



*Independent Insurance Agents  
& Brokers of America, Inc.*

**STATEMENT OF THE  
INDEPENDENT INSURANCE AGENTS AND BROKERS OF AMERICA  
COMMITTEE ON FINANCIAL SERVICES  
UNITED STATES HOUSE OF REPRESENTATIVES  
July 27, 2005**

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Good morning Subcommittee Chairman Baker, Ranking Member Kanjorski, and Members of the Subcommittee. My name is Bill Stiglitz, and I am pleased to be here today on behalf of the Independent Insurance Agents and Brokers of America (IIABA) to present our association's perspective on the future of the Terrorism Risk Insurance Act (TRIA) of 2002. I am an account executive with Hyland, Block, and Hyland, an independent agency based in Louisville, Kentucky, and I currently serve as the president-elect of IIABA.

IIABA is the nation's oldest and largest trade association of independent insurance agents and brokers, and we represent a network of more than 300,000 agents, brokers, and employees nationwide. IIABA represents small, medium, and large businesses that offer consumers a choice of policies from a variety of insurance companies. Independent agents and brokers offer a variety

of insurance products – property, casualty, health, life, employee benefit plans and retirement products. Independent insurance agents and brokers sell nearly 80 percent of all commercial lines policies in the country. Members of the Big “T”, as we are known, write the coverage for America’s businesses and serve as the conduit between consumers and insurance companies, and therefore we understand the capabilities and challenges of the insurance market. From this unique perspective, we urge Congress to continue some form of a federal terrorism insurance backstop beyond the year-end expiration of TRIA.

Please let me begin by complimenting Chairman Oxley and Ranking Members Frank for moving expeditiously to consider the recent report issued by the Department of Treasury at a Full Committee hearing on July 13, 2005. The Big “T”, and our 300,000 members, are especially encouraged that members of this Committee and Secretary Snow reaffirmed support for a continued federal role in assisting the private market in handling this risk of truly catastrophic proportions.

We also applaud Subcommittee Chairman Baker and Ranking Member Kanjorski for holding today's hearing. Clearly, the leadership of this Committee understands that the insurance market’s ability to protect the American economy from the financial consequences of terrorism risk is a critical component of the nation's economic security and vitality during the ongoing war on terror. The challenge now before Congress is how to follow up the success of TRIA with an improved public-private partnership that will ensure consumers have continued access to terrorism insurance.

### **Background**

It is well known that the insurance community performed admirably in the immediate aftermath of September 11<sup>th</sup>, 2001, honoring its commitment and providing the resources needed to quickly and fully pay claims and thus playing a pivotal role in the recovery-and-rebuilding process. However, even though the insurance marketplace responded effectively to the 9/11 losses, it was

quickly apparent after 9/11, and remains so today, that insurers could not handle the risk of further large-scale terrorist events without a Federal backstop.

Indeed, Federal Reserve Chairman Alan Greenspan again last week made clear his view that private insurers alone cannot handle the risk of losses resulting from terrorist attacks. In testimony before this Committee, Chairman Greenspan acknowledged terrorism and geopolitical risk have become enduring features of the global landscape, and he stated, "the type of terrorism that is arising in the context of increasing technologies which were not available before has created the possibilities of huge losses. And there is no way for a private system to handle that . . . I don't see how we can avoid the issue of a significant segment of government-backed reinsurance in this particular area."

Not unexpectedly, insurers reacted in late 2001 and 2002 to the new perception of exposure and lack of scientific terrorism modeling with exclusion clauses and outright cancellations of coverage. This left agents and brokers in the always difficult position of being unable to meet consumers' needs for coverage. But beyond our own professional dilemma, it quickly became clear that the absence of coverage presented an immediate threat to our country's economy that had to be addressed – construction and other important economic activity were being impacted by the lack of coverage.-

Fortunately, through the leadership of the Administration and many in Congress, particularly in this Committee, the government did respond to address problems in the marketplace with TRIA. Those of us in the market, however, do not need to be reminded of how acute the problem was before Congress and the President enacted the Terrorism Risk Insurance Act in late 2002. Economic activity, especially significant new construction projects, was beginning to be impacted by the inability of owners to satisfy demands of current or prospective lenders to demonstrate

adequate insurance coverage. Fortunately, TRIA was put in place before the worst effects of this availability and affordability crisis further injured our national economy.

I would like to stress that the interest in, and the need for, a terrorism insurance backstop is NOT confined solely to big urban areas. IIABA represents agents and brokers selling coverage to consumers across the country on the front lines. Our collective experience establishes that terrorism insurance coverage is not just a big city or big State problem. It is a business customer problem throughout the country; this is truly a national issue. In fact, take-up rates under TRIA have continued to grow across the country, and we have seen terrorism coverage purchased by a wide and diverse variety of interests, from small towns in Mississippi to small and large businesses in New York City. As the intermediaries between those customers and the insurers, our members remain concerned that the needs of many policyholders will not be met with affordable and good quality coverage for this peril if there is no terrorism insurance program in place after December 31, 2005.

### **Treasury Report**

The Treasury Department and the Administration should be commended for providing Congress with an exhaustive report with much information that will inform the legislative process which must be completed before year-end. While the Treasury report offered many important findings, we have come to a slightly different conclusion regarding the future need for a terrorism backstop based on the marketplace evidence and our own collective experience with insurers and policyholders in the market.

We agree with the report's bottom-line – that “TRIA has achieved its goals of supporting the industry during a transitional period and stabilizing the private insurance market.” TRIA’s public-private partnership has worked well and generally as intended, allowing businesses across America to continue operating and growing, and preserving jobs in the process. TRIA has saved our

economy millions of dollars by making terrorism insurance broadly available to all businesses that want and need this coverage at virtually no cost to the Federal government. Prices have come down, capacity has grown, and demand is up in many geographic areas.

However, as 2005 wears on, more and more of the renewal insurance policies covering businesses of all sizes and types will extend past TRIA's December 31, 2005, sunset date. Because State insurance regulators have approved conditional terrorism exclusions in most States to protect insurance company solvency after TRIA, IIABA members are concerned that policyholders will face potentially harmful gaps in coverage beginning at year-end.

As access to insurance coverage diminishes, we continue to hear from the Federal government – reinforced by the recent events in London and Egypt – that there remains a risk of further catastrophic terrorist attacks. Where insurers have received State approval for coverage exclusions after TRIA expires, that risk will shift back onto the shoulders of policyholders and investors, including commercial bondholders. Where insurers have not secured terrorism exclusions either due to State law – such as in mandatory workers' compensation coverage – or because regulators will not approve them in some States, the insurers themselves will remain significantly exposed to terrorism losses and potential insolvency. As a result, entire sectors of the U.S. economy could be impacted by future terrorist attacks in the absence of a terrorism insurance program, and economic activity may be dampened without there ever being an attack.

These concerns are consistent with the Treasury report's finding which states, "Overall, our assessment is that the immediate effect of the removal of the TRIA subsidy is likely to be less terrorism insurance written by insurers, higher prices and lower policyholder take-up." And, since Treasury's findings – including rising take-up rates, the ability to return to "pricing" these risks, and increases in the property-casualty insurance industry's surplus position – have all occurred under the

TRIA program, our members believe that there remains tremendous uncertainty as to whether private insurers and reinsurers will actually be able to fill the gap without a program in place.

In our view, the Treasury Department's findings support the need for an appropriate Federal role to encourage a workable insurance mechanism in the event of cataclysmic terrorism losses since continued access to affordable terrorism insurance is crucial to the economy's vitality. The report is also consistent with the IIABA position that the Federal government's role in the insurance market be limited, while State insurance regulation is preserved. In fact, to the extent that the private sector is able to handle this risk and Federal government involvement is phased out, we believe that all stakeholders and the market will ultimately benefit.

### **Going Forward**

The challenges facing the commercial insurance market with respect to terrorism risk insurance are both critical and stretch well beyond TRIA's current end date. IIABA members, along with many in the insurer and policyholder community, recognize that we must find a market-based solution to our nation's terrorism insurance problem. To that end, property-casualty insurers, agents/brokers and commercial insurance policyholders are working to identify options for managing terrorism risk that would encourage greater private sector involvement.

IIABA is looking forward to working with Congress, the Administration and other stakeholders to fashion a successor program to TRIA. However, the litmus test for the IIABA is that any solution must work for the consumers with whom IIABA members work. As such, the ultimate test for IIABA support of any proposal will be whether the program works for the marketplace.

Both Congress and stakeholders are at something of a crossroads with two basic choices: either re-authorize TRIA for, say, two years with some modifications in the direction of the changes indicated in Secretary Snow's letter, or enact a more comprehensive modification by adding a more

permanent structure for private-industry mutual pool reinsurance to phase out the Federal role over time. Both options have some attraction. Short-term extension legislation may have fewer political complications, although it may be difficult to find the right balance of increased deductibles and triggers for the marketplace. On the other hand, developing an intermediary, private-sector funded layer of coverage would help reduce Federal involvement in the marketplace and create a long-term, market-based solution for a problem which we have every reason to believe will be with us for years to come. IIABA is committed to working with the Committee on parallel tracks to develop both options so that we are in the best possible position to enact the solution which proves most viable in a timely manner.

We also hope that any solution will draw on the experiences of the current program in order to assist the private markets in handling this risk. While the TRIA backstop program has helped calm the marketplace, there are problems that it did not solve even in the short term that we hope that policymakers will examine as we look beyond TRIA's expiration. For example, despite the fact that TRIA does backstop losses arising from nuclear, biological, chemical, or radiological acts of terrorism, commercial customers generally are unable to get that type of coverage in the market today. It leaves a lot of the business community greatly exposed to that type of attack -- one which the leadership of this nation keeps talking about as the most likely and the most damaging. Indeed, the lack of NBCR coverage even while the backstop is in place is powerful evidence that the private markets are not yet fully capable of handling the terrorism risk exposure without some backstop.

### **Conclusion**

In conclusion, we urge Congress to respond to immediate issues in the marketplace so that our country's economic security is not clouded by the uncertainty of what lies beyond 2005. With the risk of catastrophic attacks on U.S. soil still very real, and the capability of both insurers and reinsurers to offer comprehensive terrorism coverage for an uninsurable risk still very limited, we

urge Congress to address these issues as soon as possible. IIABA applauds the leadership of this Committee for exploring more market-based solutions to the problem of insuring against terrorist attacks. Whether the Committee opts for a reformed TRIA extension, or a more comprehensive long-term approach, the IIABA stands ready to work with the Administration, Members of this Committee, and other Members of Congress to provide stability in the commercial marketplace prior to an attack with minimal cost to, and intervention from, the Federal government.

Thank you for the opportunity to testify today.