



## Consumer Federation of America

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### **NEW REPORT URGES CONGRESS TO WEAN INSURANCE INDUSTRY FROM TAXPAYER-PAID TERRORISM INSURANCE SUBSIDIES**

*Excess Capital and Sharply Falling Commercial Property/Casualty Insurance Rates Provide  
'Perfect Time' for Government Program to Expire*

Washington, D.C. – The Consumer Federation of America issued a major study of the property/casualty insurance market today that concluded that the timing is ideal for Congress to end subsidies that taxpayers have been granting to the insurance and real estate industries since late in 2002. The CFA study found that profits and financial soundness in the insurance industry are strong and growing, access to capital is at near record levels, property/ casualty insurance rates are falling, terrorism insurance costs are low in much of the country and insurers have a growing capacity to offer terrorism coverage without government back-up. The report also found that insurer' claims of dire economic consequences if this program expires do not appear justified.

The Terrorism Risk Insurance Act (TRIA) makes federal reinsurance available to the insurers writing commercial property/casualty insurance in America at no charge. This temporary program expires as of the end of this year unless Congress acts to extend it.

“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, property/ casualty 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.

The CFA study found that profits and available capital in the property/casualty insurance marketplace have skyrocketed to record levels. In just the first quarter of 2005, the industry had a 92.3 percent combined ratio (the total of losses and all expenses divided by the premiums), one of the lowest such ratios in decades, signaling large profits ahead. First quarter 2005 underwriting profit for property/ casualty insurers was \$6.8 billion dollars. Investment return for the industry was \$14 billion, offset by capital market losses of \$4 billion, for a jump in retained earnings of \$10 billion. These extraordinary returns have spurred robust competition as insurers compete for greater market share.

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Retained earnings were \$323 billion at year-end 2000, before the terrorist attacks of September 11<sup>th</sup>, 2001. As of the end of the first quarter of this year, retained earnings were \$403 billion, fully \$80 billion more than in 2000. These data are for all property/casualty insurance. The commercial lines segment of the industry was reported by *Best's Aggregates and Averages* to have a surplus of \$155 billion at year-end 2003, which Best's estimates grew by 10.3 percent in 2004 to \$171 billion.<sup>1</sup> At year-end 2000, the surplus was \$122 billion. This growth in surplus of \$49 billion alone would be enough to pay for losses for an attack more than two times the size of the World Trade Center attacks of September 11<sup>th</sup>.

The excess of capital has created a price war, with commercial rates dropping by 5 percent for small commercial accounts and over 10 percent for medium and large accounts in the second quarter of 2005. As documented by the Department of the Treasury in its recent report on the terrorism insurance program, the average percentage of overall premium paid out by commercial policyholders for their terrorism coverage was under two percent in 2004.

“This means that, if terrorism charges doubled as a result of TRIA’s demise, overall insurance premiums paid by businesses of all sizes would still decline. At the current time, for larger commercial accounts, terrorism prices could more than quintuple with no overall premium increase being felt,” said Hunter. “What a perfect time for Congress to end the program,” he said.

If Congress decides to extend the program in some way, CFA called on Congress to sharply cut back coverage, as the Department of the Treasury and the Congressional Budget Office (CBO) have recommended. CFA agreed with proposals by the Department of Treasury to raise the “event trigger” for providing financial assistance under TRIA from \$5 million in terrorism losses to \$500 million, and to no longer cover lines of insurance with potentially small terrorism losses. CFA also agreed with the recommendations of the Department of Treasury to increase both the retentions (deductibles) and the co-payment amounts charged to insurers. CFA suggested a \$75 billion pre-tax deductible, which is \$50 billion after taxes, an amount that would assure the industry that a terrorist attack would leave them with more capital than they had just before the attacks of September 11<sup>th</sup>. CFA also proposed an increase in the co-payment amount of 5 percent a year over current levels.

CFA agreed with the CBO that the Treasury Department should charge insurers actuarially sound premiums for any coverage granted to the industry after the end of 2005. CFA said the extension should be a one-time-only extension to spur the private sector to prepare for an insurance market that does not provide federal back-up.

CFA also evaluated claims by insurers and large real estate interests that an end to TRIA would put the economy at risk, threaten jobs, stall commerce and delay construction. CFA reviewed in-depth the nation’s experience in 2002 when similar predictions did not come to pass.

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<sup>1</sup> Best's Aggregates and Averages, 2004 Edition, page 30 for 2003 data; 2004 growth in Best's Review/Preview, January 2005, page 20.

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A review of the terrorism reinsurance “gap” in 2002 shows that the nation quickly adjusted to the terrorism insurance shortage and the private market found ways to provide most of the needed coverage.

In 2002, the insurance industry was in the early stages of steep price increases and general insurance shortages. These trends are typical of the “hard” market phase of the insurance cycle that had begun in early 2001 and was exacerbated by the September 11th attacks.

“In 2005, the industry is in a much better financial position than in 2001 and 2002,” said Hunter. “It has record reserves, as well as extremely high levels of profits and retained earnings. If this industry could adjust to a lack of terrorism reinsurance in 2002, it certainly can do so in 2006.”

*Weaning the Insurance Industry and Large Commercial Policyholders from Taxpayer Subsidies Under the Terrorism Risk Insurance Act* can be found at:  
<http://www.consumerfed.org/pdfs/TRIAREPORT72005.pdf>

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