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# Trends in Terrorism

Threats to the United States  
and the Future of the  
Terrorism Risk Insurance Act

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# Summary

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## Introduction

The Terrorism Risk Insurance Act of 2002 (TRIA) was crafted in the aftermath of the 9/11 attacks after the insurance industry, stung by \$32 billion in damage claims (by current estimates) and fearing another attack of equal magnitude, began to exclude terrorism coverage from policies. The legislation requires insurance companies to make terrorism insurance available to customers and, in return, provides federal reinsurance (a “backstop”) for losses from terrorist attacks. It is intended to give insurers time to assess their exposure to terrorism risk and to consider how to price and underwrite the risk. TRIA is set to expire at the end of December 2005.

TRIA embodies federal policy that a private insurance market will provide the foundation of the financial recovery from future terrorist attacks. It also recognizes that since the risk is unfamiliar to the industry, federal government assistance should, at least in the short run, be made available to support this market.

In this book, we examine whether this policy and, in particular, the architecture of TRIA provide robust protection against the threat of losses from future attacks. By robust, we ask specifically whether the structure of TRIA is in line with the fundamental qualities of the risk of terrorism and with likely evolving trends in this threat. The focus of the analysis is on developments that have relevance for terrorist attacks taking place within the borders of the continental United States and the extent to which they are addressed (or not) by the TRIA framework.

## What Is The Evolving Threat?

Al Qaeda clearly represents the principal focus of current U.S. concern about transnational terrorism. The network has not only explicitly defined its ideological and operational agenda as one directed against American citizens and property, it has also demonstrated a proven capability to effectively employ land, air, and sea modalities against target venues that have ranged from hotels to state-of-the-art warships. Nothing suggests that the group's hardcore leadership has changed its views since December 2003, when bin Laden vowed to pursue Americans "in their own backyard."

That said, it is evident that the character of al Qaeda today differs markedly from what it was when it organized and executed the suicide attacks of September 11, 2001. The loss of its safe haven in Afghanistan, combined with the capture and/or elimination of many of its critical field commanders and functionaries, has forced the group to reconfigure its operational agenda—away from centrally controlled strategic assaults executed by an inner core of jihadist activists and toward tactically oriented strikes undertaken by affiliated cells (and sometimes individuals) as and when opportunities arise. In many ways, the largely monolithic structure that emerged out of Afghanistan in the late 1990s now better correlates to an amorphous "movement of movements" that is more nebulous, segmented, and polycentric in character.

Based on these developments, one can postulate four trends that are likely to become manifest, all of which have relevance for threat contingencies in the United States:

- A continuing interest in attacking hard targets, but an increased focus on soft, civilian-centric venues.
- An ongoing emphasis on economic attacks.
- Continued reliance on suicide strikes.
- A desire to use chemical, biological, radiological, and nuclear (CBRN) weapons but little ability to execute large-scale unconventional attacks.

In addition to the terrorist threats posed by al Qaeda and both associated and independent radical jihadists, a growing groundswell of domestically inspired radicalism has emerged that appears to be based on the spreading phenomenon of anti-globalization (AG). The AG movement has had an impact on at least three homegrown entities—all of which have demonstrated, in varying degrees, an explicit penchant for violence and civilian-directed action:

- Anarchists, who resonate with the claim that international trade and commerce are, in fact, a mask designed to hide and covertly advance U.S. global economic, cultural, and political power.
- Far-right extremists, who reject the loss of individual identity associated with international movements of people, commodities, and money; who oppose the concentration of power that globalization entails; and who argue that globalization is an American-led conspiracy conducted by and for the benefit of Jewish capitalists.
- Radical environmentalists, who now routinely denigrate corporate power and capitalism (and the unrestrained discretionary spending that they entail) as posing the single greatest threat to the planet and its life.

A notable common thread in many of the trends is an increased risk for the private sector. This increase arises from the changes in the operational environment because of the Global War on Terror; the hardening of government facilities, which is shifting risk to softer targets; the rise of extremists motivated by AG and therefore hostile to corporate power; and the increased focus by al Qaeda on attacks that yield magnified economic consequences. These changes raise the stakes for ensuring a properly functioning insurance system that protects against these risks.

## Does TRIA Provide Robust Protection Against These Threats?

The results of our comparison of these trends in the underlying risk to the architecture of TRIA and the insurance market shaped by it has led to two primary conclusions:

- *TRIA does not provide adequate financial protection, particularly in the face of economically motivated attacks.* Specifically, take-up rates for terrorism insurance may be too low, thus escalating the risk of disruption after future attacks and undermining resilience. As al Qaeda increasingly advertises its interest in attacks with magnified economic consequences, and as the private sector becomes more the concerted focus of terrorist attacks, a growing necessity has emerged to fortify the institutions that buffer the economic consequences of such an attack. Insurance provides funds to compensate injured victims and the families of the deceased, sustain business operations during disruption, and rebuild damaged and destroyed assets and infrastructure. However, take-up rates at current low levels (approximately 50 percent) are likely to lead to widespread uninsured losses, which would slow recovery and magnify the economic consequences.
- *TRIA has significant gaps and is not robust to an evolving threat.* Given contemporary trends in terrorism and the current architecture of TRIA, there remains a real possibility of large uninsured losses accruing in the near-to-medium term, which will significantly impede the recovery from some future attacks. The most profound risk occurs in the area of CBRN attacks, for which insurers are not required to offer coverage (except under workers' compensation). As a result, such attacks are typically excluded from most insurance policies. Another significant gap is the exclusion of domestic attacks; while such attacks are less of a risk than imported threats, they remain real and increasingly appear to be focusing on private-sector targets. The exclusion of domestic attacks is also problematic given the increased "fran-

chising” of terrorist attacks by al Qaeda to local affiliates and the added difficulty of attributing attacks to a particular group.

## Policy Recommendations

Given these conclusions, this book emphasizes the following two suggestions:

- *Instead of allowing TRIA to sunset, particularly in the face of economically motivated terrorist attacks, Congress might prefer to consider policy measures that increase the take-up of terrorism insurance and lower its price.* These measures might include offering subsidies for the purchase of terrorism insurance or providing more risk sharing within the insurance industry in the form of lower TRIA “deductibles” for insurance companies. With lower individual company deductibles, if the entire industry’s backstop remains the same (the industry “retention” of \$15 billion), the price of terrorism insurance is likely to fall without increasing costs to taxpayers.
- *A long-term solution to providing terrorism insurance in the United States must address CBRN attacks and attacks by domestic groups.* While the extension of TRIA to domestic attacks is straightforward, extension to cover CBRN attacks poses significant challenges for insurance and may be appropriately covered through a direct government program.

Other suggestions include

- considering mandatory requirements for companies that own or operate systems vital to the functioning of U.S. critical infrastructure to carry adequate levels of insurance
- conducting further research on the ability of insurance to prompt increased security in the private sector

- establishing an oversight board to review TRIA or its successor's performance and ensure that it is robust to changes in the underlying risk.