Commentary

Terrorism Insurance: 25 Years After September 11

Morningstar DBRS
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Key Highlights

- The September 11 attacks caused roughly $60 billion in insured losses in today's dollar value, the second-largest insured loss event in the U.S. after Hurricane Katrina.
- In 2022, U.S. Congress enacted the Terrorism Risk Insurance Act, creating a public-private reinsurance backstop to stabilize the market.
- Emerging risks are expanding the scope of terrorism insurance. In some pools and backstops schemes, losses from cyber terrorism are now covered.

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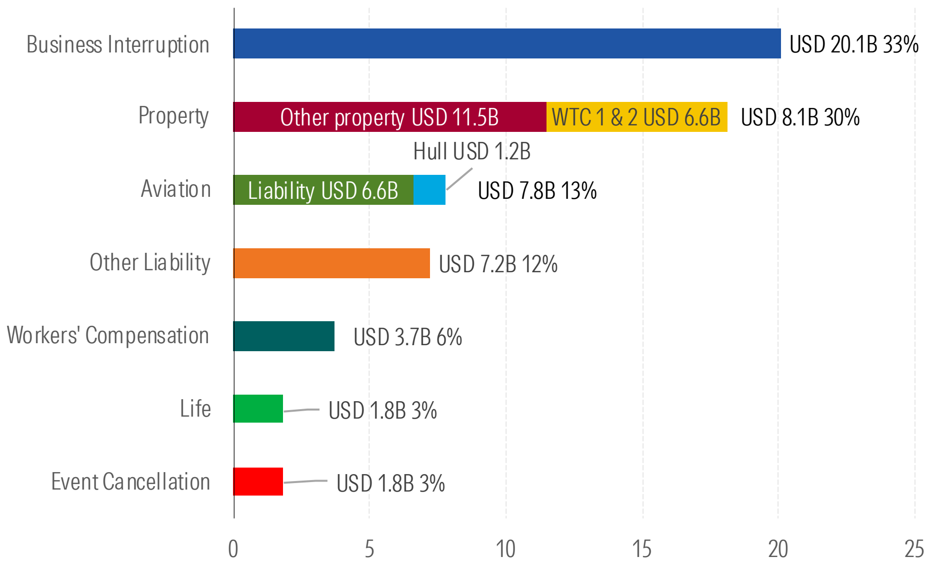
Overview

One of the most important lessons of the September 11 attacks for the insurance industry is the recognition that terrorism can generate losses beyond private markets' willingness to absorb them. We view credible government backstops as supportive of insurer credit strength. However, their value depends on coverage scope, retained exposures, and timeliness of claim payments. More recently, cyber terrorism is testing these arrangements because interconnected infrastructure can transmit losses across borders, while attribution and policy wording determine who ultimately pays.

The attacks killed almost 3,000 people and caused $60 billion in insured losses in today's dollar value across several business lines (Exhibit 1). Reinsurers absorbed roughly two-thirds, distributing the shock internationally. However, the principal challenge with the events of 9/11 from an insurance perspective was the reality of how synchronized attacks activated multiple insurance portfolios whose exposure had been treated separately. This translated into earnings and capital pressure for some insurers, together with greater reliance on reinsurance recoveries.

Exhibit 1 September 11 Estimated Insured Losses by Coverage (USD Billions in 2025 Dollars)



Source: Insurance Information Institute, Insurance Journal, U.S. Bureau of Labor Statistics, Morningstar, Inc.

The Swiss Re case illustrates the financial impact of the attacks. Its 2001 results included CHF 2.95 billion in September 11 claims and a CHF 165 million group net loss, which also reflects lower realized investment gains amid heightened financial market volatility that year. Litigation further compounded financial uncertainty for many insurers and reinsurers. Disputes over whether the World Trade Center's collapse constituted one or two occurrences exposed the consequences of differing policy forms and incomplete documentation. A $2 billion settlement in 2007 resolved outstanding World Trade Center insurance claims after almost six years of legal battles.

Market Shock and Initial Reaction

Before 9/11, U.S. commercial policies generally covered terrorism at no extra cost. However, the September 11 attacks fundamentally revamped the insurance industry's risk perception. Within weeks, reinsurers withdrew capacity from the market and primary insurers introduced exclusions or sharply increased prices.

This coverage collapse had real economic effects. The lack of terrorism coverage threatened broad economic knock-on effects, including lending freezes and construction stoppages on many real estate and infrastructure projects, triggering calls for government action.

TRIA and Global Backstops—Restoring Coverage

To avert a market breakdown, the U.S. government created a federal terrorism backstop. In November 2002, Congress passed the Terrorism Risk Insurance Act (TRIA), establishing the Terrorism Insurance Program (TRIP) under which the Treasury would share large terrorism losses with insurers. The law required property and casualty insurers to offer terrorism coverage to commercial policyholders but capped each insurer's deductible and set a high industry-loss trigger for federal aid. Once triggered, the government would pay a major share of losses and later recoup some of the costs through premium surcharges. TRIA offered, for the first time, a financial backstop to protect U.S. insurers from insolvency from an extreme terror event. This is particularly important for workers' compensation, where terrorism and NBCR[1] losses generally cannot be excluded. TRIA also supported reconstruction efforts and business continuity while protecting collateral and cash flows relevant to lenders and bondholders.

The U.S. government reauthorized TRIA in 2005, 2007, 2015, and 2019, underscoring the program's importance in stabilizing the terrorism insurance market. Under the current framework approved until December 31, 2027, federal participation requires a single terrorism event to be certified by the Secretary of the Treasury and cause more than $5 million in losses. At that point, total aggregate annual terrorism losses must exceed $200 million for TRIP to kick in. Once those thresholds are met, each insurer retains a deductible equal to 20% of its prior-year eligible direct earned premiums, and the Treasury reimburses insurers 80% of terrorism losses above that deductible.

Global reactions followed different paths, and some schemes even predate the September 11 attacks. For instance, the UK's Pool Re and Spain's Consorcio de Compensación de Seguros already addressed terrorism risk before 9/11. Pool Re reinsures member insurers with an unlimited Treasury guarantee, while Spain's scheme directly compensates eligible extraordinary losses using compulsory insurance surcharges. After 9/11, France established GAREAT and Germany created Extremus in 2002; Australia established its terrorism pool in 2003. These arrangements restored

1 Nuclear, biological, chemical, and radiological.

capacity through different combinations of insurer participation, reinsurance, and government support.

Emerging Risks: Cyber Terrorism and Global Volatility

For insurers, the anniversary of the September 11 attacks reinforces the importance of managing exposure concentrations, catastrophe scenarios, and contract certainty. Underwriting assessments should consider simultaneous property, casualty, and business interruption claims, as well as reinsurance counterparty quality and liquidity while recoveries remain outstanding. For some global reinsurers, their largest potential loss scenario is related to a nuclear detonation over New York City, evidencing the extent to which the industry prepares for catastrophic losses from terror events.

In a more volatile geopolitical environment, cyber operations could broaden the transmission of politically motivated disruption. A destructive attack on shared cloud services, payments infrastructure, or electricity networks could generate correlated losses among geographically dispersed policyholders, so geographic diversification alone can be insufficient. Insurers need to identify common technology dependencies and assess how cyber, property, and contingent business interruption coverages could respond simultaneously.

We view coverage distinctions as critical for cyber insurance clients and underwriters. Cybercrime, cyber terrorism, and state-sponsored operations can overlap, but they are not interchangeable insurance categories. Attribution disputes and differences between primary and reinsurance contracts can also leave insurers retaining more risk than expected. Although TRIA can respond to qualifying cyber terrorism under eligible policies, subject to certification and other statutory requirements, it is not a comprehensive catastrophic cyber backstop by design.

The U.S. Treasury's *2026 Report on the Effectiveness of the Terrorism Risk Insurance Program* reviewed potential gaps catastrophic cyber coverage. It also highlighted existing disagreements among market participants and regulators over the need for greater intervention. The report examined a cyber-loss scenario based on a hypothetical hybrid attack (kinetic and cyber) on data centers in Virginia, with cyber impacts to cloud operations supported by those data centers. The scenario generated approximately $14.6 billion of modeled total insured losses. Of that total, 88% related to cyber losses. The modeled allocation included approximately $4.85 billion of TRIP federal payments, with the remainder being absorbed by insurers and reinsurers within the deductible and copay layers. In our view, any cyber backstop should prioritize defining covered events and attribution procedures, retaining meaningful private risk, and requiring policyholders to implement sufficient cybersecurity standards.

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Note:
All figures are in U.S. dollars unless otherwise noted.

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