National Association of Professional Surplus Lines Offices, Ltd.

200 N.E. 54th Street • Suite 200 • Kansas City, MO 64118 • 816/741-3910 • Fax 816/741-5409

www.napslo.org

Brady R. Kelley
Executive Director

September 16, 2013

Federal Insurance Office
Attention: Kevin Meehan
Room 1319 MT
Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220

RE: President's Working Group on Financial Markets: Terrorism Risk Insurance Act (TRIA)

On behalf of the National Association of Professional Surplus Lines Offices (NAPSLO), we appreciate the opportunity to provide our comments as you analyze the long-term availability and affordability of insurance for terrorism risk.

NAPSLO is a national trade association representing the surplus lines industry and the wholesale insurance distribution system. NAPSLO members play an important role in the economy by insuring hard-to-place risks and creating new insurance products in response to the needs of an ever-changing social, business and insurance environment. The NAPSLO membership is comprised of approximately 62% wholesale brokers and 21% companies and underwriters with remaining members representing associate firms. NAPSLO member firms 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. We are a unique voice in the industry in that both surplus lines brokers and surplus lines companies are members of the association; thus NAPSLO represents the full spectrum of the surplus lines wholesale marketplace.

We appreciate the Federal Insurance Office and President's Working Group's request for comments on potential ramifications of TRIA's termination or modification beyond December 31, 2014, and will restrict our comments to the questions relevant to the surplus lines industry.

The surplus lines market plays an important role in providing insurance for hard-to-place, unique or high capacity risks. With the ability to accommodate a wide variety of unique risks, the surplus lines market acts as a supplement to the admitted market. Often called the "safety valve" of the insurance industry, surplus lines placements fill the need for coverage in the marketplace by insuring those risks that are declined by admitted insurance carriers. According to A.M. Best[1], 2011 surplus lines direct written premium volume exceeded $31 billion representing insureds who, without the surplus lines market, would have a difficult time obtaining insurance, if they were able to secure it at all. The surplus lines industry's ability to innovate and cover unique risks makes it a prime candidate to develop private market solutions as alternatives to residual markets and government-sponsored insurance programs.

We believe the existing program 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

[1] A.M. Best 2012 Special Report, *U.S. Surplus Lines—Market Review*, pg. 2

capital and solutions to policyholders. Surplus lines insurers currently provide certain terrorism coverages 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 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.

Further, as insurers issue policies with coverage periods beyond 2014, it is important to have some certainty with respect to the provisions of TRIA beyond its December 31, 2014 expiration date. Therefore, we believe it is important for Congress to take action on TRIA well before December 31, 2014, preferably in 2013.

We thank you for the opportunity to share our perspective. We look forward to working with you and would be pleased to provide any further assistance you may need.

Sincerely,

Brady R Kelley

Keri A. Kish

Brady R. Kelley
Executive Director
brady@napslo.org
816-799-0860

Keri A. Kish
Director of Government Relations
keri@napslo.org
816-799-0855