Consumer Federation of America

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**CONGRESSIONAL DEBATE ON FUTURE OF TERROR INSURANCE LAW BEGINS
-- CFA URGES SENATE TO END UNJUSTIFIED TAXPAYER SUBSIDIES
TO INSURANCE INDUSTRY --**

Washington, D.C. -- As Congress begins consideration of the fate of the nation's terrorism insurance law, the Consumer Federation of America (CFA) today called on leaders of the United States Senate to end significant federal subsidies granted to the insurance and real estate industries for the last three years. CFA cited broad evidence that the insurance industry is financially very strong, despite recent losses due to hurricane damage, and is receiving an unjustifiable subsidy from taxpayers. Industry profits since Congress enacted terror insurance legislation in late 2002 are projected to reach $100 billion by the end of the year.

The Terrorism Risk Insurance Act (TRIA) makes federal reinsurance available to property/ casualty insurers at no charge. The federal government covers 90 percent of all terrorism-related losses up to $100 billion a year after individual insurance companies pay an initial deductible. Insurers are required to offer terrorism coverage and must repay very little or no assistance. The program expires at the end of this year unless Congress acts to extend it. The Senate Banking Committee is expected to mark-up legislation to extend TRIA in some form in the next few weeks.

"It is time to wean insurers and large real estate interests from this lucrative government program," said J. Robert Hunter, Director of Insurance for CFA and former Texas Insurance Commissioner and Federal Insurance Administrator. "It's impossible to justify terrorism insurance subsidies when insurance profits are skyrocketing, commercial insurance rates are sinking and beleaguered taxpayers still face growing budget deficits," he said. "Had actuarially-based premiums been charged to insurers for the insurance coverage that taxpayers have provided, the Treasury Department would have amassed about $3 billion by now," he said.

CFA cited broad evidence that the insurance industry no longer needs TRIA subsidies:

- **Property/ casualty insurers are on track to enjoy one of their most profitable years in history,** despite the negative impact of recent hurricanes on their bottom lines. CFA estimates that after-tax profits for the industry will be between $30 and $35 billion, between the third and fifth most profitable year in history.

- **The financial capacity of the insurance industry to handle future terrorism losses has grown immensely since September 11th.** Retained earnings (surplus) at the end of 2005 are projected to be $413 billion, a growth of more than 40 percent since September 11th.

- **The safety and soundness of the insurance industry is unparalleled**. The key measure of financial strength is the "leverage ratio," which assesses the amount of net premium sold compared to the amount of surplus. The leverage ratio at the end of 2004 for property/ casualty insurers was 1.08 to 1, one of the safest ratios in history.

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- **Prices are dropping, making terrorism insurance more affordable**. Commercial rates in the third quarter of this year dropped overall by 5 percent for small accounts and by 9 percent for large accounts compared to a year earlier. This means that even if the terrorism component of premium charges doubled, overall premiums paid by businesses of all sizes would still decline. Large businesses would see even sharper reductions.

CFA has calculated that TRIA has provided a subsidy to the insurance industry of 2.8 billion since it was enacted. This is because insurers have not had to pay for the reinsurance coverage that they were provided.

"Insurers have made the silly claim that they are not being subsidized by taxpayers because there have been no terrorist attacks and they've not received a payout since TRIA began," said Hunter. "Imagine how they would respond if a consumer with an auto insurance policy came to them and said, 'I haven't filed a claim in three years so please return my premium.'"

In a letter to Senate leaders, CFA urged lawmakers to dramatically scale back federal assistance offered under TRIA if they choose not to allow the program expire. (See the complete letter at: http://www.consumerfed.org/pdfs/TRIA_Senate_Banking_Letter_110105.pdf.) CFA's recommendations included increasing the deductibles and cost-sharing that insurers are required to pay, removing TRIA coverage entirely for minor lines of insurance that will not be significantly affected in the event of future terrorist attacks, and requiring insurers to pay a premium for the free insurance they have been receiving until now.

"By dramatically scaling back TRIA to cover only the most significant terrorism losses, the Senate would be spurring the private market to continue expanding its ability to offer terrorism coverage without taxpayer assistance," said Travis B. Plunkett, CFA's Legislative Director. "This, in turn, would encourage businesses and others that buy terror coverage to do everything they can to prevent terrorism losses," he said.

CFA also strongly urged Senate leaders not to relent to pressure from life insurers to cover Group Life losses under TRIA.

"There's not a shred of evidence that the life insurance industry needs taxpayer support in the event of future terrorist attacks," said Hunter. "In fact, the group life market is highly competitive and insurers have many ways of spreading risk that don't involve government largesse. It's shocking that the life insurance industry would try to convince Congress to actually expand this program at a time when the evidence so clearly indicates that TRIA should be eliminated or significantly scaled 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.

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