

**UNITED STATES DEPARTMENT OF THE TREASURY  
ADVISORY COMMITTEE ON RISK SHARING MECHANISMS  
SUMMARY OF PUBLIC MEETING**

**June 1, 2016**

The Advisory Committee on Risk Sharing Mechanisms was convened at 10:00 A.M. on June 1, 2016, in Media Room A at the U.S. Department of the Treasury, 1500 Pennsylvania Avenue, NW, Washington, D.C., with Wendy Peters, Chair, presiding.

In accordance with the provision of the Federal Advisory Committee Act, the meeting was open to the public.

**Committee Members Present:**

WENDY PETERS, Executive Vice President, Financial Solutions – Terrorism and Political Violence, Willis Towers Watson, *Chair*  
JONATHAN CLARK, Managing Director, Guy Carpenter & Company LLC  
KEAN DRISCOLL, Vice President and CEO, Validus Reinsurance, Ltd.  
GREG HENDRICK, CEO, XL Catlin Reinsurance  
EDWARD RYAN, Senior Managing Director, Aon Benfield  
MICHAEL SAPNAR, President & CEO, Transatlantic Holdings, Inc.  
JOHN SEO, Managing Principal, Fermat Capital Management LLC  
KEITH WOLFE, President US P&C – Regional & National, Swiss Re

**Also Present:**

MICHAEL MCRAITH, Director, Federal Insurance Office, U.S. Department of the Treasury  
BRETT HEWITT, Designated Federal Officer, Federal Insurance Office, U.S. Department of the Treasury

**Introduction**

Director McRaith welcomed the members of the Advisory Committee on Risk Sharing Mechanisms (ACRSM) and convened the meeting. Director McRaith reviewed the purpose of the committee. Chairwoman Peters outlined the agenda for the meeting and identified three areas of focus for the committee to discuss during the meeting: (1) capital markets and the role of instruments such as insurance-linked securities and spreading the risk of loss resulting from an act of terrorism; (2) the role of traditional insurance and reinsurance markets, how they have supported terrorism risk to date, and how this role can be expanded, and (3) the need for terrorism risk and reinsurance and how the need for coverage can be placed outside of the current Terrorism Risk Insurance Act (TRIA) system.

## **Proposed Structures of Private Terrorism Risk Market**

Chairwoman Peters asked each committee member to outline their opinion on how a more robust private terrorism risk market could be structured. Mr. Seo emphasized the importance of having unfettered transparent access to risk through many different forms of capital as possible in order to maintain system stability after an event. Mr. Driscoll stated that terrorism is a unique risk, and the government should be involved with high-severity risks. Chairwoman Peters noted the potential value in examining other global programs. Mr. Clark stated the current system is “one size fits all” but companies have a variety of needs that should be examined. He also stated that workers’ compensation is a distinguishing factor in the United States compared to other programs around the world.

## **Insurance-Linked Securities (ILS) Market**

Mr. Seo provided a snapshot of the ILS market. He discussed ILS market growth, followed by a discussion of the sponsor mix of the catastrophic bonds market and the investor mix of the catastrophic bonds market. Mr. Seo then provided an estimate of ILS market terrorism capacity. Mr. Seo then addressed possible impediments to use of the ILS market, and compared the appetite for terrorism risk to the market appetite for natural peril risk. He also discussed confidence levels in the modeling of terrorism risk. Mr. Seo addressed correlation between ILS and traditional markets.

Mr. Sapnar discussed the importance of looking at market capacity outside of the United States.

Mr. Hendrick and Mr. Wolfe noted that the capacity for terrorism risk varies by carrier.

Mr. Sapnar and Mr. Hendrick discussed the ways in which TRIA is by carriers to help maintain capacity by managing retained risk to exposures.

## **Private Reinsurance Market**

Mr. Driscoll, Mr. Wolfe, and Mr. Sapnar provided an overview of the private reinsurance market, with the hopes that this background could identify future areas for committee review. Mr. Sapnar began by discussing global reinsurance capacity, including ILS capacity. Mr. Sapnar stated that the global terrorism reinsurance market is robust, and have similar dynamics to the natural perils market. He noted that the frequency and severity of terrorism has increased, and discussed trends in economic costs of terrorism since 2000. Mr. Sapnar also discussed U.S. terrorism take-up rates and prices over the last decade. Mr. Sapnar stated his belief that encouraging a robust free market system would help drive better data and allow the market to expand.

Mr. Wolfe discussed the framework of the overall existing market for terrorism coverage, including key aspects of the current regulatory framework under TRIA and state law. Mr. Wolfe then highlighted several changes to the Terrorism Risk Insurance Program (TRIP) that occurred as a result of the Terrorism Risk Insurance Program Reauthorization Act of 2015 (TRIPRA). He also discussed several proposed reforms which were not adopted in TRIPRA.

Mr. Driscoll reviewed a hypothetical loss allocation resulting from a \$45 billion loss covered by TRIA. He then provided a comparative analysis of TRIA compared to other government-funded pools, and highlighted current market components within the insurance and reinsurance industries. Mr. Driscoll then addressed the importance of measuring data quality in terms of both accuracy and completeness, and indicated that data quality is lower in terrorism than in other segments. Mr. Driscoll also discussed the current limitations of vendor model capabilities with respect to terrorism risk.

In response to questions from Director McRaith, Mr. Driscoll noted that the United States is the only country that subsidizes terrorism risk, and Mr. Driscoll and Mr. Hendrick discussed the impact of TRIA's recoupment provisions on the marketplace.

Mr. Sapnar and Mr. Wolfe discussed whether events must be "certified" by the government or meet other criteria in order to qualify as an act of terrorism in different segments of the market.

Mr. Seo, Mr. Clark and Mr. Hendrick discussed the types of models that carriers use for terrorism risk modeling, and Mr. Sapnar and Mr. Seo noted that investors may view models differently.

Mr. Sapnar addressed a question from Mr. Seo on the impact of pricing if another major terrorism event occurs.

### **Distribution and Placement of Private Terrorism Coverage**

Mr. Clark presented materials related to the distribution and placement of private terrorism coverage based on reports produced by Guy Carpenter, covering the following topics: (1) reviewed the highest property losses due to terrorism to date; (2) the industry's ability to cover insurance losses; (3) an overview on changes to the Terrorism Risk Insurance Program as a result of the passage of the 2015 Terrorism Risk Insurance Program Reauthorization Act; (4) terrorism risk insurance take-up rates; and (5) terrorism risk insurance pricing.

The Committee members discussed the impact of reinsurance on insurance carriers, how much terrorism insurance capacity is available, insurance demand, take-up rates for embedded versus stand-alone policies, and the role of captive insurers within the Program.

### **Discussion of Committee Working Groups and Next Steps**

Chairwoman Peters outlined the Committee's goal of producing a working paper to provide a specific recommendation for the development of a private, non-governmental risk sharing mechanism.

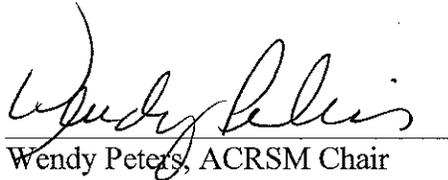
Chairwoman Peters recommended establishing three working groups covering: (1) the role of capital markets, (2) the private reinsurance market, (3) the need for coverage and the mechanisms needed to establish or further risk-sharing mechanisms. After discussion, the Committee determined that subcommittees would not be established at this time.

The Committee discussed how best to reach a consensus on a recommendation and produce a working paper.

Director McRaith confirmed that cyber coverage offered under a TRIA-eligible line is eligible for TRIA reimbursement.

At 12:37 P.M., Chairwoman Peters concluded the meeting.

I hereby certify these minutes of the June 1, 2016 Advisory Committee on Risk Sharing Mechanisms public meeting are true and correct to the best of my knowledge.



Wendy Peters, ACRSM Chair