



Consumer Federation of America

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CFA to State Leaders: Don't Drop the Ball in Preparing for End of Nation's Terrorism Insurance Law

Washington, D.C. – CFA today called on state leaders to immediately take steps to prepare for the expiration of the nation's terrorism insurance law in two years. CFA noted that if governors, state legislators and insurance regulators show leadership on terrorism insurance now, they will prevent market disruption when the law expires and demonstrate to Congress that insurance regulation continues to belong in state hands.

On December 22, 2005 the President signed into law a two year extension of the Terrorism Risk Insurance Act (TRIA), which makes federal reinsurance for terrorism-related losses available to property/ casualty insurers at no charge. TRIA is now scheduled to expire December 31, 2007. Congressional leaders say another renewal is highly unlikely.

“State leaders must act now so they are not asleep at the switch when the clock runs out on TRIA,” said J. Robert Hunter, CFA's Director of Insurance and a former Texas Insurance Commissioner and Federal Insurance Administrator. “TRIA was never intended to be a permanent program, and it is almost certain that Congress will not renew TRIA again,” said Hunter. “If the states don't take initiative now, the potential for market upheaval in a few cities when TRIA expires is obviously much greater.”

Under the recently enacted extension, the federal government would cover 90 percent of all terrorism-related losses for covered lines of insurance in 2006 and 85 percent in 2007 (up to \$100 billion a year). Insurers' deductibles rise, along with the level of losses required to trigger a payout of federal funds. As a result of the cut back in TRIA coverage, one risk modeler recently noted that the industry now retains more than 90 percent of the average annual loss modeled by that firm.¹

“The fact that insurers now underwrite a huge proportion of all terrorism risk demonstrates that the current TRIA extension is working as Congress intended: to wean insurers from previous federal subsidies,” said Hunter.

In a letter to the leaders of the National Association of Insurance Commissioners (NAIC) and the National Conference of Insurance Legislators (NCOIL), CFA highlighted several developments that states could spur to promote a smooth transition to a post-TRIA insurance marketplace:

- Pools should be in place to help spread the terrorism risk;
- Reinsurance should be more widely available;

¹ “Risk Modelers Estimate Potential Losses Under Federal Terrorism Backstop,” BestWire, January 6, 2006.

- Other mechanisms to finance or spread risk should also exist, such as alternative markets and privatization plans;
- Laws should exist to keep any needed lines of insurance in place, such as Worker Compensation pooling mechanisms; and
- Rating systems should have been thoroughly vetted by the states, policy forms should have been approved and in use, and Market Assistance Plans (MAPs) should be on standby, in the event of any dislocation.

CFA urged state regulators to hold a summit with broad stakeholder participation on steps that should be taken to ensure a smooth transition after TRIA expires. CFA also pressed state leaders to begin planning and consultation efforts well before the President's Working Group on Financial Markets issues a report on the long-term availability and affordability of terrorism risk insurance this fall (by September 30, 2006). The CFA letter to NAIC and NCOIL leaders can be found at: http://www.consumerfed.org/pdfs/TRIA_State_Letter010506.pdf.

“If states wait for the Working Group to report, they will lose critical planning time and undermine their own efforts to retain oversight of the insurance industry,” said Hunter. He added that state lawmakers and regulators have opposed a number of proposals in recent years to shift insurance regulation from the state to the federal level. “States have a chance to show why they deserve to keep their regulatory role in tact by stepping forward on TRIA as the federal government steps back,” he said.

CFA is a non-profit association of 300 organizations that, since 1968, has sought to advance the consumer interest through research, advocacy and education.