Consumer Federation of America

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CONSUMER FEDERATION OPPOSES HOUSE LEGISLATION TO EXPAND INSURANCE INDUSTRY SUBSIDIES UNDER TERROR INSURANCE LAW

--Bill Would Cost Taxpayers at Least $3 Billion More at Time of Record Insurance Profits, Reserves --

Washington, D.C. – The Consumer Federation of America (CFA) today called on members of the House of Representatives to vote against legislation on the House Floor (H.R. 4314) that would expand the already sizeable federal subsidies granted to the insurance and real estate industries under the Terrorism Risk Insurance Act (TRIA). 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. After-tax industry profits since Congress enacted terror insurance legislation in late 2002 are projected to reach $100 billion by the end of the year.

The two-year expansion of TRIA required in H.R. 4314 would cost taxpayers a total of $3.3 billion in new subsidies, in addition to the $2.8 billion insurers have already received. This is because insurers do not have to pay premiums for the reinsurance coverage provided by taxpayers under TRIA. In addition, the House bill expands the TRIA program to cover group life and domestic terrorism losses -- only losses caused by foreign terrorists are currently covered. CFA has calculated that the House bill would cost taxpayers an additional $260 million for this new coverage if the United States suffered two terrorist attacks – one small and one mid-sized – in 2006. By contrast CFA has calculated that legislation already passed by the Senate (S. 467) would actually reduce TRIA subsidies by $300 million annually under such a scenario. (CFA's assumptions and calculations for this estimate can be seen at: www.consumerfed.org/pdfs/TRIA_Calculations.pdf.)

"It is unbelievable that the House would vote to expand TRIA when insurance profits are skyrocketing, commercial insurance rates are sinking and beleaguered taxpayers still face growing budget deficits," said J. Robert Hunter, Director of Insurance for CFA and former Texas Insurance Commissioner and Federal Insurance Administrator. "It is time to wean insurers and large real estate interests from this lucrative government program, not give them a bigger handout," he said.

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 for covered lines of insurance up to $100 billion a year, after individual insurance companies pay an initial deductible. No backstop is provided for personal lines of insurance, such as auto insurance or home insurance. 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.

In a letter to House members last week, CFA highlighted several provisions of the bill that would expand and extend TRIA. CFA also cited broad evidence that the insurance industry no longer needs TRIA subsidies. (The complete letter can be found at: www.consumerfed.org/pdfs/TRIA_House_Bill_Floor_Letter.pdf.)

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- **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.

- **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 expressed particular concerns in the letter about expanding TRIA to cover group life losses.

"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 also urged lawmakers to significantly reduce federal assistance offered under TRIA if they choose not to allow the program to expire. 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. The Senate has taken many of these steps in the legislation it has passed.

"By dramatically scaling back TRIA to cover only the most significant terrorism losses, the House 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 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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