11. (2.25 points)

    a. (0.75 point)

        Briefly describe three reasons policy-makers passed the Terrorism Risk Insurance Act (TRIA).

    b. (1 point)

        For each terrorism event below, calculate the reimbursement for which an insurer would be eligible under TRIA. All losses occurred after 2007.

        i.   Terrorism Event #1

Aggregate industry losses	$75 million
Insurer's share of losses	$50 million
Insurer's deductible	$5 million

        ii.   Terrorism Event #2

Aggregate industry losses	$200 million
Insurer's share of losses	$75 million
Insurer's deductible	$10 million

    c. (0.5 point)

        Identify two reasons why terrorism could be considered uninsurable by the private market.

QUESTION 11	
TOTAL POINT VALUE: 2.25	**LEARNING OBJECTIVE: B1-B2**
SAMPLE ANSWERS	

Part a: 0.75 point

Sample 1:
- Private insurer didn't want to insure against terrorism acts following 2001/09/11
- This would make some insured unable to meet their regulatory requirements (e.g. necessary for mortgages)
- This raised fear of economic disruption (delayed in construction projects)

Sample 2:
- To fill the need for commercial building insurance unmet by private insurers
- To ensure stable social environment as many of the construction projects could not be built is no such insurance existed
- For efficiency, as Department of Treasury can make use of existing private insurer infrastructure for claims handling

Sample 3:
- Construction and development projects would be delayed if no coverage
- Business owners would not be able to satisfy their legal obligations with their lenders (requiring adequate insurance of assets)
- If terrorism program was under government control, it would be inefficient as providing timely access to benefits (so it uses private insurers in TRIA)

Sample 4:
- To fill an insurance need unmet by private insurers as they generally exclude terrorism risk from their coverage
- To achieve a social purpose as it would have slowed the while economy by delaying construction projects by restricting loans, etc.
- Convenience: government may set up as insurance program quickly and is able to work with Treasury Department to find ways to recoup losses in a case of an event

Part b: 1 point

i) Aggregate industry loss below 100M$ threshold so no reimbursement (event won't be considered eligible)

ii) Event > 100M$ so coinsurance is 15%. Reimbursement = (75M - 10M) * (1 - 15%) = 55.25M

Part c: 0.5 point

Sample 1:

- Too large potential losses and no basis to evaluate the premium to charge for such risk
- CAT bonds market insufficient to manage terrorism risk

Sample 2:
- High potential for catastrophic loss may cause lack of funding for program without government support
- TRIA rates are highly subsidized, premiums would be too high in a private market

EXAMINER'S REPORT
Candidate did ok on this question. Calculations seem to be the hardest part of this question.
Part a
Candidates were expected to know the reasons of inception of TRIA. Most of the candidates came up with at least 2 reasons.
Part b
Calculations seemed to prove a little hard for candidates. Candidates were expected to know how to apply the deductible and coinsurance for the reimbursement.
Part c
Candidates were expected to know at least one reason why terrorism couldn't be insurable