DEPARTMENT OF THE TREASURY
FEDERAL INSURANCE OFFICE (FIO)
ADVISORY COMMITTEE ON RISK-SHARING MECHANISMS (ACRSM)
MINUTES – August 1, 2024

The Advisory Committee on Risk-Sharing Mechanisms (ACRSM) met in the Cash Room of the Treasury Department Building, located at 1500 Pennsylvania Avenue NW, Washington D.C. at 2:00 p.m. EST, Dr. Joanna Syroka, Proxy for Chair, presiding.

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

Committee Members Present
DR. JOANNA SYROKA, Fermat Capital, Proxy for John Seo, Acting as Chair
D. KEITH BELL, Travelers, Member
DEREK BLUM, RMS, Member*
MICHAEL COHEN, Renaissance Re, Member*
ERICA DAVIS, Guy Carpenter, Member
SCOTT SANPIETRO, Chubb, Member Proxy*
TOM SRAIL, Willis Towers Watson, Member
ELIZABETH HECK, Greater New York Insurance Company, Member*

Other Committee Member Representatives Present
MATT MCCABE, Guy Carpenter*

FIO Staff Present
STEVEN SEITZ, Director, Federal Insurance Office
ANNETTE BURRIS, Designated Federal Officer, ACRSM
CHANDA BRADY, Federal Insurance Office
RICHARD IFFT, Federal Insurance Office
ANDREW SHAW, Federal Insurance Office

*telephonic

Welcome and Opening Remarks

Annette Burris (DFO) welcomed everyone to the meeting of the Advisory Committee on Risk-Sharing Mechanisms (ACRSM) and took roll. She then turned the meeting over to Dr. Joanna Syroka, proxy for John Seo, Chair.

Dr. Syroka welcomed the audience and members to the second ACRSM meeting of the year. She provided an overview of the agenda and that the Federal Insurance Office (FIO) would be providing updates on the projects occurring in the office around a potential federal insurance response to catastrophic cyber risk and the Industry University Cooperative Research Center (IUCRC) being organized through a partnership between FIO and the National Science Foundation (NSF). FIO would also update the group on the most recent June 2024 biannual report on the effectiveness of the Terrorism Risk Insurance Program (TRIP). She then welcomed two new ACRSM Members, John Schriber from Arch Re, who replaced Peder Moeller who moved to another position in that company, and Elizabeth Heck with Greater New York Insurance Company. Dr. Syroka noted that the committee membership is now at capacity with nine members with the admission of Ms. Heck, who provides the perspective of a small insurer within the meaning of TRIP.

Remarks by the Federal Insurance Office

Steven Seitz provided remarks and welcomed new members. He noted that FIO has been very active since the last ACRSM meeting, including hosting the International Forum of Terrorism Risk Insurance Pools (IFTRIP) meetings and industry conference event in April. It was a very successful event and provided many perspectives on how other countries are approaching terrorism risk and the insurance markets. As chair of IFTRIP, Treasury is aiming to build upon IFTRIP's prior work. It is now working with the Geneva Association, researching the chemical, biological, radiological, and nuclear risk landscape, and the insurance response for those perils. FIO, through IFTRIP, is also looking to find opportunities for new member countries. FIO also announced at the IFTRIP conference its partnership with the NSF, to establish a new IUCRC. It will provide research analysis and thought leadership to improve the insurance sectors modelling and underwriting of terrorism and catastrophic cyber risk. This is the first time the U.S. Treasury has formally partnered with the NSF on a project like this.

Director Seitz then moved on to discuss the Catastrophic Cyber Conference that was held in May of 2024 at the Main Treasury building. Senior officials attended from the U.S. Treasury, DHS's Cybersecurity and Infrastructure Security Agency (CISA), and the White House's Office of the National Cyber Director (ONCD). He noted that the conference served as a launch for the second phase of Treasury's work assessing a potential federal insurance response to catastrophic cyber incidents.

Presentations, Federal Insurance Office

The meeting then moved on to Chanda Brady from FIO, who presented on FIO's work evaluating a potential insurance response to catastrophic cyber risk as well as the formation of a new IUCRC.

Review of the May 2024 Cyber Conference

Ms. Brady began by stating that FIO and CISA launched the joint assessment into a federal insurance response to catastrophic cyber risk in June 2022 and completed the first phase of the assessment, determining whether a federal response is warranted, in December 2023.

In 2024, FIO and CISA began the second phase of the assessment – exploring the appropriate *form* that a federal insurance response to catastrophic cyber incidents might take. On May 16th, FIO hosted an initial conference on the subject. She continued to explain that the conference featured remarks by senior officials from Treasury, CISA, and ONCD. It also featured three panels with senior cyber insurance executives and experts from major insurers, reinsurers, and brokers. Two of the panel moderators were from cyber modeling firms.

The first panel focused on estimating the catastrophic cyber protection gap. It covered estimates and projections of the current and future size of the cyber insurance market and scope of coverage, models of potential catastrophic cyber losses, and the state of exclusions for war and state-supported attacks and critical infrastructure. Although there naturally were a range of estimates and views expressed, there was general agreement that there is a growing catastrophic cyber protection gap.

During the second panel, the moderator provided concrete illustrations of what a federal insurance response could look like in practice. For the sake of discussion, the panel stipulated that a potential federal insurance response might take the form of a reinsurance structure. The panel discussed a handful of broad-stroke approaches, all of which featured some degree of public-private risk-sharing.

The third panel focused on potential responses to catastrophic cyber risk, other than a reinsurance structure, including an option to not respond at all. The positions discussed ranged from "Should the federal government do nothing regarding catastrophic cyber risk," at one end of the spectrum, to "Should the federal government cover all catastrophic cyber risk as broadly defined," at the other end of the spectrum.

Not surprisingly, most of the discussion took place between the two extremes, although the idea that the cyber market is sufficiently new that the government should adopt a "wait and see" approach had some support.

There was recognition that the capital markets are starting to take on some cat cyber risk as insurance-linked securities (ILS) such as cat cyber bonds are beginning to be issued, but also recognition that most cat cyber risk remains uncovered, and that coverage of this risk probably requires some kind of public-private collaboration.

Ms. Brady said the May 16th conference served well to launch the second phase of Treasury's work assessing a form for a potential federal insurance response to catastrophic cyber incidents. She said FIO will now continue this work with follow-up engagements and technical discussions with stakeholders, in coordination with CISA and ONCD.

The partnership between Treasury and the National Science Foundation, and creation of an Industry-University Cooperative Research Center (IUCRC)

Ms. Brady then discussed the new IUCRC. In April of 2024, FIO initiated a partnership with the NSF to set up an IUCRC that would seek to develop solutions to better predict and insure terrorism and catastrophic cyber risk. The IUCRC will stimulate research and develop solutions to provide insurers and other stakeholders with additional data and improved modeling and underwriting tools, methodologies, and practices for insuring terrorism and catastrophic cyber risks. The center's objectives include: 1) helping insurers to estimate risk with greater certainty, thereby improving insurance pricing, coverage, and policyholder uptake; 2) contributing to the potential expansion of commercial reinsurance and capital markets to help support these risks; and 3) informing the treatment of terrorism and catastrophic cyber risks in government programs.

She stated that this initiative is an extension of FIO's work administering TRIP and is related to FIO's ongoing evaluation of a potential federal insurance response to catastrophic cyber risks. While the IUCRC's research findings may be used to inform these government efforts, that is not the IUCRC's sole purpose. The primary goal of the IUCRC is to strengthen the resilience of the U.S. economy by expanding insurance coverage for these risks through improved insurance modeling and underwriting.

This new IUCRC originated in response to the serious risks terrorism and catastrophic cyber incidents could pose to the resilience of the U.S. financial system. By improving catastrophe models, the insurance sector can simulate a wider range of plausible terrorism and cyber events than those that are encompassed by historical experience. This will give insurers and reinsurers a better ability to estimate a range of direct, indirect, and residual losses for ratemaking and other coverage decisions.

Ms. Brady then went on to provide a background of the NSF and how IUCRCs have been successful in other disciplines.

FIO and NSF jointly issued a call for research proposals addressing these challenges. NSF will do a merit review of the proposals and select the universities that will form the IUCRC. Once the IUCRC is formed, the NSF will provide organizational support while FIO will take an advisory role. NSF and FIO will fund the IUCRC's administrative costs.

Universities will team up to submit a proposal and recruit industry members to support their proposed work. If the proposal is accepted, the university team forms an IUCRC. Research work and funding will be divided among the universities that make up the IUCRC. The universities will conduct the research—contributing their intellectual resources and infrastructure to the IUCRC.

Industry stakeholders will join the IUCRC as members. The members will form an Industry Advisory Board (or IAB). The IAB will advise the IUCRC on research the industry needs and will vote on the projects the IUCRC will conduct. In addition, IUCRC members will pool their membership dues to fund the IUCRC's research projects.

The IUCRC will be funded for 5 years or Phase I. If the center is performing well, NSF and FIO have the option of funding it for an additional 5 years or Phase II. Each IUCRC is expected to grow over time and be independently sustainable by the end of Phase II.

Any entity willing to sign the NSF standard membership agreement and pay the membership fee can be a member of the IUCRC. Members can be private sector companies, government agencies, non-profits, utilities, regulators, or other parties who are interested in the work. All types of organizations are eligible. An entity wishing to participate must have a U.S. tax ID number.

During an annual project selection meeting, the university teams will present ideas and each industry member will indicate their level of interest, ask questions, or suggest ways to make the project more useful to the sector. The members will then go into a closed-door session and use priority-ranked voting to identify those projects that have the highest sector priority. The members will then recommend the projects that have the most importance to the sector. The final decision will be made by the faculty member leads of the universities in the center.

The research carried out in an IUCRC will deliver results that will be published in peer reviewed literature and the data used or software created will be made publicly available.

Ms. Brady noted some considerations about the IUCRC's work. For instance, NSF does not allow centers to include proprietary data or other trade secrets in their research projects. This is because there is no guarantee that these will remain confidential.

She cited preliminary proposals for the IUCRC are due on September 11th. NSF will issue an encourage or discourage response to each preliminary proposal. Those that are encouraged will submit a planning grant proposal this December. NSF will conduct a review and award planning grants to promising proposals. During the planning grant phase, the selected universities will participate in NSF's training, consult with and recruit industry stakeholders, and team up with other universities to develop a full proposal, which is due in either June or December of 2025. To submit a full proposal, academic teams must have recruited a certain number of stakeholders willing to guide the proposal and financially support the Center's work. It is expected the winning proposal will form an IUCRC and begin work in 2026.

FIO and NSF are working to encourage universities around the country to submit proposals through a series of outreach activities. Most recently FIO and NSF partnered with the American Academy of Actuaries to conduct an industry panel discussion. The panel featured experts in cyber and terrorism risk modeling from Moody's RMS, CyberCube, Guidewire-Cyence, Aon, and Marsh McLennan. The panelists discussed challenges in the current market and potential areas for research and improvement in modeling and underwriting. Ms. Brady encouraged all to read the FIO and NSF Call for Proposals, for which a link was provided. She then asked if there were any questions.

Member Erica Davis of Guy Carpenter asked about the intent for the IUCRC – is it for FIO's work on a potential federal insurance response to catastrophic cyber risk, and if so, is that work going to happen sequentially or in parallel?

Ms. Brady responded that while the IUCRC's research findings may be used to inform these government efforts, that is not the IUCRC's sole purpose. The primary goal of the IUCRC is to strengthen the resilience of the U.S. economy by expanding insurance coverage for these risks through improved insurance modeling and underwriting.

No other questions were asked, and Dr. Syroka thanked Ms. Brady and moved on to **Presentation by FIO on the *2024 Report on the Effectiveness of the Terrorism Risk Insurance Program***

Richard Ifft and Andrew Shaw from FIO presented on the 2024 Effectiveness Report for TRIP. Mr. Ifft began by introducing Andrew Shaw who leads the analytic work performed on the TRIP data, which informs the reports.

Andrew Shaw started by introducing the presentation, beginning with the findings for 2024 TRIP Effectiveness Report, then moving to a review of the current and historic structures of the program, and concluding with some slides presenting several options for the Program moving forward.

He began by providing background of the 2015 TRIP Reauthorization Act to explain why FIO collects data annually from participating insurers relating to the effectiveness of the Program, which is analyzed by FIO in even-numbered years. The report is then provided to Congress to show whether the Program is meeting its objectives. In odd-numbered years, FIO's report to Congress (also relying upon the TRIP data) is on the competitiveness of small insurers in the terrorism risk insurance marketplace.

FIO has now conducted nine data collections. Eight of those have been mandatory; the first one was voluntary. There have been five reports on the Effectiveness of TRIP, issued in 2016, 2018, 2020, 2022, and 2024, which can be found on the Program website. The TRIP Effectiveness Report examines a range of metrics relevant to the insurance supported by the program, including premiums, pricing, take-up, covered exposures, coverage of risk on a geographic basis, and private reinsurance availability. Each report typically focuses on the results of the data collection of the prior three years.

Mr. Shaw provided additional background about this year's exercise and timeline. On March 19th, the 2024 TRIP data collection reporting portal opened for registration. The portal is operated by TRIP's third-party data aggregator who collects, reviews, and reports aggregate and anonymized data to Treasury. The results of the TRIP data collection are the principal inputs for FIO's report to Congress concerning the Program.

There were two federal register notices published on March 19th. The first was a request for comments from program stakeholders providing the opportunity to submit qualitative feedback and analysis that may not be otherwise observable through the results of the TRIP data collection. The second was an announcement of the launch of the TRIP data collection using reporting templates approved by the Office of Management and Budget.

Due to the unique reporting requirements for different types of insurers, there are four separate webinars conducted by the TRIP staff. On April 3rd FIO conducted the non-small and small insurers webinars, and April 4th it gave the presentations to alien surplus line insurers and captive insurers. All insurers were required to register and report all data elements no later than May 15th.

The 2024 Report on Effectiveness of the Terrorism Risk Insurance Program, the Program's fifth report, was submitted to Congress on June 30th and was published on the Program's website. Next year's report in 2025 will be a study of the small insurer competitiveness in the terrorism risk insurance marketplace.

Mr. Shaw moved on to discuss the data in the report. He noted a gradual increase every year to TRIP-eligible premium and that non-small insurers represent the majority of TRIP-eligible premium, by about 77 percent. Small insurers sold the second most at about 12 percent, while captive insurers represented about 10 percent of the market.

Richard Ifft interjected that because the data was collected by groups, and a number of alien surplus line insurers are part of U.S. insurance groups, the data will tend to minimize what would otherwise be the participation of non-U.S. insurers in the Program.

Mr. Shaw went on to note the percentage of TRIP-eligible premiums is coming from underwriting terrorism risk, which non-small and small insurers have consistently reported as 2.5 to 3 percent of total premiums charged in the TRIP-eligible lines of insurance. Charges by alien surplus and captive insurers are larger and more variable.

The next slide showed percentage of premiums charged for terrorism risk coverage through years 2016 to 2023. He noted stand-alone terrorism insurance represents only a small percentage of terrorism risk wrote by the non-small insurers, but only few small insurers issue stand-alone insurance. Alien insures issue a higher percentage of standalone insurance, and for captive insurers it represents most of the terrorism risk insurance that they issue.

The take-up rate for 2016 to 2023 considered where terrorism was charged or provided for free. Non-small insurers with TRIP-eligible lines premiums of $1 billion or more represented about 80 percent of the entire market. Mr. Shaw noted take-up rate by number of policies has remained consistently high, but that a modest decline in take-up measured by premiums has taken place, which is more pronounced when measured by property exposures and liability limits (a decreased by about 30 percent, from a take-up rate in 2016 of a little over 80 percent to a take-up rate in 2023 of about 50 percent).

Small insurers have TRIP-eligible lines premiums of less than $1 billion and represent just over 10 percent of the market. Small insurers take-up figures as measured by premiums, property exposure, and liability limits remained generally the same in 2023 as they reported in 2016.

Alien surplus line insurers reported the lowest take-up rate for terrorism risk insurance since 2016, although their take-up as measured by premiums has remained relatively constant. Take-up by policy count, property exposure, and liability limits have declined, suggesting a decline in the amount of terrorism risk insurance provided as compared with the premium charged.

Mr. Shaw then showed a map with chart for take-up rates, by metropolitan area, for non-small insurers. Between 2016 and 2023, the aggregate take-up rate by property policy limits as reported by non-small insurers has declined in nearly every metropolitan area. In aggregate, the metropolitan areas captured in the annual data collection have experienced a roughly 22 percent decrease in take-up rate as measured by property policy limits in these metropolitan areas.

Member Elizabeth Heck observed that by limiting the analysis to non-smalls, FIO was not accounting for the movement in the market from embedded cover included in the policy to separate stand-alone coverage. In addition, for non-small insurers that cover large insureds, there has been movement to the captive market or excess and surplus lines market where a larger policyholder can form a captive or maybe buy a policy that isn't for the full property limit to save a little money. She then asked how does FIO account for that movement, as opposed to using it as a barometer for the entire market?

Richard Ifft noted that was a good point and stated that is a limitation of the data collection, which is done at a very high level. To some extent that is to reduce the burden on the industry. The data would need to be more granular and collected in terms of towers of coverage to permit the level of analysis identified by Ms. Heck. He agreed the movement back and forth between captive and conventional market could be playing into this. FIO thought, however, given the size of the decline, this type of analysis was something worth pointing out.

Mr. Shaw went on to note that in the metropolitan areas the take-up rate was moving from 82 percent to about 60 percent, which was similar to the national aggregate analysis that went from 80 percent down to about 50 percent. Therefore, there is some consistency in this analysis.

Mr. Shaw moved on to provide information on TRIP property exposures aggregated by zip code. This was again just for non-small insurers; Mr. Ifft interjected if this was broadened you might see a big circle around places such as Las Vegas, on account of a large amount of captive insurer limits in place there. FIO provided this information to the ACRSM to see if they had input or guidance on what may be occurring.

Ms. Heck then asked Mr. Ifft if foreign markets are included. Mr. Ifft stated they are not. He noted that FIO does collect information from alien surplus lines insurers separately, which would include the London Market insurers. That data, however, will only include London Market insurers that are essentially separate from any domestic U.S. carrier, because TRIP is organized on a group basis. Thus, the experience of a Lloyd's syndicate or a London Market company that is part of a non-small U.S. insurer group is reported into this non-small insurer experience. He noted that was another trade-off for requesting high-level data.

Ms. Heck then stated the reason she is asking is because the take-up rate may not be as low as it looks. Cities that are exposed to terrorism like New York access a comprehensive market, and the take-up there is probably pretty high. It is just a matter of where they are getting that coverage from.

Dr. Syroka had a question about the map of the metropolitan areas, and that Miami and the State of Florida appeared to be missing. She wondered if Miami take-up for terrorism insurance was different than elsewhere.

Mr. Ifft stated that Miami, Orlando, and Tampa/St. Petersburg have had low terrorism take-up numbers since the collection of data began. This could be due to a focus for these places around obtaining insurance for natural catastrophe risks.

Mr. Shaw moved on to speak about reinsurance limits trends for small and non-small insurers. Non-small insurers have over time purchased more reinsurance limits covering terrorism, although these purchases have always been relatively less than their purchases for natural catastrophe reinsurance. Small insurers have also purchased less terrorism reinsurance coverage than the natural catastrophe reinsurance. However, the reinsurance purchases of small insurers have not materially increased over time. For non-small insurers, TRIP-eligible premiums tended to follow the growth in reinsurance limits both for terrorism and for natural catastrophe. For small insurers, this premium growth increased at a greater rate in more recent years than the limits purchased for terrorism and natural catastrophe.

Mr. Shaw then began to speak on the TRIP mechanics. The Program itself has two main features – the Insurance Marketplace Aggregate Retention Amount or IMARA, and the Program Cap – that that govern, in part, recoveries under TRIP. The Program Cap has stayed constant at $100 billion since inception in 2003. Meanwhile, the IMARA, the industry retention component, has gradually increased. If the cap had initially been adjusted for consistently with increases in the IMARA, it would be dramatically higher. He also provided IMARA projections illustrating the ongoing increase in IMARA through the application of the current formula, and how the Program Cap would have increased as well if it was subject to a similar increase over time. In addition, based on projections, 2039 is roughly the year when the IMARA will reach the Program Cap amount, assuming no further changes to the Program mechanics.

Richard Ifft noted this has been a feature other groups have calculated and documented. He stated given the likely increase in industry premiums, along with the general increase in economic growth, the IMARA will overtake the Program Cap in in the timeframe identified. This discussion ended the presentation.

Dr. Syroka thanked the two presenters.

Roundtable discussion of the membership to discuss the effectiveness of TRIP, its future, and potential risk-sharing mechanisms

Dr. Syroka moved on to the roundtable discussion with the members to discuss important features of TRIP with a vision towards the Program's future. She reminded everyone the purpose of the ACRSM is to encourage the development of non-governmental private market risk-sharing mechanisms for terrorism risk and to provide guidance to FIO regarding the administration of TRIP. She also noted that the topics were vetted with the members beforehand. There would be no trade secrets or financial information shared in this open session.

Her first questions were on the topics of consumer needs, uptake, and market stability. She stated there is a general consensus that TRIP has made terrorism risk insurance available and affordable in the insurance marketplace. She asked the members if they believe that the TRIP backstop does help insurance companies underwrite and price a product that meets the needs of consumers. She added two supplementary thoughts: is the risk being written for and priced appropriately? Is there a risk that maybe the backstop gives some kind of false sense of confidence?

Member Erica Davis began noting that she believed the largest consumer need right now is cyber insurance and there remains uncertainty over the extent to which it is covered under TRIP. In terms of relevancy and addressing consumer needs, this is a big recurring issue.

Dr. Syroka stated they would speak to emerging risk such as cyber in some follow-on questions.

Ms. Heck felt that the backstop absolutely does help. Two renewals ago when the program was expiring a lapse of around three weeks took place. She stated it did have an impact and there was fear in the market. Companies had to act quickly, and production stopped. She believes most companies generally agree that the backstop is working and that it would be very difficult to function without it. Certain industries such as construction would likely have to halt production without it.

Keith Bell agreed, and thought the backstop was working. Its effects, however, are fading as the insurer deductibles become larger, particularly as you go through a period with higher inflation, which means exposure is larger at the same time that the deductibles are doing up. The Program's influence could wane over time because of that.

Dr. Syroka followed up with Mr. Bell, noting the insurers are aware of that and keep that in mind when they're underwriting and developing the products.

She then asked Elizabeth Heck as a representative of a small insurer if she felt that the program is working for every type of insurer? Particularly for the small insurer.

Ms. Heck replied that she did think it was working. Speaking on behalf of the small insurers, her company is just on the cusp where they write a little bit more but are still classified as small. She noted she is the Chairman of the National Association of Mutual Insurance Companies and there are a lot of small insurance companies in that organization. One thing that does matter for the small insurance companies is the Program Trigger, because if the trigger is too high, they are effectively left out of the program. For small insurers the current form of the Program seems to be working.

Derek Blum interjected he believes it is working in the sense that it's providing confidence in terms of recoverables for insurers affected by an act of terrorism. He indicated, however, that it will also depend a lot on the event, or even multiple events, should that occur. The size of the event, the amount of the insurance, and the severity of that event compared to the premium of the companies affected will have big implications in terms of the effectiveness of the program for each individual insurer.

Dr. Syroka agreed and noted the program has never been tested from the claims standpoint. It is something to keep in mind. She then moved on to another question.

She asked, based on the FIO presentation of the 2024 Program Effectiveness Report, if the members knew what could be driving the decline in take-up of terrorism insurance. She asked if this is just a general reflection of the insurance marketplace overall. It has been quite a hard market in general for consumers or she wondered if this was complacency from the policyholder point of view in terms of purchasing terrorism insurance. She wanted to know if the members had observed any changes in demand from consumers for terrorism risk over the past years. Is this a trend ACRSM should be monitoring?

Scott Sanpietro, proxy for John Lupica, stated that, from the large (non-small) insurer perspective, Chubb has not seen a decline in take-up nor a decline in demand. The reasons why policyholders are interested in buying terrorism risk insurance is going to vary by segment. There are different considerations. The larger policyholders understand that the backstop is there. They value the terrorism coverage and are able to plan for those events. Smaller policyholders have different demands. Maybe they need it for lending purposes. Maybe their banks are requiring terrorism coverage on a property coverage. His company hasn't really seen a drop-off in demand across the different segments.

Ms. Heck noted her company, a small insurer, has not seen a drop-off either. They haven't seen a drop in take-up rate at all. She thought it depended on the jurisdictions the companies are writing. In Tier 1 cities take-up rate is probably close to 100 percent or it's in the high 90s. If you're in Iowa, maybe it's gone down a little bit.

Richard Ifft, referencing the prior presentation on the insights from the Program Effectiveness Report, noted that what the data really shows is a decline in limits. He observed that policyholders may change the products they buy and their insurance programs all the time for pricing and other reasons. They may be getting terrorism insurance but is it possible that they are simply not getting as much as they used to. Perhaps there are different layers. If the insurance is at higher layers with lower premium, that will show a decline in take-up based on premium. Similarly, if there are simply lower limits just to save money, that will show a decline based on limits. Could that be going on? It would be difficult to tease out such information across the United States insurance industry as a whole, but could those sorts of issues be explaining this?

Ms. Heck stated that was the point she was trying to make before about just focusing on the non-small insurers – if you're selling a policy and terrorism is included as part of the property premium, then you're required by TRIP to sell the full limit on the policy. If you have a larger policyholder, they're pretty sophisticated and they may not want to buy that much if they have billions of dollars to insure. They can reject the coverage. They can go out to the excess and surplus lines market and purchase a smaller limit of $50 million or $100 million to save some money. The other way they could do it is set up a captive. She thought this would be where one would see most of the movement for the more sophisticated policyholders. This would be in line with the fact that property premiums have been going up so much because of all the natural catastrophe losses and other things happening in the property market. Most policyholders want to save a little money. One could do that by buying less limits, but TRIP does not allow that when the initial offer that must be made.

Scott Sanpietro stated he agreed with Ms. Heck's assertion. He believed these changes have been seen in the property market over the last couple of years, and in the casualty market where program structures are being revised. Layered participation and co-insurance are being explored much more to offset some of the premium increases which will also factor into that. In that sense, they do value the terrorism coverage. They just evaluate it at a higher layer or at a lower participation rate.

Dr. Syroka moved on to ask the brokers, when they speak with policyholders, what kind of common themes they hear when talking about purchasing terrorism risk insurance. Is it something the policyholder values purchasing? Do they have specific events in mind when they're purchasing it? And do they believe the product works and will cover what they need it to cover? Have there been trends, mentioned earlier, of moving to captive or accessing surplus lines coverage?

Tom Srail of Willis Towers Watson stated the large policyholders were looking to continue purchasing. He felt that any take-up decline may, as shown in the prior presentation, be the result of geographical differences. Clients seem to value having the terrorism coverage available there in the various lines of coverages. Those who've purchased it for years continue to purchase it typically. There might be some occasional change, like moving the risk to other insurance companies. They go from one program to another program, which would of course affect these numbers as well. He agreed that over the past four to five years it has been more common for large policyholders to set up captives or acquire other specialty market products.

Dr. Syroka followed that up asking the other members of the policyholder perspective of this product and its value.

Ms. Heck noted, in terms of value, it's not just the policyholders that care about their properties, it's the banks. Anyone who has a commercial mortgage is going to need it no matter what, so the banks are going to insist on the coverage.

Dr. Syroka move on to ask the group about any unforeseen developments in the market and products since the inception of TRIP and whether they think the Program needs to evolve in some way. 2003 was 21 years ago. Has nothing changed?

Derek Blum interjected that the insurer retentions have certainly gone up and up, to the point that the Program is mostly offering protection against the very extreme size events. A small or even moderate-sized terrorist attack may fall below the threshold.

Dr. Syroka asked if anything changed in terms of the products, the risks covered, the perils. This line of questions segued to asking about emerging risk and if members have any thoughts of any troubling emerging risks that have the potential nexus to terrorism. She noted Erica Davis previously mentioned cyber, and asked that, if the products haven't changed that much, are they still meeting the needs of policyholders in the context of emerging risks?

Tom Srail stated there was definitely a lot of talk, especially in the cyber space, in the last three to four years about terrorism risks and their intersection with war risk and the evolution in how war and war-like actions are treated. It is also how these risks are intermingled or interrelated with terrorism. He thought that continues to be a frustration and a question with a lot of insurers, as well as policyholders. As part of what his company is doing in the emerging risk area, they are looking at the cyber response to issues and to be more explicit about how terrorism does or doesn't interface with cyber. He noted that understanding how cyber risk would or wouldn't interface with TRIP or another similar program would be helpful to the marketplace. His company hears from buyers all the time asking if certain types of events are covered. It depends on everything else. These are common question. He thought there needs to be some additional change in evolution in the Program in that space.

Dr. Syroka asked Tom to clarify on evolution in the products – was it in connection with TRIP or otherwise?

Mr. Srail believed it was both. As an example in the cyber world, some policies don't exclude or don't deal with terrorism. They just cover it. Others align with TRIP and follow the protocols and response mechanisms that are there. Then there are other aggregate things that we may not know exactly if it is going to trigger terrorism or a war exclusion, those kinds of the classification areas. The Program needs to continue to evolve or consider evolving and the private marketplace needs to evolve the products that it offers as well. He noted that this was his perspective as a broker.

Derek Blum provided his perspective as a modeler, and noted a recent cyber event which was not an act of cyber terrorism, but a cyber event, nonetheless. He did not believe that was going to fall within any sort of TRIP coverage because there is no attribution to a terrorist group. Even on the property side, the covered lines of the losses will fall outside of that. He asked if that was the general consensus of the group.

Erica Davis said yes, she thought the most recent cyber event was outside of TRIP. She noted Tom Srail's remarks and agreed that having more explicit understanding of how cyber fit within TRIP would be helpful. Similarly, she questioned how fit TRIP is in connection with the loss and risk dynamics of cyber. She turned to her counterpart from Guy Carpenter, Matt McCabe, who joined online to expand upon her thought.

Mr. McCabe noted Derek Blum's point was well taken as far as cyber being a later consideration, after the initial passage and renewals of TRIA. He indicated that one of the things that could be helpful for informing is considering the parameters of TRIP in context with the cyber market. It would be helpful to see where modeling currently puts the largest events and how cyber losses could fold in with property losses, and other types of losses, to see if TRIP is an adequate vehicle for cyber risk, or whether a separate framework is necessary if the TRIP parameters are ill-fitted to cyber loss. He asked, could it be considered moving forward? Noting that TRIP is moving to the next renewal, he suggested further thought around the parameters in terms of what might be more appropriate for cyber loss and also for the hybrid loss of cyber included with the property, and how TRIP might respond to that.

Keith Bell followed on by stating there's an interesting relationship between cyber and terrorism. You can have cyber events that by themselves are not large in scope, but the losses that follow because of that are much larger than the cyber event itself. He believes that is something that the Program should evaluate. He gave an example about a cyber attack on the electrical grid in the middle of winter that shut down a large section of the country. There would be significant resulting losses, not only business interruption claims, but enormous property claims as well.

Mr. McCabe agreed, the property part would not necessarily be part of cyber, but the business interruption would be part of cyber. This would be part of the parsing needed. When taking down the electrical grid, that's likely an uncovered risk due to critical infrastructure exclusions on cyber policies, which gets us back to the discussion of using a public-private partnership to address those gaps.

Dr. Syroka asked if FIO would like to add or clarify where cyber currently falls within the current TRIP formulation.

Richard Ifft stated it is probably not going to be solved for at the meeting, but it is a very interesting discussion. All these issues are in the group of issues that FIO is considering now in connection with potential federal response to catastrophic cyber risk evaluation that the Office is doing. There is interplay between TRIP mechanism and a potential cyber mechanism. How it plays out is certainly central to that.

Dr. Syroka moved on from emerging risk and asked the group to think about risk sharing mechanisms more broadly. TRIP has seen four reauthorizations since 2003 and it is up again for reauthorization in 2027. In several of the prior reauthorizations, language and programmatic changes and processes have been updated, including the creation of the program trigger, modifications to the calculation of the IMARA, and requirements for data collection and the creation of this committee, the ACRSM.

She asked if outside of legislative changes, is there something now that the Program can do to move the needle towards terrorism risk sharing? She reminded the group that means with the private sector.

With no comments on this from the group, Dr. Syroka interjected as a proxy member. She stated a technology that is available now (and which was not available in 2003, or at least was not widely used) is the use of catastrophe bonds to facilitate risk transfer. Catastrophe bonds are used primarily by insurers and reinsurers to transfer systemic risks from their balance sheets to the capital markets to mutualize risk across a deeper and broader capital pool – effectively taking that risk out of the reinsurance marketplace into the capital markets. She gave the example of Pool Re, the UK terrorism pool, which has successfully issued two terrorism catastrophe bonds. They were well received within the markets. She also observed that in the first six months of 2024 there were nearly $600 million of cyber catastrophe bonds issued, which is a risk adjacent to terrorism risk. She noted this new kind of technology should be potentially considered. It can be used by insurers and re-insurers to manage the exposures they retain for terrorism risk potentially or in any new program mechanism that the federal government may create.

She added that the advantage of something like a catastrophe bond is not just a quantum of risk that can be transferred away from balance sheets, but also away from taxpayers. Such bonds could also provide forward-looking pricing indicators of terrorism risk that insurers and re-insurers could use to price their risk. It is a design or feature for any program or public-private partnership. Such bonds are being used in other countries. The federal government has itself sponsored catastrophe bonds before to backstop the National Flood Insurance Program. It is something that could be considered by FIO as you move forward during various initiatives.

Keith Bell interjected that cat bonds are effective in taking identified risk out of the insurance sector and pushing it over to the capital markets. He also noted the extreme on the other side and cautioned to be careful that such cat bonds don’t create a systemic risk in other parts of the financial market.

Dr. Syroka agreed and stated sophisticated investors are currently involved in the markets. She noted that risk disclosures and risk modeling is a very important part of those bonds. Such investments are unique in that these kinds of risks and estimates are disclosed and evaluated, and institutional investors and buyers can evaluate and invest on that basis.

She then had one last question for the group, which was if they could incorporate one proposed reform within the next reauthorization of TRIP, what would it be?

Mr. Bell said the first thing that comes to mind would be the indexing of the deductibles. There needs to be more thought to what the most effective structure for indexing is, particularly for the periods of high inflation the deductibles are not going the opposite direction than the actual costs are going, or going against the coverage that insurers would have.

Mr. McCabe had a proposal as far as the renewal. He noted the problem of attribution in cyber and how that fits into TRIA language, whether it be in the statute or just in rules. He believed the language needs to explain the interpretation of the statute as far as attribution to terrorism based on impact and objective facts available around the event. It is important that it doesn't have to rely on attributing it to a specific threat actor to allow the Secretary of Treasury to declare an act of terrorism. There needs to be flexibility in that standard.

Richard Ifft followed up for clarification and asked Mr. McCabe if what he was saying was, for certification purposes, you could essentially look to the effect of the attack as opposed to the motivation of the actor, which as we know is difficult to get at sometimes, particularly in the cyber arena.

Mr. McCabe stated that was correct.

Dr. Syroka asked if there were any other thoughts to be considered by FIO as they work towards the next reauthorization.

Scott Sanpietro provided feedback around the discussion of mechanics and how TRIP works. He added that they needed information on how to simplify or clarify the process and mechanics of certifying the event. He also noted the recoupment process is a little unclear. He thought modeling how IMARA might work would help the members understand what the impact is going to be now that you have access to the more comprehensive modeling tools. He thought it's more helpful to educate folks how the Program might impact on a particular industry at large.

Derek Blum had a comment on emerging risk. He noted that the scale of the most likely forms of terrorism or political risk may be increasing – but that such events will be smaller than what happened on 9/11 or some of the other bigger things that could happen. He thought it is important to evaluate the Program and decide if it is really just for CBRN or the very, very extreme tail events that are unlikely to occur, as opposed to severe but more likely events that would really impact the industry.

Mr. Blum went on to say that if the government is considering a change in the Program, it might be good to think about some sort of coverage for severe, but smaller scale events just because of the economic impact that those might have. If there is a large event that ends up not being covered, that probably would significantly impact the cyber terrorism insurance market. This could be counter to the whole reason that TRIP was established in the first place.

Mr. Bell added he thought back on how insurers look at risks and some of the things that the industry does to make sure it is prepared. He thought it was worthwhile to look at the controls that Treasury has over the mechanisms within the Program. FIO may even consider doing tabletop exercises with industry and insureds and have a mock run to make sure that everything functions as its intended before there's an actual event.

Dr. Syroka asked Richard Ifft if that has ever happened.

Richard Ifft noted FIO has considered it and put materials together. He noted that some of these activities did get interrupted by the COVID pandemic. He also explained how FIO has been migrating the TRIP claims system into the Treasury cloud, which provides for a more secure environment, but which has required significant effort. He agreed with Mr. Bell and stated FIO have done a lot of thinking on doing an exercise. He also stated sharing information and getting membership perspective on how an event would work is valuable. He noted one of the changes made in the rules was to require more data reporting once an event happens, which basically asks all insurers to report all claims to us as they happen. This was not to get the information on the claims per se, but to know when the government can start paying out money, when the $200 million threshold is reached. He provided an example where a non-small company may have a lot of claims, but not going to meet its deductible, but that claim experience would be very interesting to a small insurer which has met itself deductible – which is far smaller than the $200 million Program Trigger.

Keith Bell stated that is exactly to his point about making sure you have identified processes and then controls over those processes. He thought going through a tabletop exercise would help test the concepts put in place.

Scott Sanpietro believed it would also help with the education piece he brought up. When talking about take up and whether consumers understand the value of terrorism risk insurance: If they do understand the process for the recoupment and the reimbursement, it would help for them to understand that it’s there and maybe some sort of trends that have been seen over time. It would help with educating.

Dr. Syroka asked if there were any more comments or questions.

New Business

Dr. Syroka moved on to discussing new business. She noted the first meeting next year would likely be in the beginning of February of 2025. She asked if there were any objections to this timeframe.

None were noted.

She stated in the February 2025 meeting, it may be a good time to explore some of the issues raised in the current meeting in more depth. She asked if anyone had discussion points and how they should be discussed in that meeting.

Derek Blum stated that in the Modeling Subcommittee meeting there was a discussion on exposure, particularly around data capture used for modeling. He thought by February we may be able to have a broader discussion around that.

Dr. Syroka asked if there as any other new business for the group.

None was added.

Dr. Syroka adjourned the meeting.

I hereby certify these minutes of the August 1, 2024 Advisory Committee on Risk-Sharing Mechanisms public meeting are true and correct to the best of my knowledge.

John Seo
Chair, ACRSM