



# Study of Small Insurer Competitiveness in the Terrorism Risk Insurance Marketplace June 2023

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## Terrorism Risk Insurance Program

**Presentation to the Advisory Committee on Risk-Sharing Mechanisms  
July 26, 2023**

# Background Overview (1/2)



Pursuant to the Terrorism Risk Insurance Program Reauthorization Act of 2015, Treasury must collect data from the insurance industry concerning the Terrorism Risk Insurance Program (TRIP or Program) and provide annual reports on various aspects of the Program to Congress. Treasury released its report on small insurer competitiveness in the terrorism risk insurance marketplace (2023 Report) on the statutory deadline of June 30, 2023.

By statute, the 2023 Report must summarize the findings of a study concerning the competitiveness of small insurers in the terrorism risk insurance marketplace, which is to address the following subjects:

1. Changes to the market share, premium volume, and policyholder surplus of small insurers relative to large insurers;
2. How the property and casualty insurance market for terrorism risk differs between small and large insurers, and whether such a difference exists within other perils;
3. The impact of the Program's mandatory availability requirement on small insurers;
4. The effect on small insurers of increasing the Program Trigger;
5. The availability and cost of private reinsurance for small insurers; and
6. The impact that state workers' compensation laws have on small insurers and workers' compensation carriers in the terrorism risk insurance marketplace. an analysis of the overall effectiveness of the Program

# Observations: TRIP Underwriting



## 2020-2022 TRIP-Eligible DEP by Insurer Category (\$ billions)

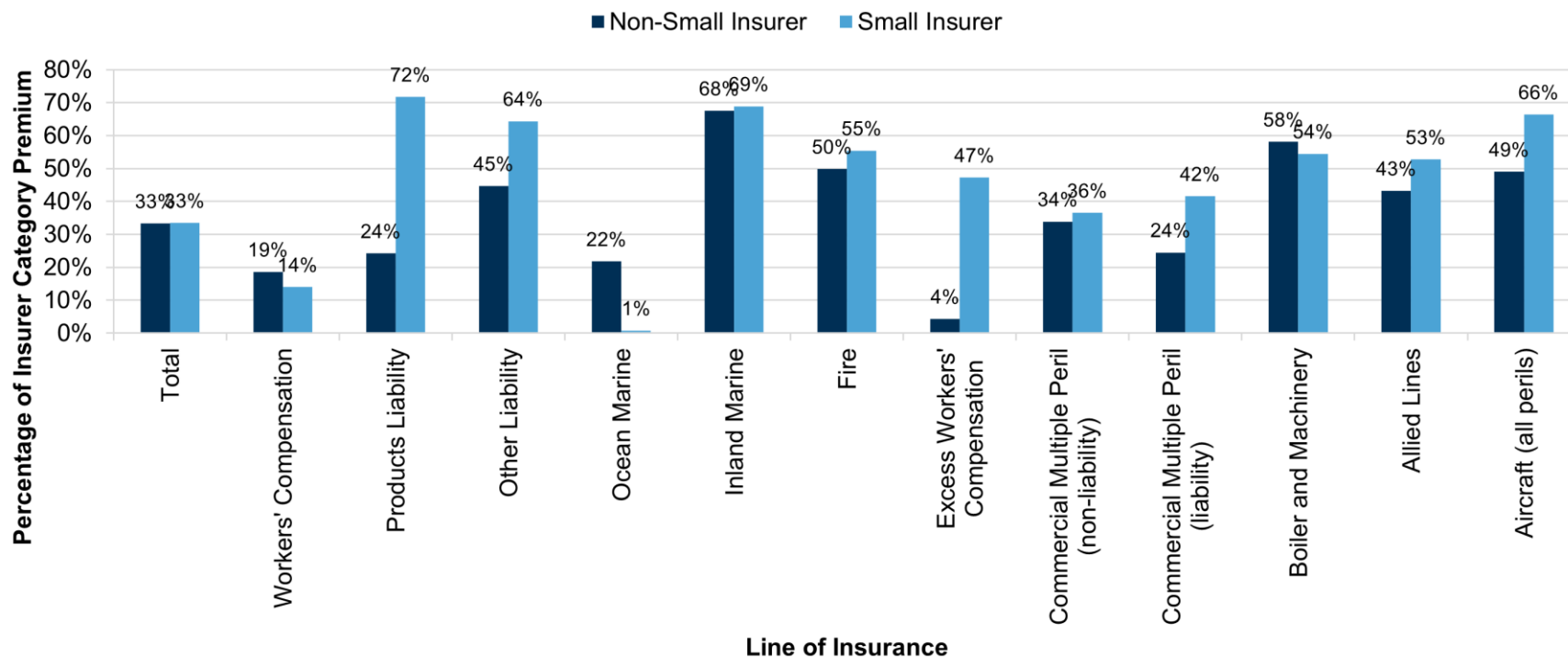
	2021 TRIP Data Call		2022 TRIP Data Call		2023 TRIP Data Call	
	2020 DEP in TRIP-Eligible Lines	% of Total	2021 DEP in TRIP-Eligible Lines	% of Total	2022 DEP in TRIP-Eligible Lines	% of Total
Alien Surplus Lines Ins.	\$ 11.0	5%	\$ 12.1	5%	\$ 17.0	6%
Captive Insurers	10.5	5%	14.4	6%	12.0	4%
Non-Small Insurers	175.3	80%	186.9	78%	209.2	78%
Small Insurers	22.2	10%	26.2	11%	31.2	12%
<b>Total</b>	<b>\$ 219.0</b>	<b>100%</b>	<b>\$ 239.6</b>	<b>100%</b>	<b>\$ 269.3</b>	<b>100%</b>

The TRIP-eligible (by DEP) market share of small insurers has increased slightly over the past three data collections and their aggregate direct earned premiums have grown from \$22.2 to 31.2 billion.

# Observations: Terrorism Coverage At No Additional Cost



## 2022 Percentage of DEP Where Policies Include Terrorism Coverage At No Additional Cost (by Line of Insurance and Insurer Category)

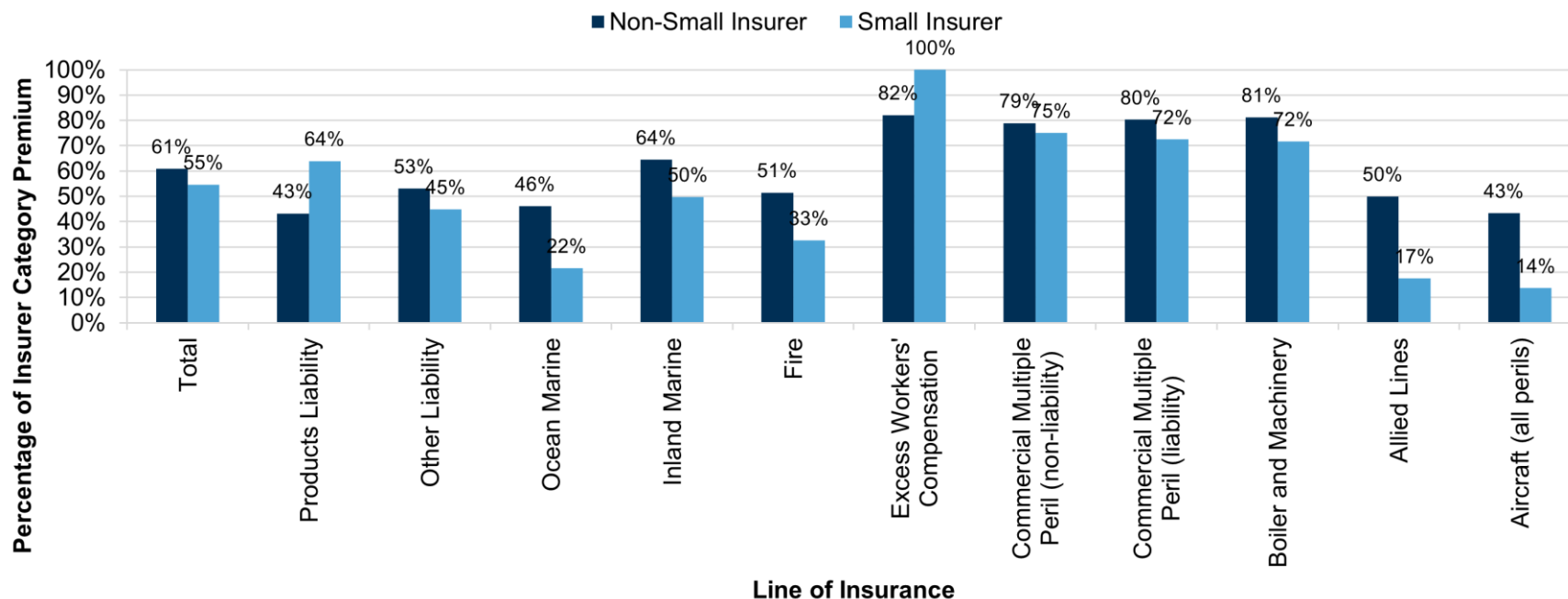


Data reported by small insurers in prior data calls reflected that they were more likely than non-small insurers to charge no premium for terrorism risk insurance. However, the most recent reported information in this year's data call reflects that small and non-small insurers were equally likely to assess no additional charge for terrorism risk insurance.

# Observations: Terrorism Risk Take-Up Rates by LOB



## 2022 Terrorism Risk Insurance Take-Up Rates (by Line of Insurance and Insurer Category)

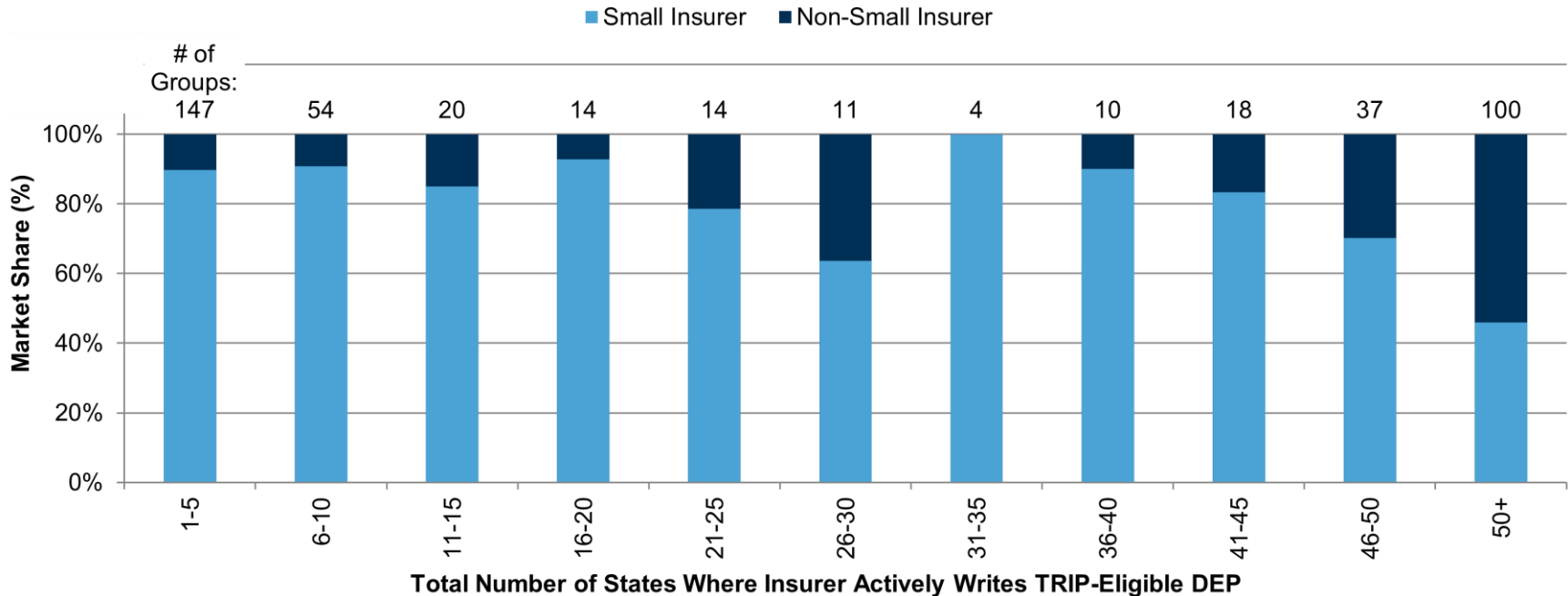


Based on the most recent reported data, terrorism risk insurance take up rates by small insurer policyholders overall are slightly lower than the take-up rates for the policyholders of non-small insurers.

# Observations: Multi-state Underwriting



## 2022 Geographic Scope of DEP (by Insurer Category)

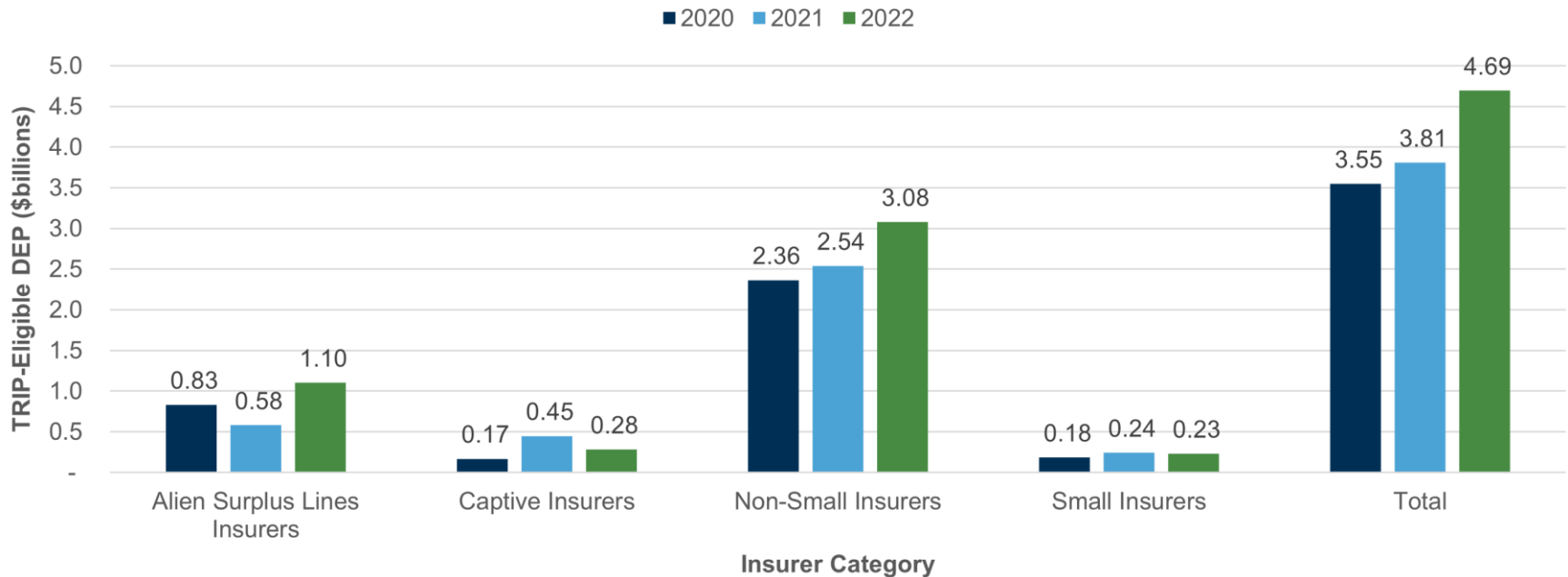


Small insurers also tend to provide coverage in fewer states than do non-small insurers, and small insurers earn a higher percentage of DEP in the commercial multi-peril (CMP) and workers' compensation lines than do non-small insurers.

# Observations: DEP for Cyber Policies



## 2020-2022 TRIP-Eligible DEP for Cyber Policies

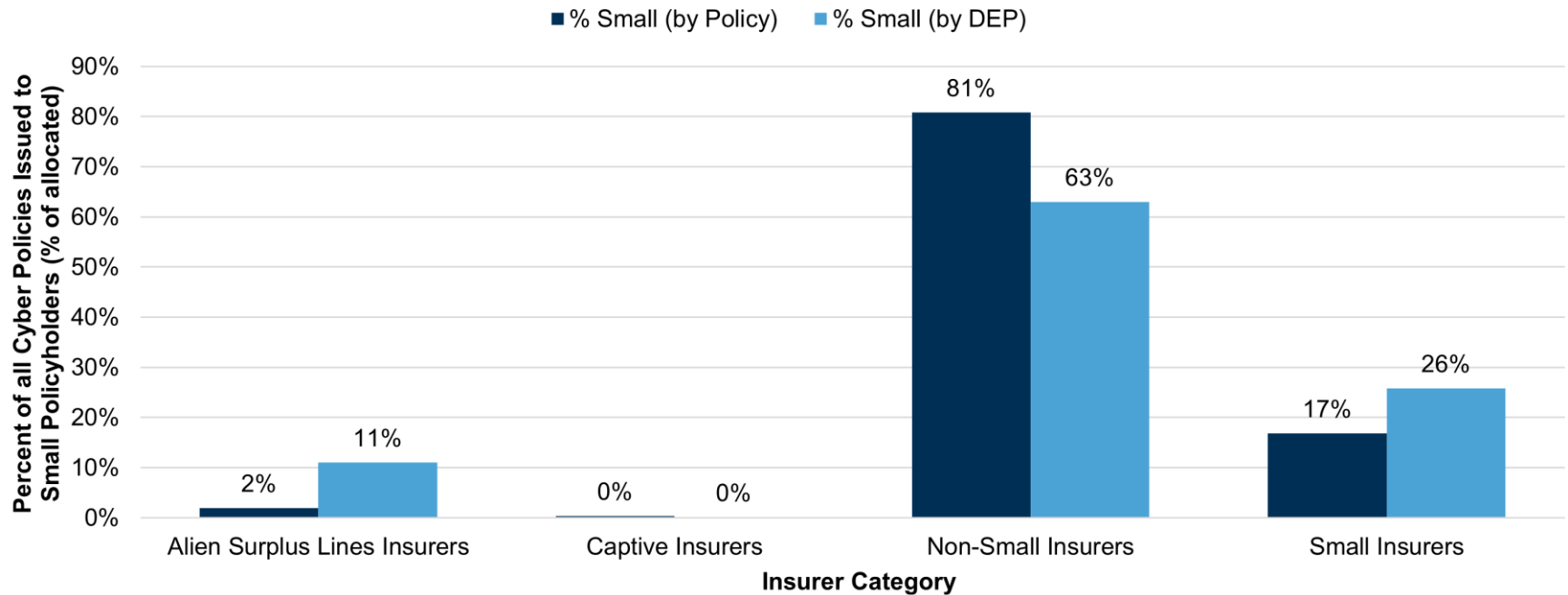


Small insurers are participating in the cyber insurance market covered under the TRIP-eligible lines of insurance at different premium levels and at different terrorism risk insurance take-up rates than other market participants. Small insurers have a smaller share of the cyber insurance market as compared to their share of the TRIP-eligible lines market generally.

# Observations: Cyber Market Share for Small Policyholders



## 2022 Market Share (by Number of Policies and DEP) for Cyber Insurance Issued to Small Policyholders



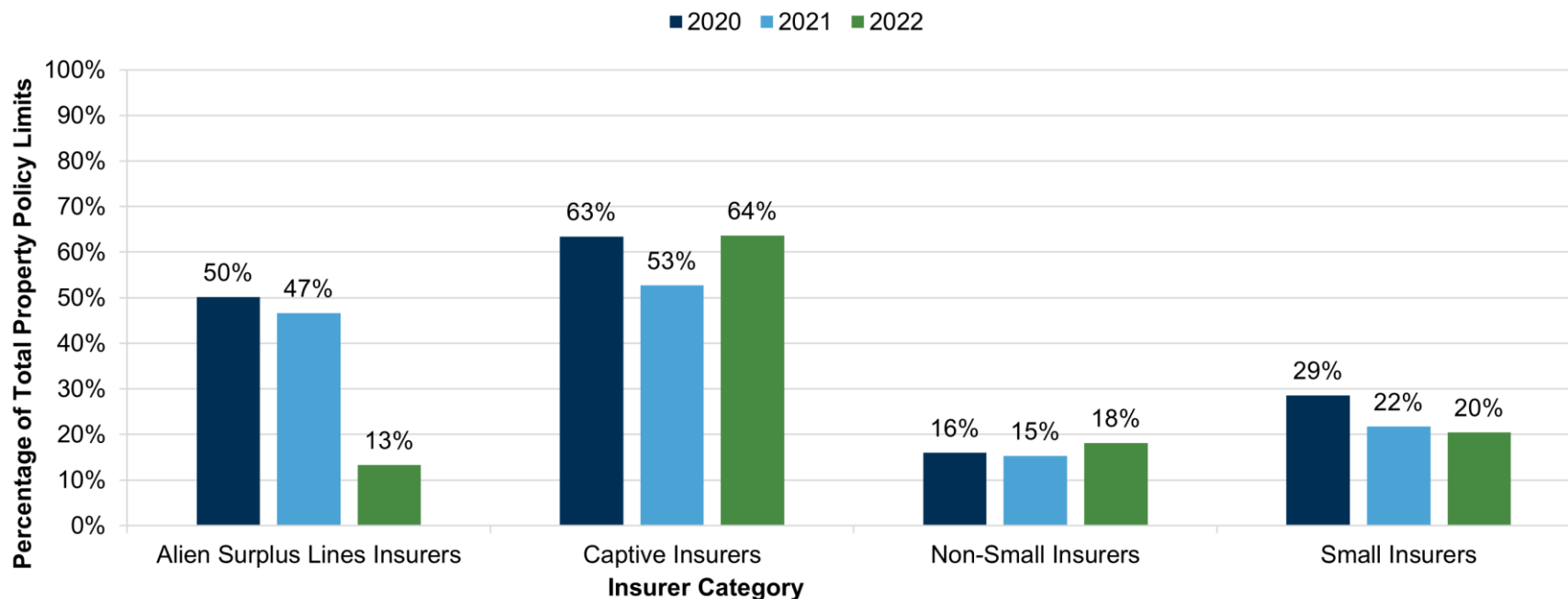
The most recent reported data shows that small insurers have a more significant share of the market for cyber insurance issued to small insurers' policyholders than they have in most other TRIP-eligible lines.



# Observations: NBCR Residual Exposure by Property Limits



## 2020-2022 Percentage of Terrorism Risk Insurance Property Limits Where NBCR Exposures are not Entirely Excluded

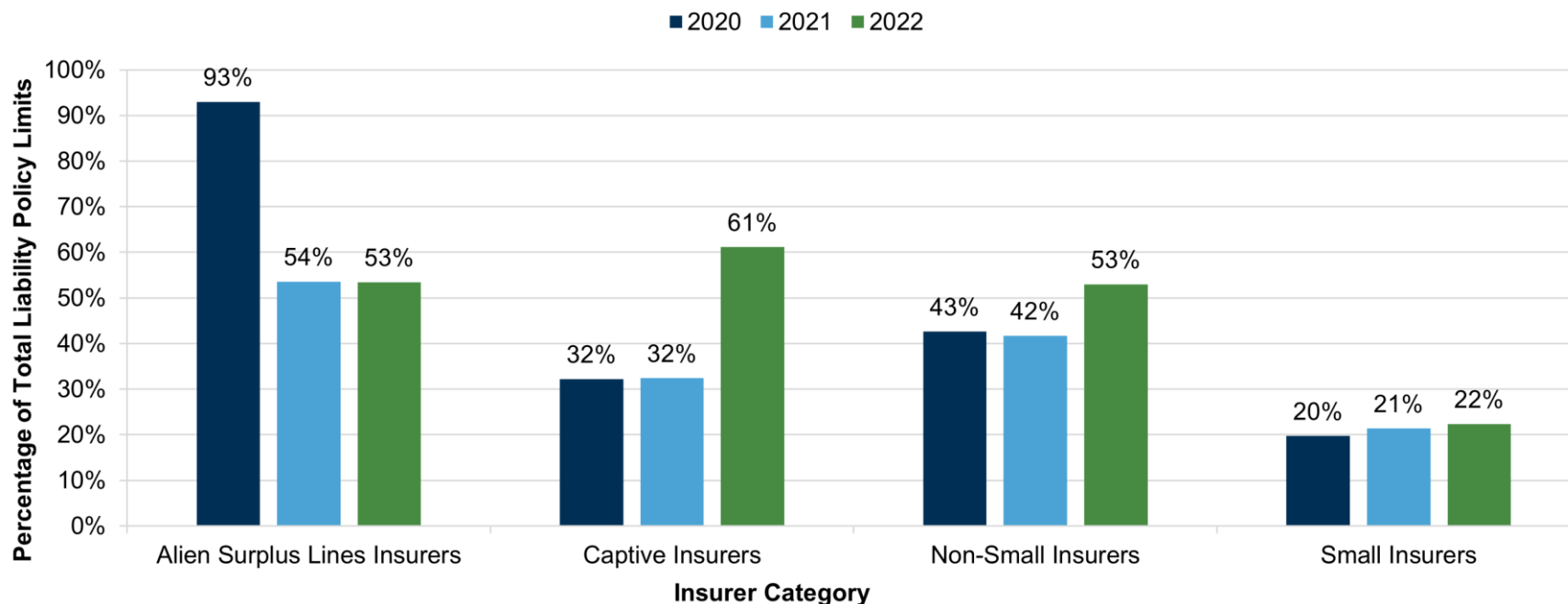


The reported data shows that small insurers exclude coverage for nuclear, biological, chemical, and radiological (NBCR) risks from their terrorism risk insurance coverage at similar percentages as shown by other industry participants.

# Observations: NBCR Residual Exposure by Liability Limits



## 2020-2022 Percentage of Terrorism Risk Insurance Liability Limits Where NBCR Exposures are not Entirely Excluded

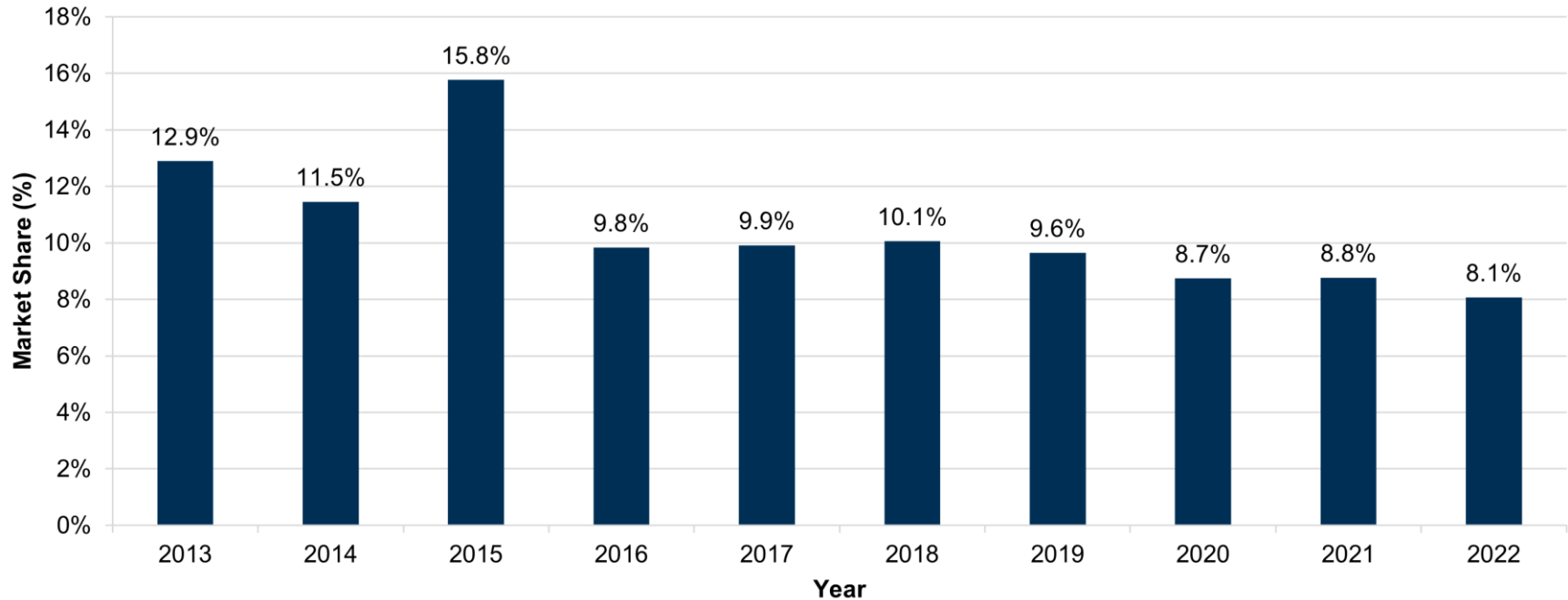


Nonetheless, small insurers reported limits continue to indicate that small insurers may still have a significant aggregate exposure associated with such losses.

# Observations: Small Insurer Non-TRIP Market Share



## 2013-2022 Small Insurer DEP Market Share in P&C Lines of Insurance Not Subject to TRIP

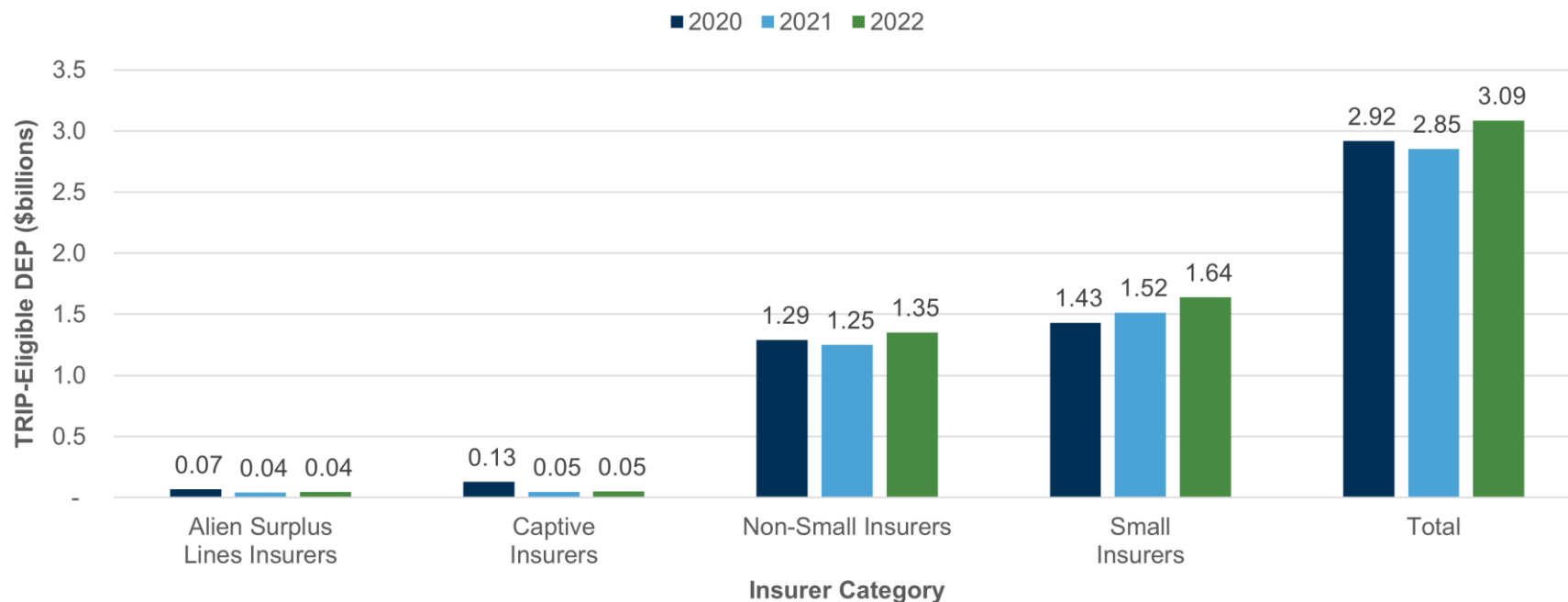


The market share of small insurers in the lines of insurance covered by TRIP (~12%) is slightly higher than their market share in property and casualty (P&C) insurance lines not covered by TRIP.

# Observations: DEP For Places of Worship



## 2020-2022 Market Share of TRIP-Eligible Lines Premium for Places of Worship by Insurer Category



Small insurers are the largest market provider of terrorism risk insurance for places of worship, in an amount far exceeding their overall share of the terrorism risk insurance market.

# Terrorism Risk Insurance Catastrophe Modeling



In its May 2020 Report, the Advisory Committee on Risk-Sharing Mechanisms (ACRSM) recommended that Treasury invest in a “small, dedicated analyst team focused on terrorism risk modeling, with budget and scope allowing for the pursuit of modeling partnerships.” The ACRSM Report suggested that FIO obtaining such modeling capability could improve FIO’s administration of TRIP.

Prior to the 2023 Small Insurer Study, Treasury acquired for TRIP a commercial terrorism risk model with the capacity to use commercially available geocoded U.S. property and employment data to generate property and casualty damage estimates for specific locations (e.g., by GPS coordinates, address, ZIP Code) resulting from a variety of different modeled conventional (e.g., a 5-ton truck bomb) and unconventional (i.e., NBCR) attack modes at various times of day. Combining these outputs with likely insurance coverage information (such as that collected in Treasury’s annual data calls) will allow Treasury to estimate property and workers’ compensation losses by line of insurance for each scenario. Treasury can also estimate the percentage of total P&C insurance losses retained by policyholders, and the estimated financial impact on TRIP.

TRIP will continue to leverage the terrorism risk model to better understand the threat presented by various attack modes and corresponding economic, insurance industry and Program exposures.