Financial Markets at the Federal Insurance Office supporting TRIA's reauthorization.

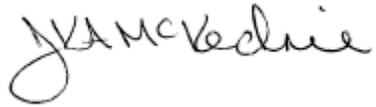
We support the Act's clear coverage of domestic terrorism events, as well as its requirement that property and casualty insurers make terrorism coverage available to their commercial property customers. We also support enhancements to TRIA that would:

- 1) Limit the aggregate financial responsibility of the Treasury, and thus taxpayers, in the event of a terrorist attack;
- 2) Include the Secretary of the Department of Homeland Security in the certification process for acts of terrorism; and
- 3) Modify the "recoupment" provisions.

The Federal Government can and should eventually exit the terrorism reinsurance market, but it must do so in a gradual and deliberate manner. Cutting this program off "cold

turkey” will cause undue harm. Thank you for the opportunity to provide you with the ABA’s perspective.

Regards,

A handwritten signature in black ink, appearing to read "J. Kevin A. McKechnie". The signature is written in a cursive style with a large initial "J" and "K".

J. Kevin A. McKechnie
SVP & Director, Office of Insurance Advocacy

Enclosure