

Why GAO Did This Study

A number of countries have established national terrorism risk insurance programs to respond to market shortages for such insurance resulting from attacks either in their own or other countries. Many programs were created following the events of September 11, 2001, but some existed earlier. In 2002, the Terrorism Risk Insurance Act established a program to ensure the availability of terrorism risk insurance in the United States.

The Terrorism Risk Insurance Program Reauthorization Act of 2015 includes a provision for GAO to review how other countries have structured and funded their terrorism risk insurance programs. This report compares the structures of and the role of government in selected foreign terrorism insurance programs and examines the loss-sharing arrangements between the government and private sector. Of the 16 programs identified through a literature review, GAO selected 6 representing a range of structures to examine in-depth—programs in Australia, Austria, India, Spain, the United Kingdom, and the United States. For the six programs, GAO reviewed program financial statements, annual reports, and documentation from the Organisation for Economic Co-operation and Development and interviewed officials from terrorism insurance programs, agencies, reinsurance companies, and trade associations.

GAO makes no recommendations in this report. GAO provided a draft to Treasury and the five selected programs for their review and received technical comments, which were incorporated as appropriate.

View [GAO-16-316](#). For more information, contact Daniel Garcia-Diaz at (202) 512-8678 or GarciaDiazD@gao.gov.

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TERRORISM RISK INSURANCE

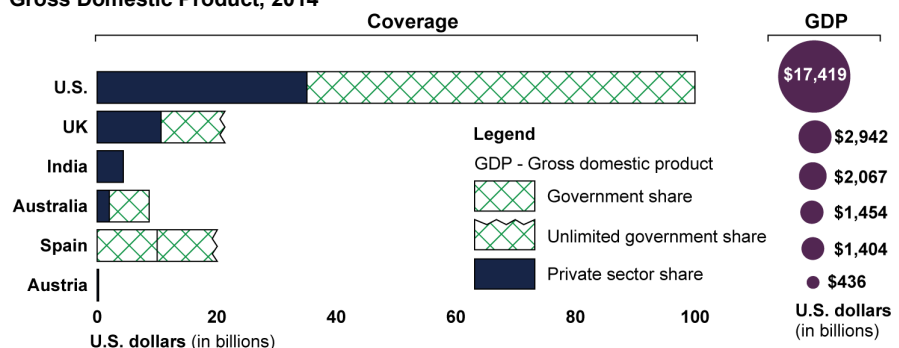
Comparison of Selected Programs in the United States and Foreign Countries

What GAO Found

The structures of the 16 terrorism insurance programs GAO reviewed generally fell into three broad categories. Programs in the first category have a multilayered structure, with insurers, reinsurers (which offer insurance for insurers), and governments providing coverage. Several programs, including those in Australia and the United Kingdom (UK), use this approach. In the second category, which includes Spain and Israel, government entities provide all the coverage for terrorism risk, and insurers and reinsurers do not take on any risk. The third category includes programs, such as those in Austria and India, in which insurers and reinsurers are entirely responsible for providing coverage and the government has no financial role. In comparison, the U.S. program involves coverage from the government and insurers, but it differs from many programs as its program does not include the purchase of reinsurance.

Among the six programs GAO reviewed in-depth, the loss-sharing arrangements among program participants vary, but program reserves and the private sector likely would be able to cover losses from most conventional terrorist events before public funds are needed, according to program officials. However, in the event of a very large terrorist attack, governments that have a role would potentially be responsible for a substantial proportion of losses. As shown in the figure, programs in which the government provides a layer of financial support have greater total amounts of coverage compared to those with only private sector participation. Additionally, private sector coverage is larger under programs in countries with larger economies, as measured by gross domestic product. In the event of a large terrorist attack, insurers in the United States could pay more than the total coverage provided by the other five countries' national programs. Most of the selected programs collect premiums up front to cover losses and program costs; the United States, in contrast, collects reimbursement for actual losses and associated expenses after an event occurs.

Coverage and Loss-Sharing Arrangements of Selected Terrorism Insurance Programs and Gross Domestic Product, 2014



Source: GAO analysis of 15 U.S.C. § 6701 note, financial data from Organisation for Economic Co-Operation and Development, program documents, and interviews, and economic indicators from the World Bank. | GAO-16-316

Note: In the UK, the government share is an unlimited line of credit to the private program that is expected to be repaid. Spain's funds include program reserves for terrorism and other catastrophic events and an unlimited government backstop. The unlimited government shares are portrayed as matching the program funds, but the actual size could differ depending on the type and size of terrorist attack. Austria's program is entirely private.