

**CONFERENCE ON CATASTROPHIC RISKS
AND INSURANCE**

22-23 November 2004

**ISSUES AND OPTIONS IN THE MANAGEMENT OF
TERRORISM RISK THROUGH INSURANCE**

Robert T. Reville (Rand Corporation)

Powerpoint presentation

This document is circulated for Session 1 of the Conference on Catastrophic Risks and Insurance, to be held on 22-23 November 2004 at the OECD Headquarters, 2 rue André Pascal, 75016 Paris, starting at 9:00 a.m.

For further information on this conference, please contact Cécile Vignial, Financial Markets Division (Cecile.Vignial@oecd.org), or Yosuke Kawakami or Morven Alexander, Outreach Unit for Financial Sector Reform (Yosuke.Kawakami@oecd.org or Morven.Alexander@oecd.org)



Center for Terrorism Risk Management Policy

***Issues and Options in the Management of
Terrorism Risk Through Insurance***

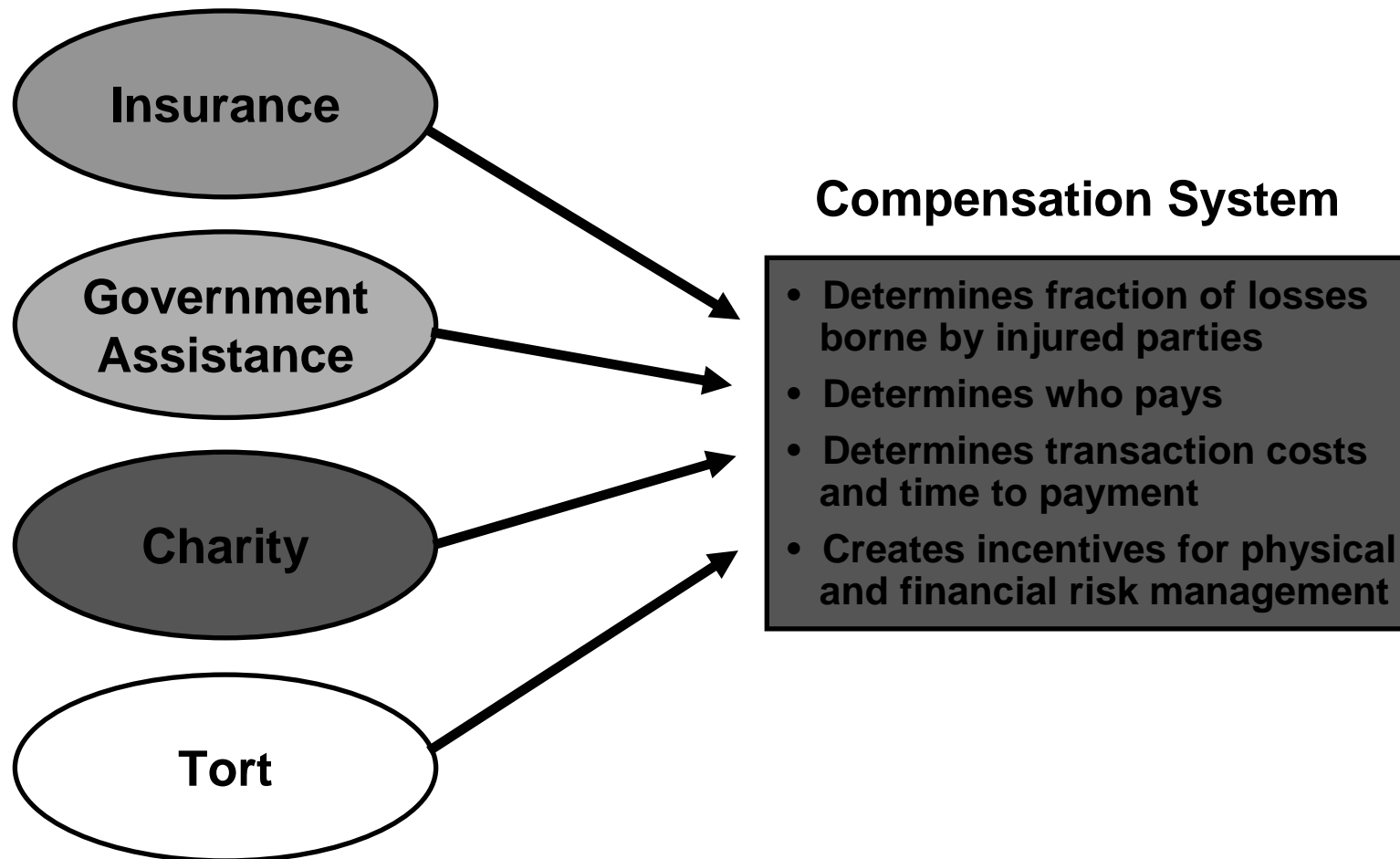
Robert T. Reville

November 22, 2004

Center for Terrorism Risk Management Policy

- **Empirical nonpartisan policy research on terrorism risk management**
 - Insurance, liability, victims' compensation, security resource allocation
- **Policy research center within the RAND Corporation**
 - Based in Santa Monica, CA
 - Offices in USA (3), Netherlands, UK, Germany, Qatar
- **Joint effort with Risk Management Solutions (RMS)**
- **Supported by private sector (insurance, reinsurance, insureds) and public sector**

CTRMP Conducts Policy Research on Terrorism Compensation System



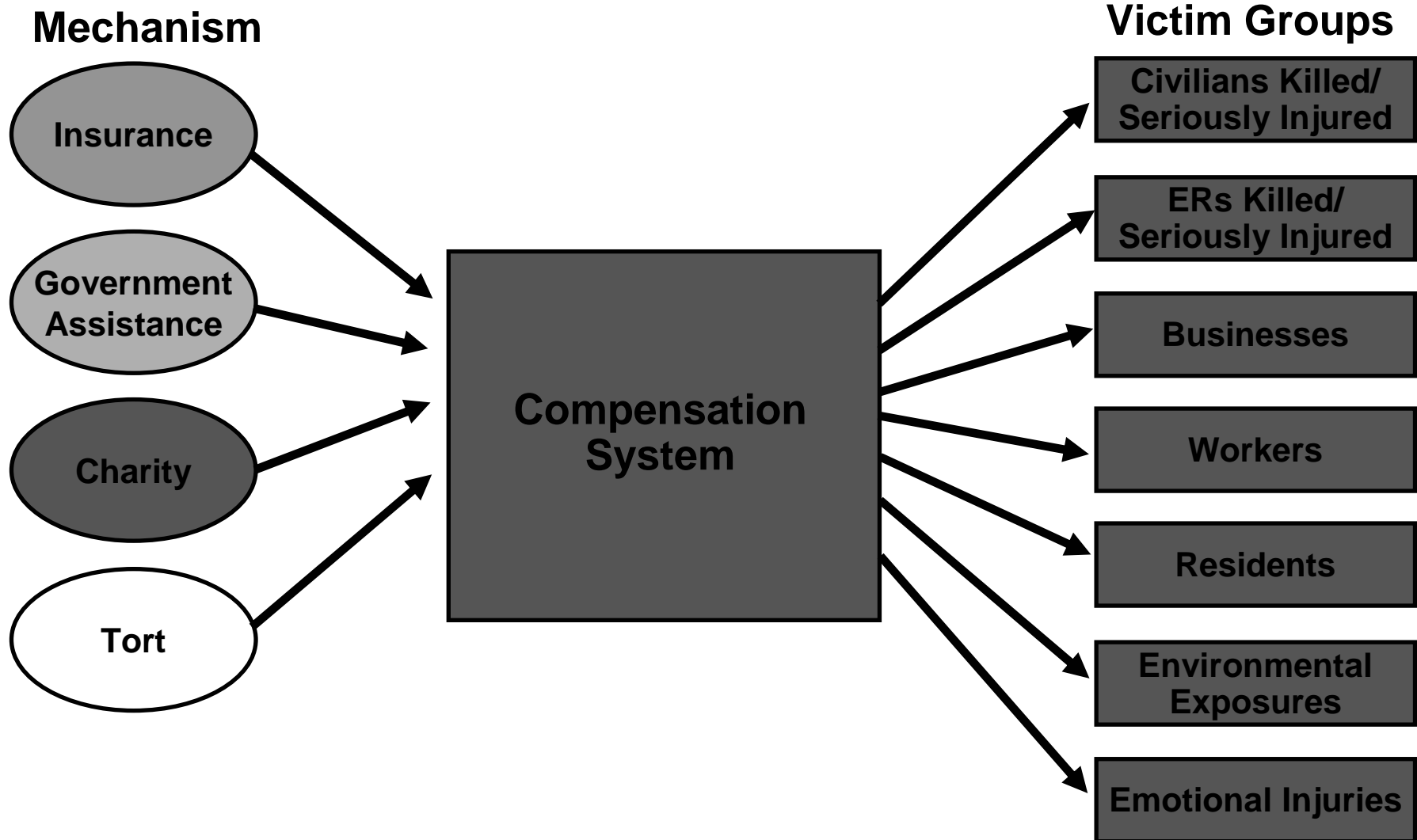
A Compensation System Is Integral to a National Strategy to Combat Terrorism

- **Helps the economy rebound after an attack, reducing economic vulnerability**
- **Creates incentives to adopt security measures, reducing physical vulnerability**
- **Can reduce the amount of panic and social fragmentation caused by attacks, thwarting the aims of terrorists**

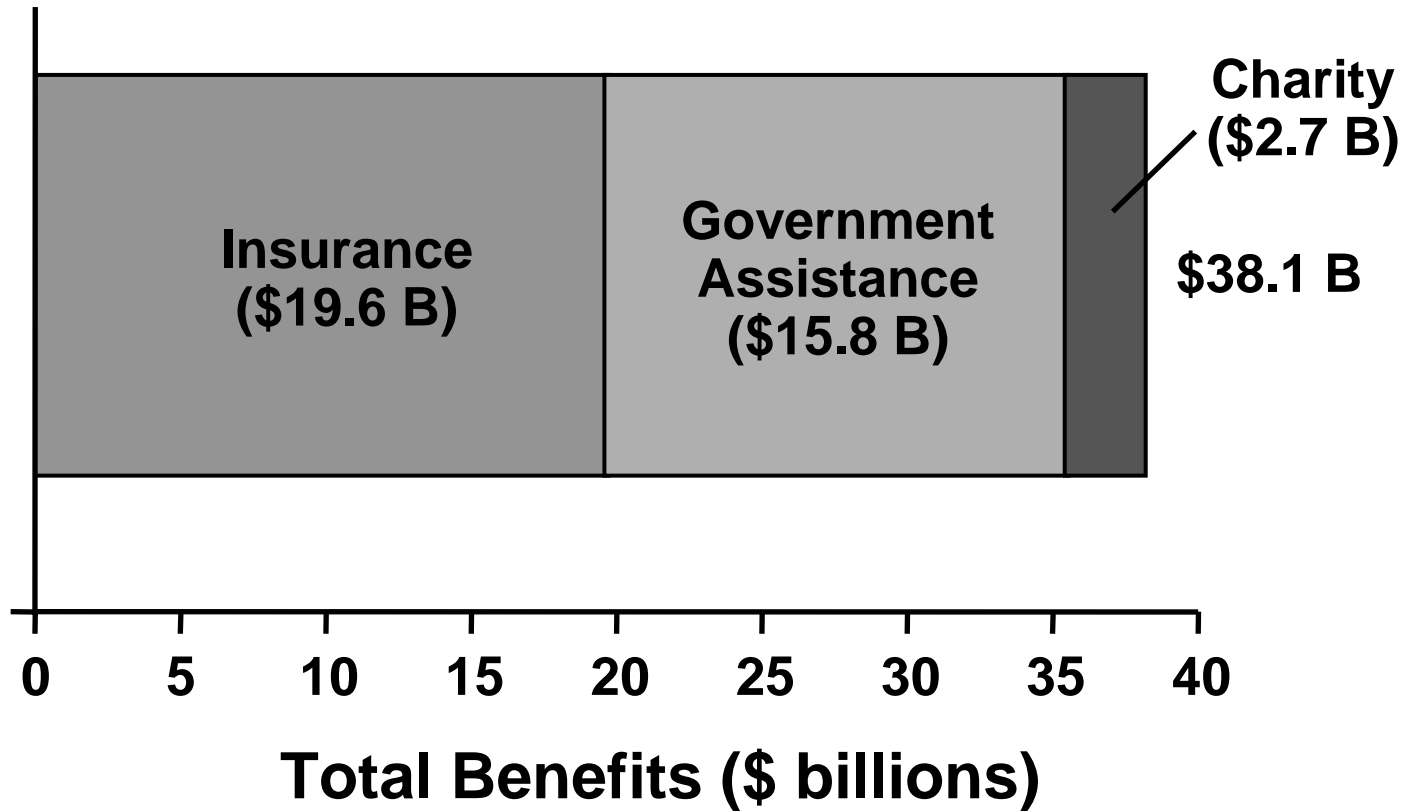
Roadmap

- **Findings about insurance from study of 9/11 compensation**
- **Issues and options for government intervention in the market for terrorism insurance**
- **Research in progress in the CTRMP**

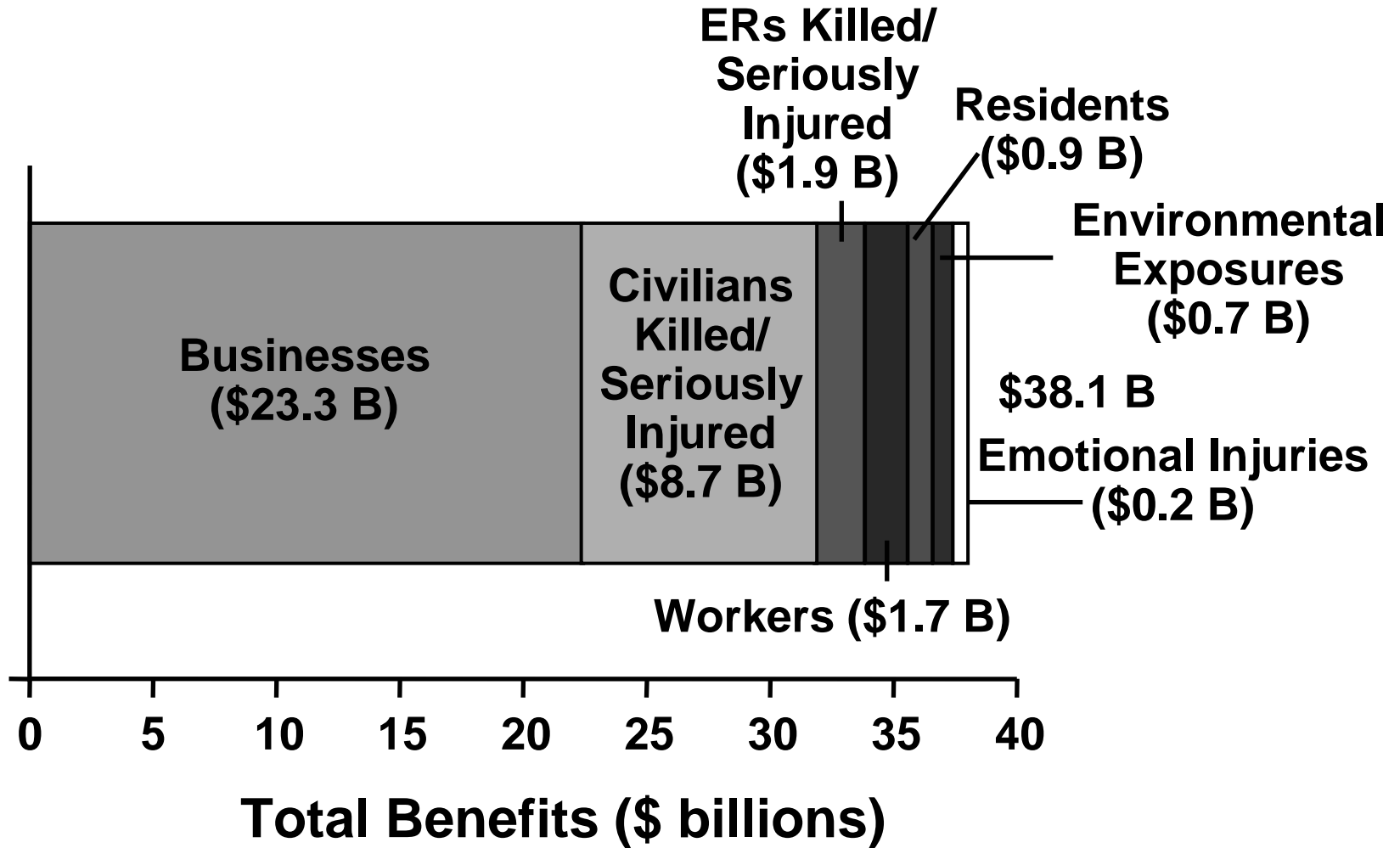
The Compensation System Distributes Funds to Various Victim Groups



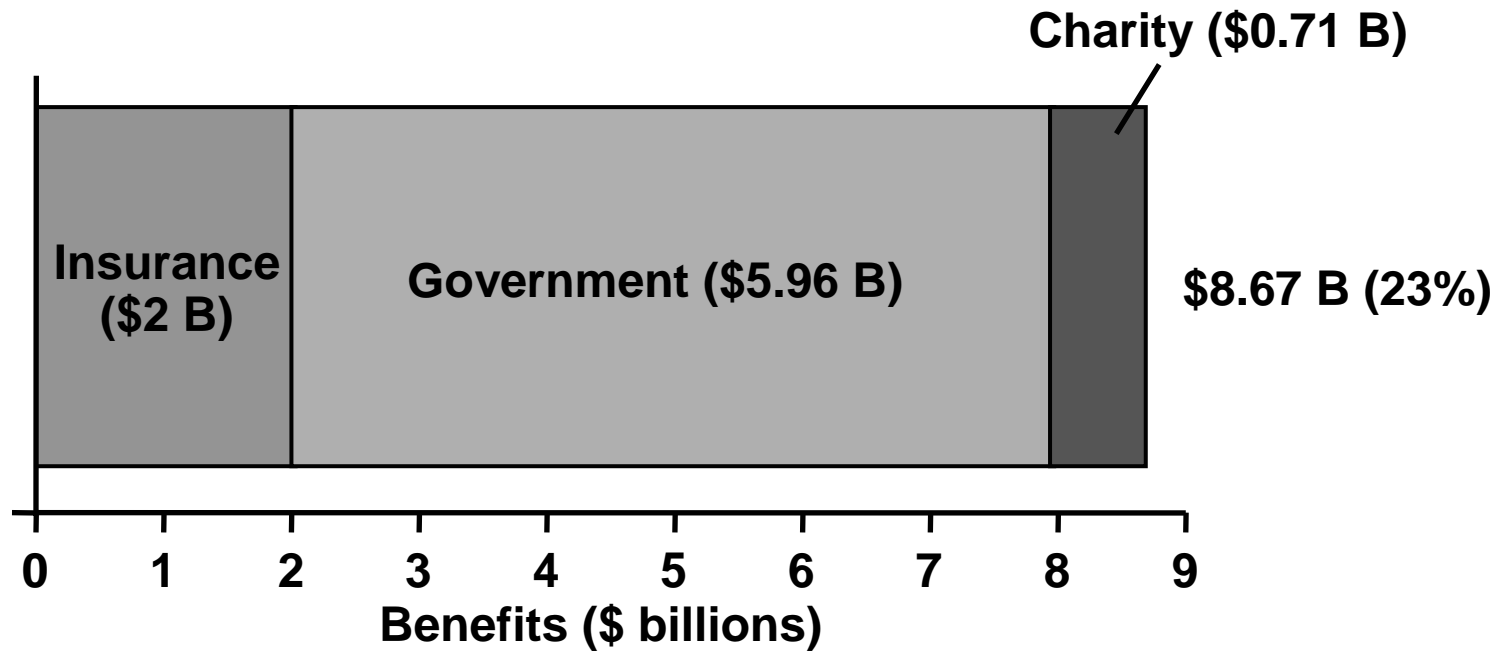
Insurance Provided the Largest Amount of Benefits; Tort Has Played Minor Role So Far



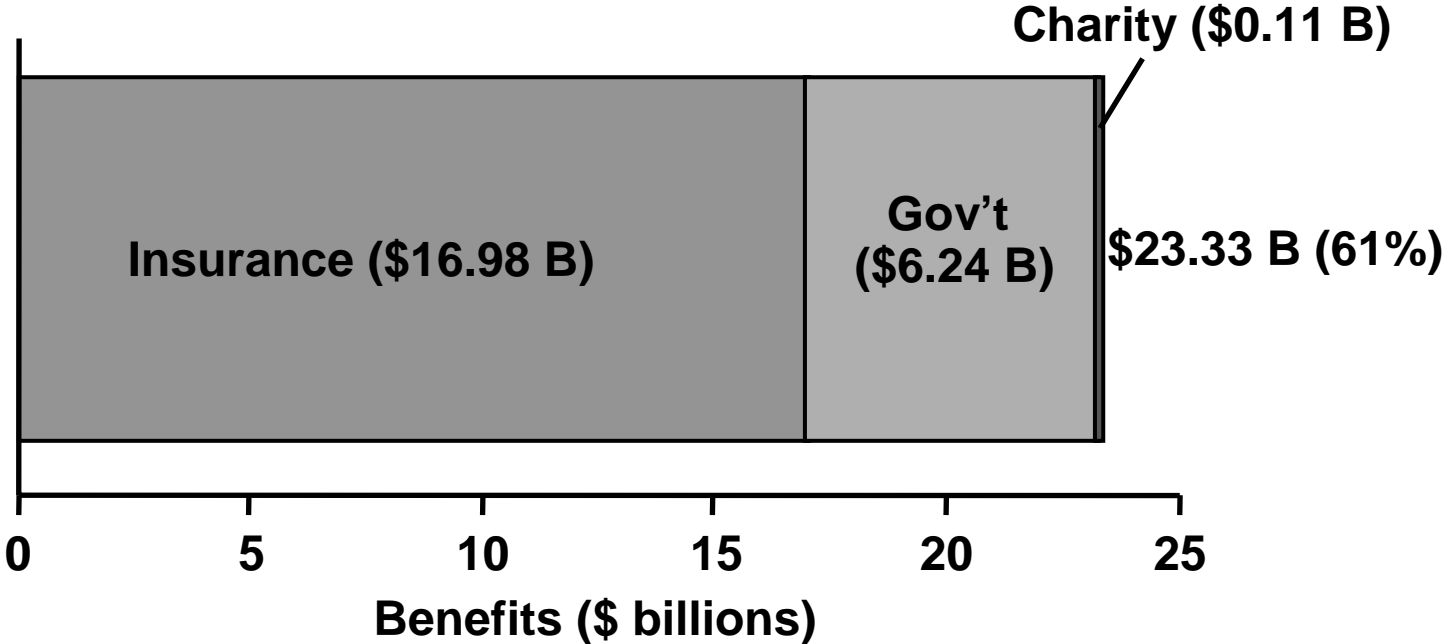
Most Benefits Went to Businesses



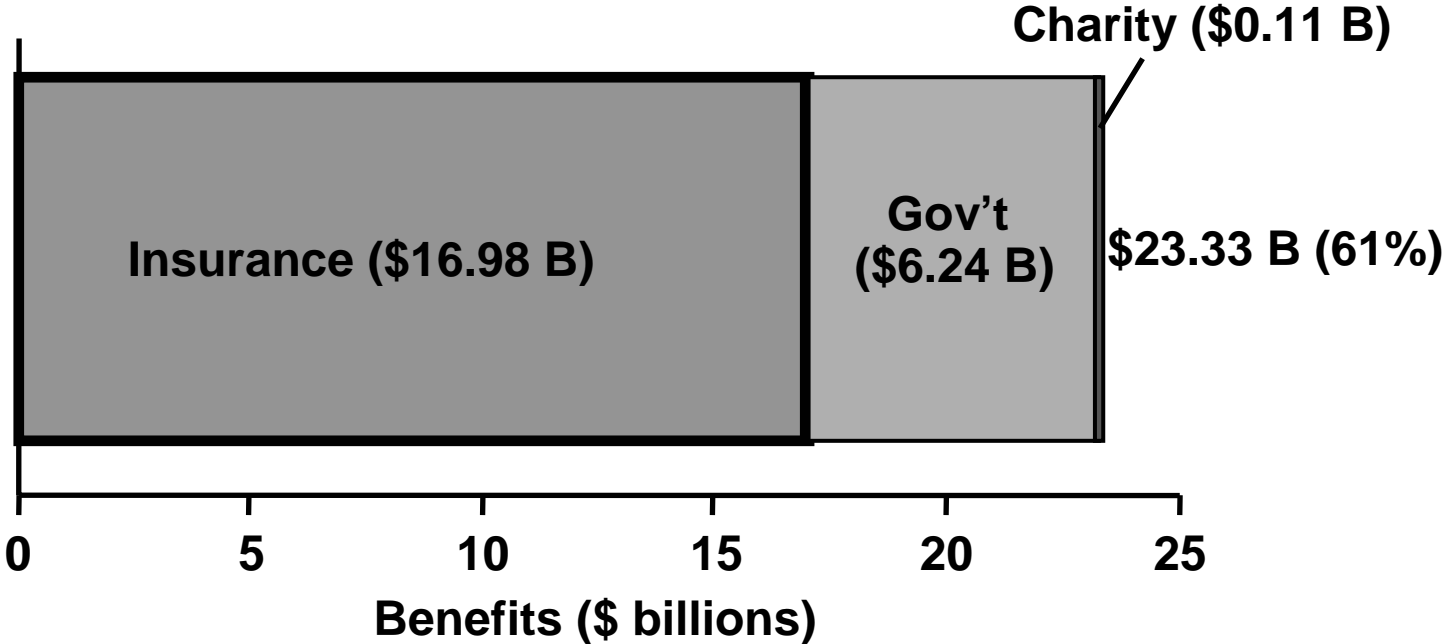
Government Provided Most of the Benefits to Civilians Killed or Seriously Injured



Insurance Paid Most of Benefits to Businesses

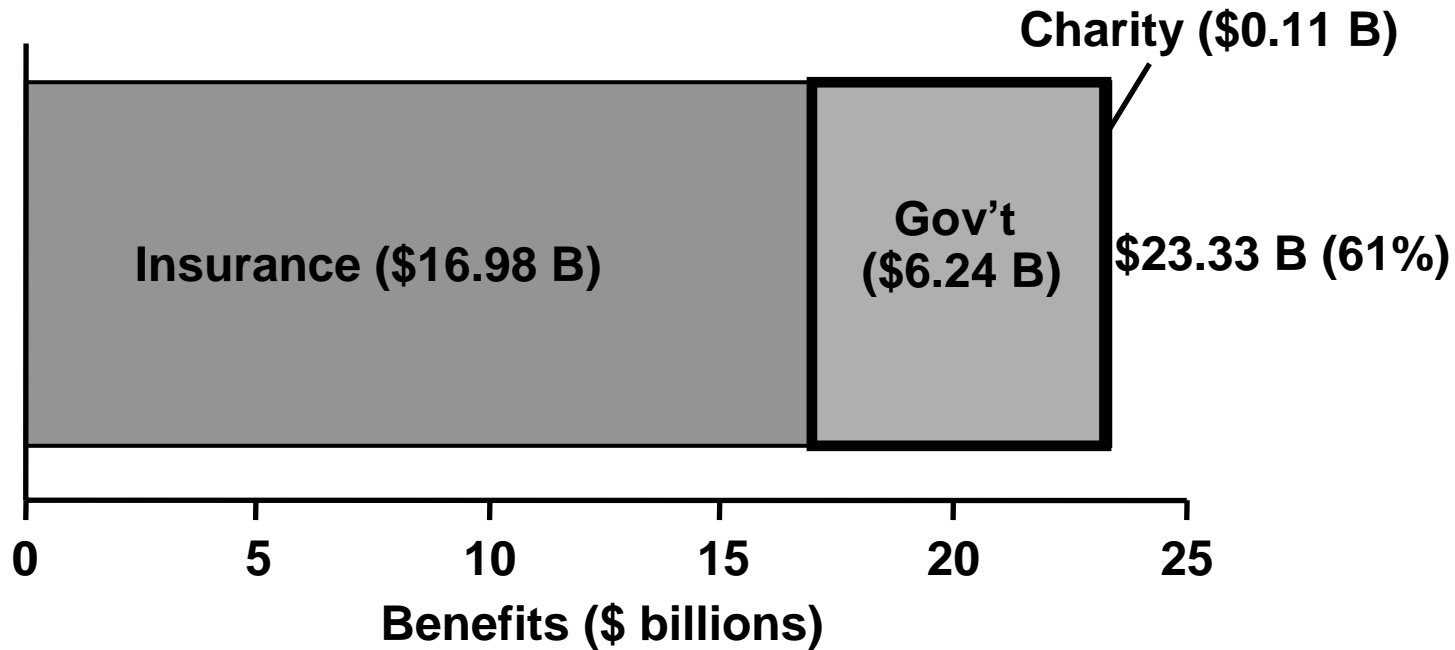


Insurance Paid Most of Benefits to Businesses



Property damage
Business interruption

Insurance Paid Most of Benefits to Businesses



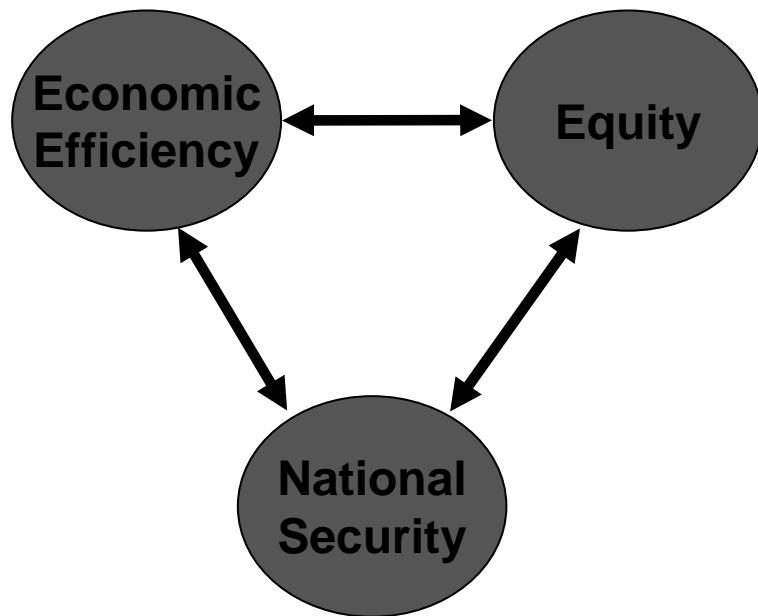
Property damage
Business interruption

Low-interest loans
Grants
Tax breaks
Incentives to locate in NYC

Roadmap

- **Findings about insurance from study of 9/11 compensation**
- **Issues and options for government intervention in the market for terrorism insurance**
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In Developing Policies, Five Issues Must Be Considered in Light of System Goals



- 1. To what extent can private insurance provide terrorism insurance at commercially viable rates?**
- 2. To what extent can individuals and businesses accurately assess terrorism risk?**
- 3. How should national security considerations factor into policies on insurance and the compensation system more generally?**
- 4. How should payments to cover terrorism losses be financed?**
- 5. How much should government policies be tailored to different insurance market segments or types of attack?**

Three Fundamentally Different Policy Approaches Exist

Rely on Private Insurance Markets

- 1. Catastrophe bonds**
- 2. Pre-funded, tax-free reserves**
- 3. Voluntary pool for workers' compensation**

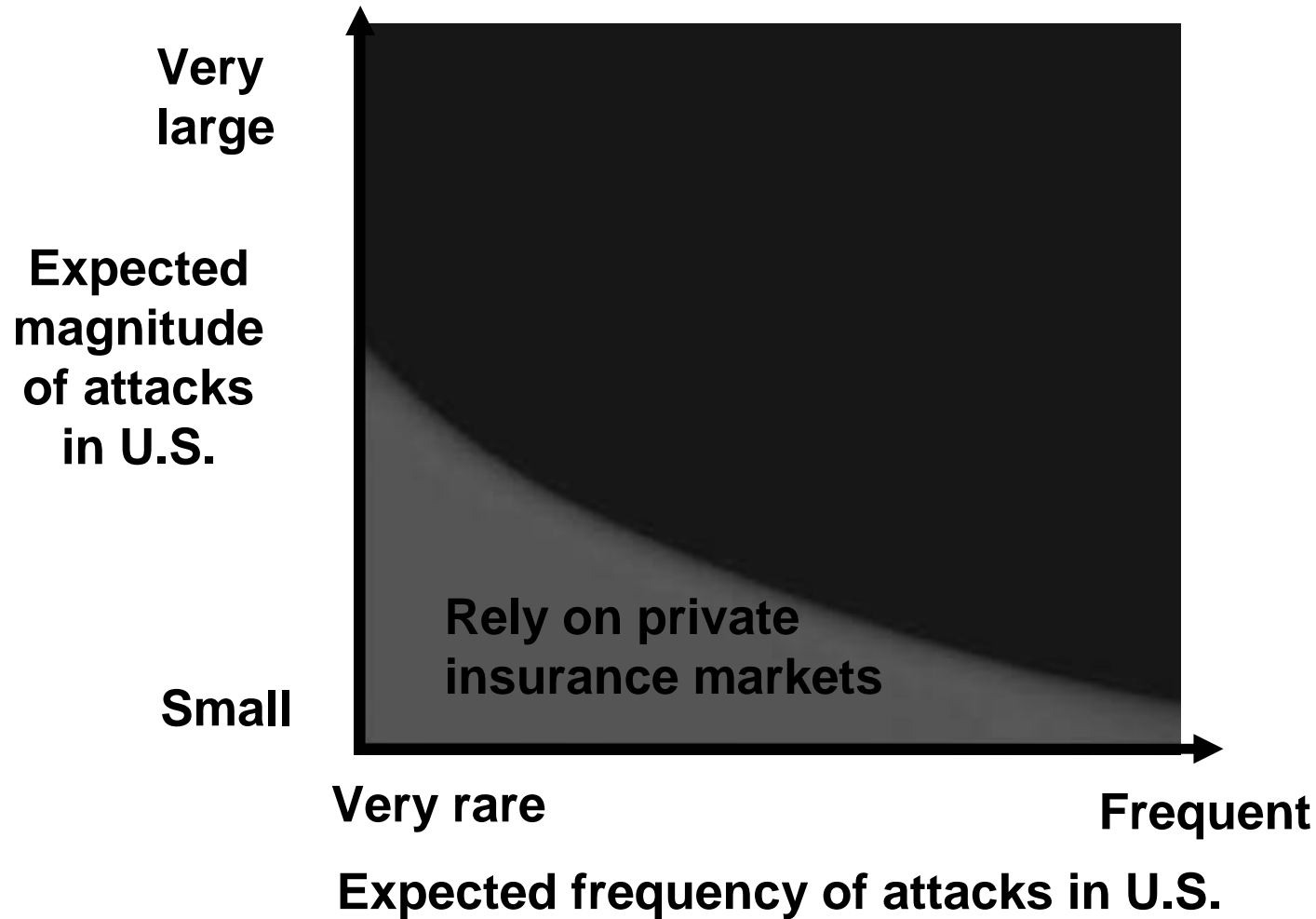
Public-Private Partnership

- 1. TRIA remains in place**
- 2. TRIA is expanded**
- 3. TRIA is rolled back and replaced with industry pool**
- 4. Mandatory government-sponsored insurance**

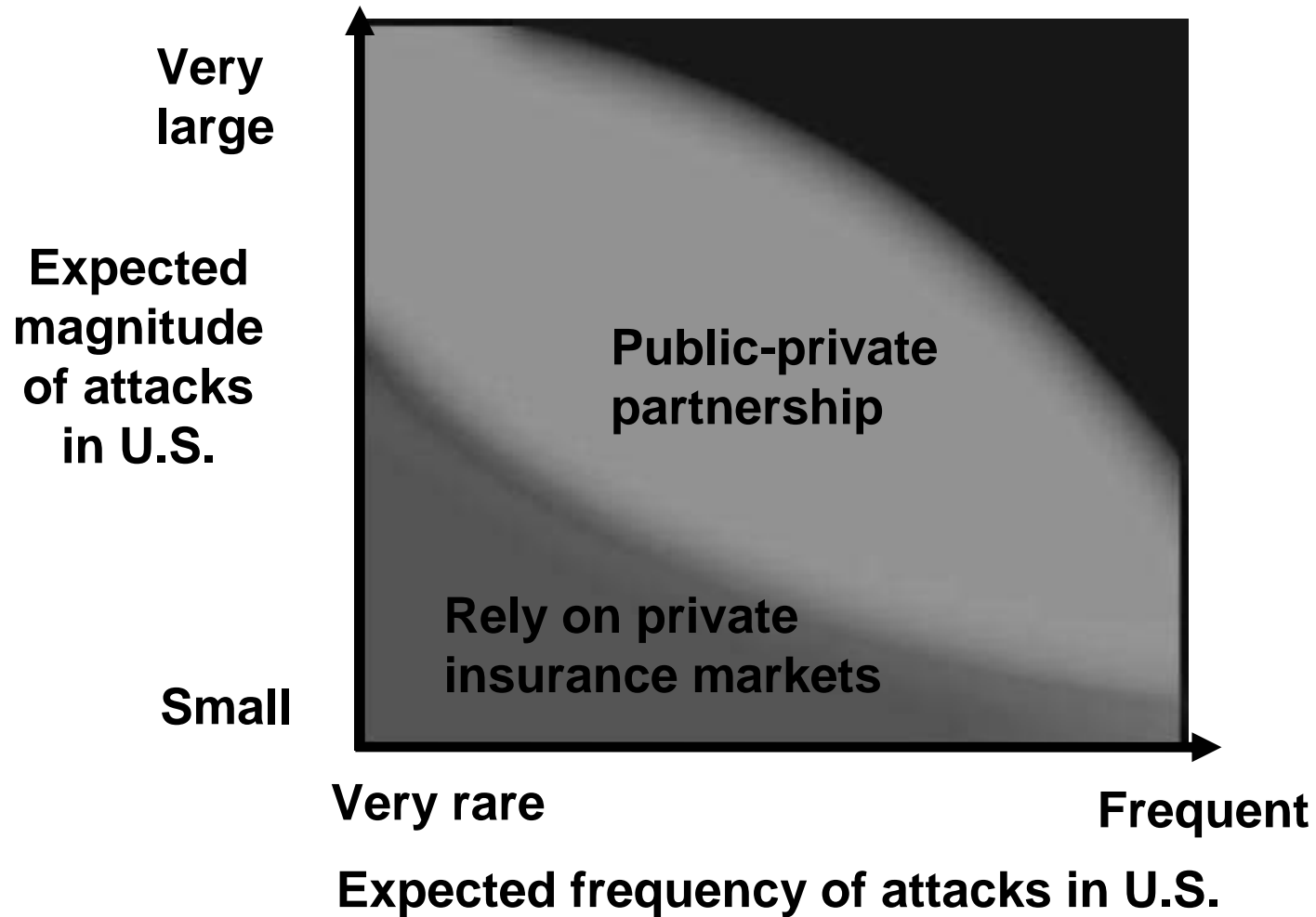
Provide Compensation Directly

- 1. Government-provided compensation with partial recovery**
- 2. Government-provided compensation with nearly full recovery**

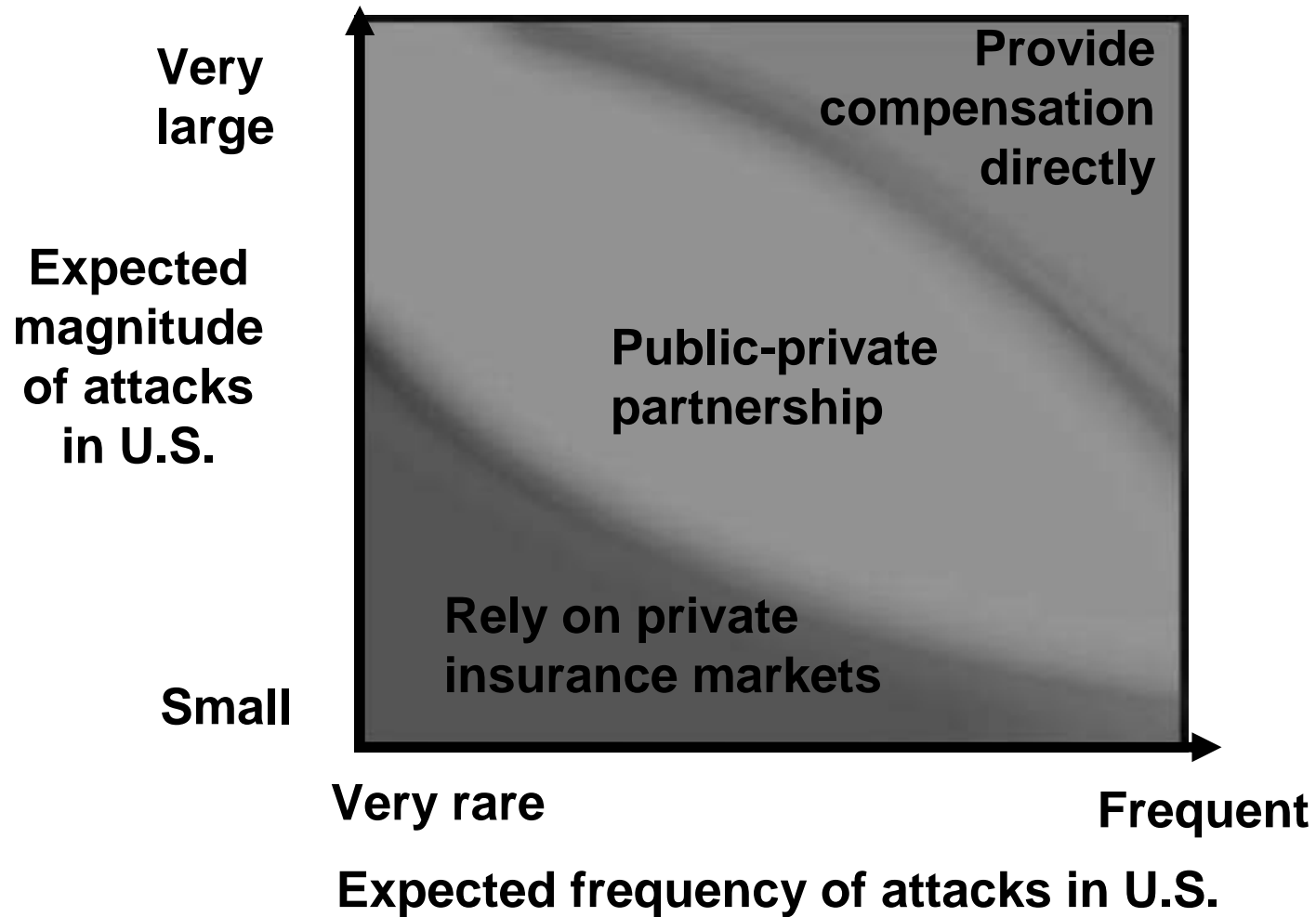
More Work Is Needed to Explore the Circumstances Under Which Each Approach Makes the Most Sense



Each Approach Makes Sense Under Different Conditions



Each Approach Makes Sense Under Different Conditions

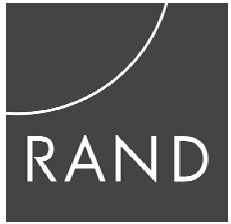


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Further CTRMP Research Will Address a Variety of Issues

- **Quantitatively evaluating policy options under different attack scenarios**
- **The Future of Terrorism and the Architecture of TRIA**
- **Improving models for the frequency of attacks**
- **Examining role of tort liability in the risk management and compensation system**
- **Exploring ways to improve information sharing in terrorism insurance**



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