Greater New York Mutual Insurance Company
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REMARKS TO THE TRIA FEDERAL ADVISORY COMMITTEE

1. Greater New York Insurance Company history and post 9/11 experience

GNY was formed in 1914 at a time when there was a large flood of immigration to NYC and an insurance availability crisis due to overcrowding and the difficult litigation environment in New York. The legacy of Greater New York is that of early immigrants who came from humble beginnings to become real estate owners who started an insurance operation because they couldn't otherwise buy insurance.

Today, GNY is a multi-line regional commercial lines company specializing in commercial real estate operating in fifteen states. We ended 2016 with direct written premium of $343 million of which $183 million was written in New York State with 85% of that business located in the five boroughs of New York, mostly Manhattan. We are the 6th largest writer of commercial multi-peril premium in New York State and the largest writer of co-op and condominium apartment houses in New York City and a leading writer of habitational business throughout our footprint.

At December 31, 2016, we carried statutory surplus of $473 million and in excess of $1 billion in assets; we have been rated A+ by A. M. Best for many consecutive years.

We target a 90% retention rate so we underwrite for the long-term. As a result, we have insured many of our policyholders in excess of 20 years or more so we were unwilling to abandon them after 9/11.

2. **Impact of the Terrorism Backstop on our ability to provide insurance protection to New York and other urban property owners**

   As a result of the terrorist attack on 9/11, and prior to the passage of TRIA in late 2002, most primary insurance carriers operating in New York City began to non-renew their commercial property and workers' compensation business, or reduce limits of coverage to levels below what was needed by the business community.

   The extreme hard market was worse in New York City because New York State prohibits insurance carriers from excluding coverage for terrorism and reinsurance companies universally excluded terrorist acts in reinsurance treaties.

   The only alternative was to offer less coverage or not write business at all.

   The few companies willing to provide the coverage increased their premiums because of the significant terrorism exposures, but even those companies had limited capacity due to aggregation issues.

   The lack of capacity had a negative impact on the New York economy resulting in the postponement of many construction projects, lack of adequate property coverage for commercial office buildings, and significant increases in the pricing of commercial property business.

   With the passage of TRIA and changes to our underwriting strategy, we were able to continue to do business in New York.

3. **Underwriting Changes Post 9/11**

   Understanding our limitations as a mid-sized carrier, we reduced our risk accumulations within 500 feet and avoided those areas in close proximity to high risk target buildings. We also stopped insuring commercial tenants at properties where we also insure the building to limit our exposure at any one location. With respect to workers compensation, we cut way back on the number of employees we would consider at a single location.

And, because of our size and our limited ability as a mutual company to raise capital, we began purchasing very expensive stand-alone terrorism reinsurance to cover as much of our TRIA deductible and co-insurance as we could reasonably afford.

4. Current state of the market

In the 15 1/2 years since 9/11, the terrorism backstop has allowed the New York primary insurance market to stabilize. Primary coverage is available and affordable, a limited amount of reinsurance is available, and take-up rates are in the 90's in urban centers such as New York City. That said, it is important to note that the market as it stands today has everything to do with the existence of the terrorism backstop and the availability of insurance coverage to the business community.

5. Capacity for terrorism since 9/11

We don't offer standalone terrorism but our capacity for property coverage which includes terrorism has increased in part because the insured values of the same buildings we were writing over many years increased. This happened post-financial crisis as a result of credit tightening at the banks, but also because we manage our balance sheet exposure through a combination of underwriting restrictions, aggregation management, and the purchase of private reinsurance to cover the program trigger and much of the TRIA deductible.

The consensus by terrorism experts is that the threat in the US is greater today than before 9/11, particularly when you consider the reach of ISIS and other terror organizations. So it is not that our appetite for terrorism risk has increased, we provide the coverage because we have no other alternative.

6. **Impact of the increased TRIA deductible and program trigger**

Increasing the TRIA deductible and program trigger to an amount higher than the $200 million that will be in place by 2020 is analogous to having no backstop for companies with statutory surplus less than $1 billion. The reason that this is true is because a single company could suffer a disproportionate share of a loss for a terror attack which is an event that occurs within a concentrated area. This is different than a natural catastrophe event which is spread geographically over a wide area. Because the potential exposure to a single company is there, smaller companies would not be able to participate in the market if the trigger were higher than $200 million.

Terrorism is not sold as a stand-alone coverage by primary companies and carriers are not necessarily interchangeable. Every carrier develops its own risk appetite and not all carriers write the same underlying business.

Small and mid-sized insurance carriers inject competition into the markets and provide coverage that may otherwise be unavailable in certain regions and serving specific niche markets.

In 2015, of the 2,600 property and casualty insurance companies operating in the US, only 132 had policyholder's surplus of $1 billion or more. Of the companies that write TRIA covered lines of business, 95% have less than $1 billion in surplus.

If TRIA were eliminated or scaled back, it is unrealistic to expect that 132 insurers with surplus of $1 billion or more would satisfy market needs in urban areas which could negatively impact the economy.

7. **Experience as a buyer of terrorism risk reinsurance since September 11, 2001**

One of the central problems with providing terrorism coverage has been the inability of the insurance industry to spread the risk to enough insureds with varying degrees of terrorism exposure and having the availability of terrorism reinsurance at affordable rates.

The availability of terrorism reinsurance has increased since 9/11, but is still limited in high risk regions such as New York City and other urban centers. And, reinsurance premiums continue to be quite high relative to what we can charge our policyholders so reasonable pricing is as necessary as having the capacity.

Primary rates are regulated by the state departments of insurance, while reinsurance contracts and premiums are not. Therefore unless primary companies are able to pass on the high reinsurance cost to their policyholders they would need to subsidize the terrorism premium even if the reinsurance was available. This puts mid-size insurance companies at a competitive disadvantage when compared to the large national and international insurance companies who may not require the purchase of standalone terrorism reinsurance.

It's also important to remember that the capacity that is currently available in the market today is there in a large part because of the existence of TRIA. If TRIA were to change in a dramatic way, the aggregate amount of coverage available would likely fall and would be inadequate for the needs of the business community.

Because of our size and location, we were one of the first insurance companies to seek reinsurance immediately after 9/11. There were very few markets willing to provide the coverage and the pricing was very high. Since that time we have built a sizeable bank of premiums with these markets which has helped to stabilize the pricing for our coverage, but capacity is still very limited in the areas where we need it most. Most primary carriers have not been purchasing terrorism reinsurance so don't have a bank necessary to justify more moderate pricing.

Over the past few reinsurance renewal cycles, I have attempted to increase our terror capacity by adding coverage to our standard property treaties which is common for many companies whose business profile is in less densely populated areas. Reinsurers universally reported limited terror capacity in urban areas.

This past year I attempted to buy additional reinsurance to expand our capacity on fire resistive buildings in urban areas with a limit of terror. Very few markets were willing to provide capacity in New York City at pricing that works, but some were willing to provide limited coverage for fire following. Each reinsurer cited limited capacity due to aggregation issues.

8. Thoughts on whether the market has a better understanding of the exposure

I believe that the market has a better understanding of the terrorism exposure, but underwriters still believe that the risk is uninsurable. There are inherent differences between catastrophic events that are insurable versus those that are not. Even though few terror events have occurred on US soil since 9/11, the potential to have a large scale event is there and could have an outsized impact on a single business, property owner or insurance carrier.

Unlike natural catastrophes that can be modeled and the impact mitigated, terror events are designed to be unpredictable so history is not predictive and mitigation must be handled at the national level. A private home exposed to flooding can be raised above the flood line and a homeowner can relocate to avoid the exposure altogether. However, a property owner cannot provide meaningful protection against a terror attack and moving a target building out of an urban area won't keep a terrorist from attacking.

Because property owners are not compelled to buy the coverage, terrorism exposure is largely subject to adverse selection because only those business owners that perceive that they have a terrorism exposure purchase the coverage. As a result, our take-up rate in Manhattan is almost 100%, but as we move away from the center of the city the take-up rate begins to decline. This limits the ability of primary companies to fund losses and build capacity.

9. Impact to GNY if TRIA were to disappear

Without the federal backstop, my firm would be forced to abandon or dramatically scale back our exposure in NYC and other urban markets where we currently write, including Boston, Chicago, and Washington DC.

Primary insurance companies do not operate in a free market which puts limitations on every carrier regardless of size. States dictate permissible rates and certain states, like New York, do not permit terrorism exclusions or sub-limits and most states do not permit primary carriers to use the cost of reinsurance to justify a rate increase. State regulators are cognizant to the cost to the consumer so even if an actuarially sound rate could be reasonably determined primary carriers would likely have trouble getting an adequate rate increase approved in highly populated urban areas.

As a mid-sized insurance carrier the potential exposure to a terror event would stress our balance sheet too much to operate because there is not enough reinsurance available at a price that we could reasonably charge. Property values on commercial buildings in NYC and other urban areas are just too high for our size and we would be subjected to potential downgrade by the rating agencies.

It is important to also note that as a mutual company owned by our policyholders, we manage our balance sheet very carefully because we are limited in our ability to raise capital should we need it.

Elizabeth Heck, President and CEO
March 31, 2017