



Consumer Federation of America

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EXPIRATION OF TERRORISM INSURANCE LAW WILL PROMOTE PRIVATE MARKET DEVELOPMENT

--Consumer Federation Offers Analysis of Long-term Private Sector Solutions--

On April 21, the Consumer Federation of America (CFA) submitted comments to the President's Working Group on Financial Markets urging the Working Group to make clear in its report to Congress that the nation's terrorism insurance law should expire on schedule in 2007 in order to spur the development of private market alternatives to government-backed terrorism insurance. (The comments are available at www.consumerfed.org/pdfs/TRIA_Treasury_Working_Group_Comments_042106.pdf). Under the Terrorism Risk Insurance Extension Act of 2005, the President's Working Group is charged with analyzing the long-term availability and affordability of insurance for terrorism risk and reporting its findings to Congress.

Congress enacted the Terrorism Risk Insurance Act (TRIA) in 2002 to ensure that terrorism coverage was affordable and available in the aftermath of September 11. TRIA makes federal reinsurance for terrorism-related losses available to property/ casualty insurers at no charge. On December 22, 2005 the President signed into law a two-year extension of TRIA, which sharply increased insurer financial responsibility and reduced the financial exposure of taxpayers.

With a scaled-back TRIA now scheduled to expire on December 31, 2007, the insurance industry is in a strong financial position to cover terrorism losses without government assistance after TRIA expires. By historical standards, the insurance industry is very wealthy and financially stable, posting back-to-back record profits in 2004 and 2005, despite the hurricanes that ravaged Florida and the Gulf Coast. Policy holders are experiencing deep premium cuts in all insurance lines except personal home insurance in hurricane-prone areas. Advances in terrorism risk modeling and opportunities for covering large disasters through securitization also argue for removing the free federal backstop.

CFA made the following recommendations to the Working Group regarding the future of terrorism insurance:

TRIA should be allowed to expire. Based on the findings of studies by Congressional Budget Office and the Department of the Treasury, improvements in terrorism risk modeling, low terrorism rates in much of the country, strong industry profitability and financial soundness and the growing capacity of insurers to offer terrorism coverage, CFA finds no compelling reason to extend TRIA beyond the end of 2007.

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Group life coverage has no place in TRIA. There is no meaningful evidence that justifies expanding TRIA to cover group life insurance. Both the Treasury Department and the National Association of Insurance Commissioners (NAIC) have rightly rejected insurer appeals to expand TRIA coverage to include group life or to exclude terrorism coverage from these policies. This is likely because these insurers have not yet attempted all meaningful measures to spread their risk privately.

Non-governmental alternatives to TRIA must be encouraged. Private markets can handle most, if not all, of the terrorism risk. Should TRIA expire, stand-alone policies are ready for use and terrorism coverage should be available at little or no increase in price, except in the largest cities. TRIA itself has hampered the development of private alternatives such as normal reinsurance and securitization alternatives like catastrophe bonds. Expiry of TRIA will very likely result in the development of such mechanisms to cover terrorism risk.

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