



Consumer Federation of America

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

October 16, 2007

RE: URGE OPPOSITION TO SCHUMER TRIA AMENDMENTS IN BANKING COMMITTEE MARK-UP

Dear Senator:

The Consumer Federation of America (CFA) writes to strongly urge you to oppose the two amendments offered by Senator Schumer to the Terrorism Risk Insurance Program Reauthorization Act of 2007, which will be marked up by the Senate Banking Committee tomorrow. The amendments would unjustifiably extend and expand what was supposed to be a temporary program.

The first amendment would expand the program for ten years, instead of the seven-year extension provided for in the Reauthorization Act. **There is not a shred of objective evidence that a ten-year expansion of TRIA is warranted, particularly for business planning purposes.** If the developers and construction firms that are benefiting from the free reinsurance offered under TRIA claim that ten-year bond covenants necessitate a ten-year program, they are assuming that members of the Committee don't understand basic math. Only a project that receives a ten-year bond on the date that this Act takes effect would not extend beyond the amendment's ten-year length. Moreover, if the typical period of time for bonds that begin and expire on a continuing basis is ten years, the mean length for these bonds upon enactment of a TRIA extension would be five years, not ten.

The second amendment would "reset" and lower the 20 percent retentions that insurers must currently pay in some situations. **This amendment is not justified because the financial capacity of the insurance industry to handle terrorism losses is unprecedented.** An attack of the same size as the horrific losses incurred on September 11th (of approximately \$15 billion after taxes in 2007 dollars) would represent less than 3 percent of the industry's current surplus of more than \$550 billion. Lowering insurer retentions to 5 percent of losses for losses of over \$1 billion, as proposed in this amendment, flies in the face of objective research by the Department of Treasury and others that insurers can easily handle higher "out-of-pocket" losses. Expansion of free reinsurance to back up wealthy insurers and developers beyond current levels is simply not a good use of taxpayer dollars.

CFA applauds the Committee for considering a TRIA expansion that is considerably more responsible than legislation passed by the House of Representatives. However, in considering these amendments, it is important to note that the proposal before you would already extend the program substantially -- to seven years -- and slightly expand it to cover domestic terrorism losses. Ideally, TRIA should be sharply cut back and

reconfigured to cover only those terrorism losses that are truly catastrophic. Expanding TRIA and extending it for more than a few years is not consistent with the goal of establishing a temporary program that requires insurers to pay for more losses as their financial capacity continues to rapidly expand.

Sincerely,



Travis Plunkett
Legislative Director
Consumer Federation of America



J. Robert Hunter
Insurance Director
Consumer Federation of America