



## Consumer Federation of America

1620 I Street, N.W., Suite 200 \* Washington, DC 20006

July 8, 2008

Representative Paul Kanjorski  
Chairman, Subcommittee on Capital Markets,  
Insurance and Government Sponsored Enterprises  
Committee on Financial Services  
Washington, DC 20515

Representative Deborah Pryce  
Ranking Member, Subcommittee on  
Capital Markets, Insurance and  
Government Sponsored Enterprises  
Committee on Financial Services  
Washington, DC 20515

Dear Representatives Kanjorski and Pryce:

**The Consumer Federation of America urges support for H.R. 5792, which would expand the federal Liability Risk Retention Act to include property coverage.** This legislation should help increase access to property coverage and moderate price increases for commercial property insurance, especially in areas of the country where coverage options are limited and during “hard” insurance markets when capacity dries up.

The Product Liability Risk Retention Act of 1981 was developed by Congress as a direct result of the product liability insurance hard market of the mid-1979s. The current version of the Act, the Liability Risk Retention Act (LRRRA) of 1986,<sup>1</sup> was passed to expand the Act to all commercial liability coverages as a direct response to the hard market of the mid-1980s. It allowed businesses to join together to form purchasing groups to buy liability insurance as a unit or to form self-insurance combinations by getting approved in only one state.

The expansion of the LRRRA helped overcome the problems of the three previous hard markets. Not only would further expansion of the Act to include property coverage enable businesses to get together to cover additional risks, but this option puts pressure on the insurance industry to avoid price gouging or risk losing market share.

Expansion of the RRA to cover property damage could also help companies, especially small and mid-sized firms, to insure against future terrorism losses. Even firms, office buildings and public facilities with high exposure to terrorism risk could benefit. Expansion of the RRA to cover property would offer airlines, for example, the opportunity to spread risk and cover potential terrorism losses from property (e.g., the airplane hull) as well as liability.

H.R. 5792 wisely increases corporate governance requirements for risk retention groups to address abuses documented by the Governmental Accountability Office (GAO), among others. CFA recommends two improvements to these standards to ensure that “independent” group directors truly make independent decisions. First, the bill should significantly reduce the amount of income such a

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<sup>1</sup> 15 USC §3901 et sec.

director can receive from a risk retention group.<sup>2</sup> Secondly, H.R. 5792 should increase the “cooling off” period for independent directors who have previously had a material relationship with a group from one to two years.

We strongly recommend adoption of this important legislation by the Subcommittee.

Sincerely,



Travis B. Plunkett  
Legislative Director



J. Robert Hunter  
Director of Insurance

cc: Members of the Committee on Financial Services

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<sup>2</sup> H.R. 5792 currently allows an independent director to receive compensation from a risk retention group of up to five percent of the group’s gross written premium or two percent of surplus during a one year period.