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Testimony of
the National Association of Professional Surplus Lines Offices

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NAPSLO is the national trade association representing the surplus lines industry and the wholesale insurance distribution system. Since its formation in 1975, NAPSLO has become the authoritative voice of the surplus lines industry, advocating for the industry's vital role as a "safety valve" for hard-to-place and specialty insurance risks and for the industry's importance in the insurance marketplace and global economy. NAPSLO members also play an important role in creating new insurance products in response to the needs of an ever-changing social, business and insurance environment.

NAPSLO's membership consists of approximately 400 brokerage member firms, 100 company member firms and 200 associate member firms, all of whom operate over 1,500 offices representing approximately 15,000 to 20,000 individual brokers, insurance company professionals, underwriters and other insurance professionals in the 50 states and the District of Columbia. NAPSLO is unique in that both surplus lines brokers and surplus lines companies are full members of the association; thus NAPSLO represents and speaks for the surplus lines wholesale marketplace. We appreciate the opportunity to submit testimony to today's hearing.

NAPSLO commends the Committee for its continued focus on the Terrorism Risk Insurance Act (TRIA), particularly in light of its pending expiration at the end of 2014. In considering an extension of any program it is important to evaluate how the program has functioned and what aspects, specifically, are key to its success. NAPSLO believes TRIA has been successful primarily because it serves as a tool for insurers to better manage the risk of terrorism events and provides certainty to the industry in offering private capital and solutions to policyholders. Surplus lines insurers currently provide certain terrorism coverage pursuant to the mandatory provisions and subject to the deductibles and triggers of the existing federal program.

In general, we believe private market solutions should be exhausted before government-sponsored programs or residual markets are considered, and governments should not provide coverage options the private or open market is able to address. However, NAPSLO believes a role exists for the federal government in the management of terrorism risk, especially with respect to in the areas of workers' compensation and nuclear, biological, chemical or radiological exposures (NBCR). While insurers can

model the severity of a hypothetical terrorist attack, it is impossible to model the likelihood or frequency of such attacks. As a result, we support a thoughtful and thorough review of TRIA with a goal of maintaining or increasing opportunities for capacity and solutions in the private market.

Many argue the deductibles and limits of the existing program and the lack of any triggering events has effectively already shifted terrorism risk to the private market. Under existing TRIA triggers and insurer liability caps, a significant terrorism event will have a material impact on the industry, and could cause financial impairment for certain smaller insurers. TRIA's caps on insurer liability provide some level of certainty and help insurers better manage the risk; increasing these caps would reduce the level of certainty in terrorism risk management, will place smaller insurers at greater risk, and may further limit the availability of private capital solutions for terrorism risks.

Another key consideration for the Committee is the timing on an extension to the program. While the program does not expire until the end of next year, it is important that Congress act quickly as insurers issue policies with coverage periods beyond 2014 and it is vital to have certainty with respect to the provisions of TRIA beyond its expiration date. Therefore, we thank the Committee and its leadership for its timely review of this program and would encourage its continued focus until an extension has been enacted.

Thank you again for the opportunity to comment on this important issue.