

Opening Statement
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Committee on Financial Services

**Subcommittee on Capital Markets, Insurance, and Government Sponsored
Enterprises**
“The Future of Terrorism Insurance”
July 27, 2005

Good morning to our distinguished panel of witnesses and welcome to the Committee. We look forward to hearing your testimony today on the future of terrorism insurance.

We recall today how the economy, and specifically the insurance marketplace, was roiled by the terrorist attacks of 9/11. Reinsurance capital fled the marketplace, insurers began to exclude coverage, and large policyholders were unable to obtain enough insurance coverage for their construction and development projects.

In coordination with the leadership of President Bush, Congress acted swiftly to address the problems facing the insurance marketplace. Those problems included a drained industry surplus, insufficient diversification in geographic risk exposure, and an inability to model potential terrorist losses. Within weeks of the terrorist attacks, this Committee and the House passed legislation that in 2002 would become the Terrorism Risk Insurance Act, or TRIA. TRIA established a public-private partnership with a temporary backstop to protect against future catastrophic terrorist attacks through December 31, 2005.

TRIA was designed to be a temporary fix to address very specific goals, and it has succeeded in that role. The insurance industry's surplus has dramatically increased, the economy has greatly improved, and commercial property insurers have been able to more effectively spread and model their risk exposures. However, as documented by the recent report from the Department of the Treasury, TRIA may actually be hindering market-based solutions for terrorism insurance. As a result, it would not be prudent to merely extend the current TRIA program. The threat from terrorism will likely remain with us for years to come, and this nation needs a long-term solution that the current TRIA program simply does not and cannot provide.

We have had the Government Accountability Office perform numerous studies for the Committee evaluating domestic and foreign catastrophe programs. From their review, it is clear that the only long-term solution to ensuring market stability for catastrophic risks is by creating dedicated capital. This can be done by allowing long-term catastrophe reserves, creating an industry pool, pre-funding or post-funding losses through assessments and surcharges, tapping the equity markets, or providing a Federal subsidy.

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The last option, a Federal subsidy, is often the least efficient as it crowds out and distorts the private marketplace, reducing incentives for mitigation and appropriate risk pricing. For this reason, the Treasury and the White House have indicated their opposition to an extension of TRIA in its current form. I also believe that an extension of the program without reform would be unwise and unwarranted.

Fortunately, the marketplace has not been without new thinking in the last year, and numerous parties have presented the Committee with proposed solutions for revamping TRIA to reduce the Federal subsidy, to increase private sector involvement, and to create dedicated capital sources to ensure long-term stability in the terrorism insurance marketplace.

This is an important due diligence responsibility for our Committee. Whether we simply increase the TRIA numbers as the Treasury suggests with full taxpayer payback and more streamlined coverage, or create a more comprehensive solution with greater certainty and free-market discipline, I am confident we can get it done in a timely manner and in our Committee's bipartisan tradition.

I look forward to hearing from the witnesses on our panels today, and on working together on a revamped and more effective and efficient terrorism insurance program.