

FOR IMMEDIATE RELEASE:

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--Point To Fast Developing Private Market--

Washington, D.C.—April 8, 2002: The Consumer Federation of America and Consumers Union today called on President Bush to drop his support for legislation that would give away insurance in the event of future terrorism attacks. Instead, the groups urged the President to spur the creation of private alternatives to the over-priced insurance of today's market.

“The President proposes to give away insurance worth tens of billions to an industry that is flush and on the cusp of huge profit increases,” said Travis Plunkett, CFA's Legislative Director. “In an attempt to justify taxpayer assistance for insurers, the President is overlooking a lot of good news in the market,” said Plunkett. “While ‘target risks’ are still having some difficulty getting coverage and rates are higher for mid-sized and large businesses, there is plenty of evidence that a dynamic market for terror insurance is developing.”

The groups pointed to a number of recent positive developments:

- ❑ **Many larger firms--including those that are at the highest risk of being targeted in future terrorist attacks--are finding ways to obtain terrorism coverage.** The airline industry is setting up its own insurance company to cover terrorism. Several large reinsurance companies, including Allianz AG and Zurich Financial Services, recently announced the formation of a joint venture to insure companies against terrorism. The World Trade Center clean-up site has obtained insurance coverage. And the Chairman of the largest insurance company in the world actually called on the federal government to get out of the business of providing airlines with terror coverage for property losses because insurers are now willing to do so.
- ❑ **Banks are loaning money to the vast majority of all businesses, regardless of whether terror coverage is available.** The Library Tower, the tallest building in Los Angeles, is expected to be sold after purchasers obtained sufficient terror coverage to buy it. Federal Reserve Chairman Greenspan said has stated that lack of terrorism insurance situation was not a threat to banks and that the problem had not affected the economy as a whole.
- ❑ **Insurers are in a better financial position than before September 11th to handle future terrorism losses.** More than \$25 billion in new capital has poured into the industry, whereas losses from the terrorist attacks (after taxes) will be less than that amount. A number of new offshore reinsurance companies have been formed. Stock prices for many of the biggest insurance and reinsurance companies are up since the September 11th.

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“The economic collapse predicted by the insurance industry has not happened, which calls into questions whether these new threats are real and whether a taxpayer bailout is needed,” said Frank Torres, Legislative Counsel for Consumers Union. “Neither the President nor the insurance industry have proven their case.”

The groups said that high rates are a problem for mid-sized and larger firms and that firms of all sizes have experienced rate gouging. The rate problem is caused by a classic turn in the economic cycle of the industry, which has been accelerated by—but not caused by—the terrorist attacks. The organizations called on the President and Congress to create incentives that would hasten the development of affordable terror insurance alternatives:

- Expanding the Liability Risk Retention Act to cover all commercial property/casualty insurance, and personal lines.
- Determining if there are any tax disincentives for the development of captive insurance or self-insurance mechanisms.
- Developing proposals to encourage the securitization of risk.