

Statement of Chairwoman Sue Kelly; House Committee on Financial Services Subcommittee on Oversight and Investigations Hearing: How much are Americans at risk until Congress Passes Terrorism Insurance Protection?

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On September 11 our world fundamentally changed with the cowardly acts of a handful of terrorists. We all carry with us the memories of the destruction of that day which deprived families of loved ones, people of their jobs and a nation of one of its greatest landmarks. In addition, the losses of September 11 represent the largest single hit to our insurance industry in history. Since then our insurance markets are facing a new reality. Insurers are being asked to insure terrorism risk, when they have no realistic way to determine the fair price for that risk or, in the vast majority of cases, being able to obtain any reinsurance for it. This risk is one which no one ever anticipated. Moreover, no one can presently calculate the proper odds for where or when the next attack will occur. We do know, however, that our government officials believe that we should expect additional and costly attacks. Consequently, the vast majority of insurers have been loath to cover terrorism, especially for major buildings, factories, or gathering places. Where terrorism insurance is available or is required by law, insurers must charge high premiums for it and offer very limited capacity to protect against the risk of insolvency.

Today, nearly six months later, we continue to discover further repercussions from the acts of terror on New York and Washington. One such symptom is the pervasive risk transfer that is currently occurring from reinsurers to insurers to American businesses, leaving such businesses vulnerable to future terrorist attack. I think the GAO put it best in their report:

"Since the September 11th attacks, the key dynamic taking place in the insurance industry has been a shifting of the risk for terrorism-related losses from reinsurers to primary insurers and then to the insured. Reinsurers and insurers have begun shedding their

exposure to terrorism risk as insurance contracts have come up for renewal, leaving policy holders increasingly exposed to losses from a terrorist attack."

The GAO goes on to say:

"Large companies, businesses of any size perceived to be in or near a target location, or those with some concentration of personnel or facilities, are unlikely to be able to obtain a meaningful level of terrorism coverage at an economically viable price."

The focus of the GAO's inquiry was on the availability of property/casualty insurance and reinsurance. That is clearly important. But we also need to consider whether there have been similar detrimental effects with respect to terrorism coverage in the group life insurance area, and I hope we can get some enlightenment on that question as well.

It is clear the current lack of terrorism coverage acts as a chill factor restraining our economy, which is struggling to recover from a recession. Businesses, particularly in cities and near targets, seeking to build are being required to carry terrorism insurance; however, I am informed that there is little or no terrorism coverage available and hence some new construction is being stopped before it can start. This is causing the loss of new jobs at a time when creating jobs should be one of our highest priorities. In short, the Senate leadership's failure to act on terrorism insurance legislation is imposing a fear tax on America, costing real jobs when the country is trying to pull out of a recession.

In addition, since the Administration says that another terrorist attack is extremely likely, we must plan for how the government should react to such an attack now, not after another attack. We have learned countless lessons from September 11th on homeland security and distributions from September 11 charities, which could have avoided so many problems with a little more planning before hand.

Acting now will preserve a private market mechanism to provide terrorism coverage, capital, and a claims processing system. Waiting until Americans suffer the next terrorist attack to respond is irresponsible, inefficient, and will ultimately cost the government much more than taking

responsible action, now. Victims will most likely suffer months of additional delays as Congress scrambles to create a bureaucracy to determine which victims get compensated in what amounts. This can be especially harmful to small businesses, which cannot afford to wait months after a tragedy while Congress decides whether and how to respond. As a former small business owner this concerns me greatly.

Under the leadership of Chairman Oxley this committee acted quickly last year to pass H.R. 3210, the Terrorism Risk Protection Act to protect the U.S. economy, its businesses, and its workers from the negative effects that are materializing today. I sincerely hope that the Senate leadership will act quickly to avoid a potential calamity.

Today, we will hear from a list of very distinguished witnesses to gain a better understanding of how the lack of Federal legislation has and will affect commercial consumers, builders, lenders, investors, workers, schools, hospitals, public entities, and private institutions. I would like to thank all of the witnesses appearing today or submitting written testimony for the record.