

LISA KRAMER
President & CEO
FOJP Service Corporation

Hearing Before the Subcommittee on Oversight and Investigations
“How much are Americans at risk until Congress passes terrorism insurance protection?”

Wednesday, February 27, 2002, @ 3 p.m.
Rayburn House Office Building, Room 2128

Lisa Kramer Testimony

Good afternoon Chairwoman Kelly, ranking member Gutierrez and other members of the Subcommittee on Oversight and Investigations.

I am the President of FOJP Service Corporation. FOJP is a non-profit membership corporation, incorporated under the New York Not-For-Profit Corporation Law. We serve as risk management advisors to United Jewish Appeal-Federation of Jewish Philanthropies of New York and its beneficiaries, among which are six major academic medical centers, many long-term-care facilities, and 110 social service agencies, community centers, Ys and camps. FOJP's Board of Directors, which is elected by UJA-Federation, is comprised of men and women with diverse professional backgrounds who also serve on the Boards of institutions that are represented by FOJP.

These institutions are at the forefront of providing cutting edge medical care; a broad array of mental health services; cultural, educational and physical fitness programs; services for the elderly and for immigrants; camping and daycare for the young and for the old; and employment counseling and training for those seeking jobs. Services are provided on a non-sectarian basis to a population that reflects the diversity that New York State is known for, and often to people who have nowhere else to turn. Our facilities provide housing for the elderly, counsel to victims of domestic violence, rehabilitation to the deaf and to the deaf-blind, and health care to millions of people year in and year out.

In its capacity as risk management advisor to these institutions, FOJP works with leading insurance brokers to procure lines of property and casualty insurance coverage that are essential to protect the institutions from liabilities and losses. Professional medical liability, commercial general liability, workers' compensation and all-risk property insurance are among the lines of coverage procured through the FOJP program.

In May of 2001, through two of the largest insurance brokers in the world, FOJP began the process of marketing the renewal of the all-risk property insurance that covers loss of or damage to the real property of its client institutions--property valued in excess of \$8.5 billion. The renewal date was November 1, 2001.

In July of 2001, each of the brokers was awarded seven of the world's largest and most respected property insurers to which to market the FOJP property coverage. Sealed bids were due on September 17. The brokers were actively in the process of seeking renewal quotations when the attacks of September 11 took place.

An already hardening property/casualty insurance marketplace became a nightmare for insurance consumers. And, in agreement with its brokers, FOJP stopped the competitive bidding process and used one broker to scratch and claw the worldwide insurance market for a renewal program.

Prior to the November 1 renewal, institutions insured through the FOJP program enjoyed property insurance limits of over \$8 billion for the program. Following the November 1 renewal, and despite the extraordinary efforts of one of the world's largest insurance brokers on the worldwide insurance market, 16 international insurance companies in combination provided a

program with significantly less coverage at significantly increased cost. Most alarming, however, was that terrorism exclusions were added to their policies.

Upstate hospitals, particularly in the Buffalo and Albany areas, have seen their insurance limits dramatically reduced, both their deductibles and premiums dramatically increased, and all had terrorism exclusions inserted in their policies.

The combination of significantly reduced limits and terrorism exclusions experienced by the FOJP program has become commonplace, posing a serious threat to the ability of non-profit healthcare and social services institutions to continue to provide the services that are so important to the poor, the aged, the sick, the disabled and to those of us who are lucky enough to enjoy cultural and educational services without the burden of sickness and disability.

Consider that each of FOJP's largest hospital clients have in excess of \$500 million in long-term debt, as well as more than \$100 million in short-term loans for new construction. In the event that one single terrorist act, even far below the magnitude of September 11, seriously damages or destroys any significant property in the United States, the effects of such a scenario could be far reaching and devastating.

Lender agencies will realize that they are the insurer of last resort. Institutions will be unable to rebuild because of terrorism exclusions and there will be defaults to private mortgagees and government lenders. Lenders may respond by requiring terrorism coverage before lending any additional money to similar institutions. The institutions will then face the choice of foregoing essential programs that are necessary to fulfill their missions, or paying exorbitant

terrorism premiums for insufficient coverage limits. A leading writer of terrorism coverage recently quoted the FOJP program a premium of \$4,236,080 for \$50 million in coverage.

Premiums of this size are simply not affordable in the current fiscal environment. Leaving aside the day-to-day financial stress non-profit institutions bear in providing essential services, basic insurance costs--for property, liability, and statutorily required coverages--are rising precipitously. There is no money in any budget to pay the premiums that are being quoted for terrorism coverage, if such coverage can be found at all.

And even if the money could be found, the limits being offered are seriously inadequate. As I noted, the FOJP program was offered \$50 million in coverage--no more. If one of our insured hospitals were to be seriously damaged or destroyed by a terrorist act, \$50 million in coverage would make but a small dent in the hospital's financial obligations and rebuilding costs.

The issue of insurance coverage for property loss caused by acts of terrorism is a serious one. Coverage is either unavailable or coverage that is available is inadequate in limits and unaffordable in price. We need Congress to act and to act quickly.

Thank you.

Lisa Kramer

Lisa Kramer, President and CEO of FOJP Service Corporation, joined the company in September, 2000, bringing with her 30 years experience in the insurance business. She is also President and a member of the Board of HANYYS Insurance Company, Inc., a New York State-licensed property/casualty company.

During the ten years before she came to FOJP, Ms. Kramer was an executive with the MIIX Group of Companies, which provides medical malpractice insurance for doctors and healthcare institutions. Before joining MIIX, Ms. Kramer was a senior management consultant at Tillinghast, a Towers Perrin company, where she consulted with Fortune 500 companies, insurers and reinsurers on claims and litigation management, legal expense control, organizational effectiveness and strategic planning.

From 1978 to 1984, Ms. Kramer was a vice president at CIGNA Corporation and ran its litigation and government relations departments for the property/casualty group. Prior to CIGNA, Ms. Kramer was a trial lawyer at Ballard, Spahr, Andrews and Ingersoll, a large law firm in Philadelphia, specializing in medical malpractice, products liability and insurance coverage cases.

Ms. Kramer received both her B.A and J.D. degrees from the University of Pennsylvania and its law school. She is a member of *Phi Beta Kappa*, the International Association of Defense Counsel and the American Bar Association. She has published articles and lectured to industry and trade associations on claims and litigation management.