Consumer Federation of America

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CBO ESTIMATE FINDS TERRORISM INSURANCE EXPANSION WOULD COST TAXPAYERS TENS OF BILLIONS

Consumer Federation Calls for TRIA to be Cut Back and Restructured, Not Enlarged

In the wake of an estimate by the Congressional Budget Office (CBO) that House legislation to dramatically expand the Terrorism Risk Insurance Act (TRIA) would cost taxpayers $8.4 billion in the next ten years, the Consumer Federation of America (CFA) today called on Congress to sharply cut back TRIA to cover only those terrorism losses that the increasingly profitable insurance industry cannot handle on its own.

According to a CBO analysis released yesterday, H.R. 2761 would increase direct federal spending by $10.4 billion between 2008 and 2017 and by an additional $13.7 billion after 2017. The net loss to taxpayers, which includes estimates of additional revenue that TRIA would generate, would be $8.4 billion between 2008 and 2017.

"This raid on the federal treasury comes at a time when the insurance industry is earning record profits and is refusing to pay legitimate claims to thousands of policyholders damaged by Hurricane Katrina and other storms," said J. Robert Hunter, Director of Insurance for the Consumer Federation of America, former Texas Insurance Commissioner and Federal Insurance Administrator.

TRIA was originally passed by Congress at the end of 2002 as a "temporary" program that would last only three years. When Congress extended the program through the end of this year, it sharply cut back TRIA's coverage, requiring private insurers to pick up more costs in the event of future terrorism attacks. Despite the fact that federal assistance has been reduced, a study by the Department of the Treasury found that many more businesses and public facilities are buying terrorism coverage because more coverage is available and rates are dropping.

"There is no justification for increasing taxpayer risk when terrorism insurance is widely available at rates that are dropping and the financial capacity of the insurance industry to handle terror losses is unprecedented," said Travis Plunkett, CFA's Legislative Director. "By expanding TRIA instead of further cutting it back, H.R. 2761 would foolishly choke off the vigorous growth in the private terror insurance market and reduce the incentive of insurance buyers to take reasonable steps to reduce their terror losses."

The CBO projects that potential annual losses for new lines of coverage required under H.R. 2761 would be about $2.6 billion, including annual losses for the following:

• Group life insurance	$0.1 billion
• Domestic terrorism	$0.2 billion
• Nuclear, biological, chemical and radioactive	$1.0 billion

CFA estimates additional losses of $300 million per year because H.R. 2761 would provide TRIA assistance at a lower level of losses than under current law.[1] The total cost to taxpayers for all these additional losses would be about $1.6 billion.

"With the exception of the nuclear, biologic, chemical and radiation (NBCR) coverage, the insurance industry does not need any of this governmental largess," Hunter said. "This really is a Christmas TRIA for insurance companies, bringing unneeded gifts to both group life and property/casualty insurance companies."

In contrast, CFA has proposed that the program be dramatically scaled back by requiring insurers to cover all losses under $100 billion, including NBCR losses. If this proposal were adopted by Congress, taxpayers would save $1 billion instead of paying $1.5 billion more per year under H.R. 2761.

TRIA Has Provided Billions in Subsidies to Insurers

CFA estimates that taxpayers have provided a subsidy to insurance companies of about $6 billion since TRIA was created in 2002. CFA has proposed that insurers pay an actuarially sound premium for any reinsurance coverage afforded to them under any TRIA extension.

"Had insurers paid premiums to the Department of the Treasury, like Americans do when they buy insurance coverage, the government would have this money in the bank ready to disperse if a terrorism event occurred," Plunkett said. "Instead, the cupboard is bare, while federal deficits continue to increase."

Insurance Industry Profits are Unprecedented

The property/casualty insurance industry has earned its highest profits in history since TRIA was enacted, despite high losses from Hurricane Katrina and other weather disasters.

YEAR	AFTER TAX PROFIT[2]
2003	$30.0 billion
2004	$38.5 billion
2005	$44.2 billion

[1] Currently, TRIA coverage is provided only after aggregate annual terrorism losses of $100 million are incurred. H.R. 2761 would lower this "trigger" to $50 million in losses.

[2] Source: Insurer Financial Results: 2006, Insurance Services Office.

2006	$63.7 billion
2007	$60.0 billion (CFA estimate)
Total	**$236.4 billion**

When Congress passed TRIA at the end of 2002, the retained earnings or surplus capital of the property/casualty insurance industry was $285 billion; at the end of 2006 it was $487 billion, a growth of over $200 billion.[3] At the end of this year, CFA expects this surplus figure to grow to about $545 billion, an increase in claims-paying ability of $260 billion since TRIA first passed.

"Profits for property/casualty insurance companies since TRIA was enacted have amounted to $788 from every man, woman and child in America," said Hunter. "For Congress to increase taxpayer risk in the face of these astonishing profits would be appalling."

Hunter also noted that the proposed expansion of TRIA comes at a time when over ten thousand homeowners along the Gulf Coast have filed lawsuits or complaints alleging that insurance companies used improper claims settlement practices in the wake of Hurricane Katrina—despite the industry's record profit margins.

"Congress should not reward this industry with unnecessary TRIA handouts when many insurers are treating Gulf Coast consumers with distain," said Hunter.

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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[3] Source: Insurer Financial Results: 2006, Insurance Services Office.