Consumer Federation of America

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# GROWING INSURER SURPLUS CALLS INTO QUESTION INDUSTRY NEED FOR CONGRESSIONAL RENEWAL OF TERRORISM INSURANCE

*Nearly $600 Billion Surplus by Property/Casualty Insurers Dwarfs $24 Billion Losses from 9/11*

Washington, DC – As Congress begins consideration of the future of the nation's terrorism insurance law – the Terrorism Risk Insurance Act (TRIA) – the Consumer Federation of America (CFA) urges Members of Congress to consider the extraordinary growth and levels of the property/casualty industry's surplus capital as well as the taxpayer subsidies this industry is receiving.

By the end of last year, this surplus reached a near-record level of $586.9 billion, according to data released by the industry's Insurance Services Organization (ISO). Prior to the 9/11 attacks, the industry's surplus was only $326 billion.

"The current industry surplus of nearly $600 billion dwarfs the $24 billion (in 2013 dollars) of insurer losses from 9/11," said J. Robert Hunter, CFA Director of Insurance and former Texas Insurance Commissioner and Federal Insurance Commissioner. "The industry can easily afford the losses of up to $100 billion that the current act would cover," he added.

The key measure of the safety and soundness of the property/casualty industry is its ratio of net written premiums to policyholder surplus. In recent years, because of the increase in weather-related catastrophic events and fear of terrorism, the ratio considered to be safe by experts has been lowered from 2.00 to 1.50. However, at the end of last year, the industry's ratio stood at only 0.77. Even the after-tax effects of $100 billion of industry losses from an almost unimaginable terrorist event would only increase this ratio to an ultra-safe 86 percent.

If the industry does not need TRIA, why then have they begun urging Congress to renew the act and expand its coverage? One explanation is that, despite the absence of any significant terrorist losses since 9/11, they have become "nervous nellies" on the issue, preferring extreme caution to their normal risk-taking role to the detriment of those needing permanent insurance protections in place (TRIA was never intended to be permanent).

Another explanation is that insurers are profiting from TRIA. The Congressional Budget Office has estimated that, from 2008 through 2012, the cost to U.S. taxpayers was $3.1 billion, with an additional $3.3 billion expense projected through 2017. CFA estimates that the total subsidy from 2002 to 2012 was over $7 billion. The subsidy occurs because the federal reinsurance program in TRIA, which backs up the private insurers, is free – no premiums are charged. Had actuarially sound premiums been charged, the Treasury would now enjoy over $7 billion in reserves to offset future terrorist attack costs.

"We understand the desire of the insurers to keep a free reinsurance program and thus further expand their profits, but at a time of record-breaking federal budget deficits, we question the wisdom of providing multi-billion dollar subsides to an industry that can easily afford to insure many terrorist events even larger than 9/11," said CFA's Hunter. "If there are instances where it has been difficult to obtain insurance coverage, the Federal Insurance Office should work with appropriate state insurance commissions to examine and efficiently mitigate these deficiencies," he added.

*The Consumer Federation of America is a nonprofit association of more than 260 consumer groups that was established in 1968 to advance the consumer interest through research, advocacy and education.*