

**OPENING STATEMENT OF
RANKING DEMOCRATIC MEMBER PAUL E. KANJORSKI
SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE,
AND GOVERNMENT SPONSORED ENTERPRISES
A REVIEW OF THE TERRORISM RISK INSURANCE ACT
AND ITS EFFECT ON THE ECONOMY:
HELPING AMERICA MOVE FORWARD
WEDNESDAY, APRIL 28, 2004**

Mr. Chairman, we meet today for the first time in the 108th Congress to examine the effectiveness of the Terrorism Risk Insurance Act. As you know, I worked closely with you during the 107th Congress to enact this important economic stabilization law.

Prior to the terrorist attacks on the World Trade Center and the Pentagon, most Americans took their security for granted. These attacks, however, altered how we each assess risk. This adjustment was especially apparent in the insurance industry.

Prior to 2001, many insurers could not price for terrorism risk and offered it for free. Ultimately, the industry sustained approximately \$40 billion in losses on September 11th as a result of its poor economic judgment. Subsequently, it turned to the Congress to seek assistance in protecting the American public against future terrorism attacks, particularly in the short term.

Terrorism insurance is critical to protecting jobs and promoting America's economic security. Unfortunately, reinsurers curtailed the supply of terrorism reinsurance and insurers began to exclude terrorism coverage from customers' policies in the wake of the 2001 terrorist attacks. Eventually, we belatedly approved the Terrorism Risk Insurance Act to address these pressing problems.

Seventeen months have now passed since the Terrorism Risk Insurance Act became law. It is therefore an appropriate time for us to begin to examine the effectiveness of this statute. Because we crafted the law to last just 37 months, it is also an appropriate time for us to begin deliberations over the program's future.

Today, Mr. Chairman, we will hear from several insurance experts on these important matters. I am especially pleased that our witnesses will report that the Terrorism Risk Insurance Act has worked to increase the availability of terrorism risk insurance. As I understand, it has also lowered the cost of such insurance, contributed significantly to stabilizing the overall insurance marketplace, and advanced delayed economic development projects.

We wisely designed the Terrorism Risk Insurance Act as a temporary backstop to get our Nation through a period of economic uncertainty until the private sector could develop the models to price for terrorism reinsurance. I agreed with this decision. The reinsurance industry is dynamic and we should not disrupt the development of new products.

Nevertheless, I now believe that we might have decided to sunset this program too soon. In designing the law, we sought to give insurers a transitional period. The General Accounting Office, however, has recently determined that the industry has made little progress to date in

providing terrorism insurance without government involvement. This finding causes me significant concern.

Although the law will expire at the end of 2005, many industry participants have also already called upon the Congress to act expeditiously in 2004 to extend the life of the Terrorism Risk Insurance Program in order to prevent short-term market disruptions. I agree.

As I have previously noted, terrorism insurance plays an important role in the efficient functioning of our economy. We should therefore pursue appropriate action before the end of the 108th Congress to provide greater stability to our capital markets in the short term while they work to develop private sector solutions to these problems for the long term. It is also my expectation that the Treasury Department will decide as soon as possible to extend the “make available” provisions of the law that require companies to offer terrorism insurance on the same terms and conditions as other property-and-casualty products.

In debating any plan to extend the Terrorism Risk Insurance Act, we additionally ought to work to incorporate group life insurance into the federal backstop program. Group life products have characteristics similar to commercial property-and-casualty insurance in that there is often an excessive concentration of risk within a small geographic area. Despite a lack of terrorism reinsurance, group life insurers have remained in the marketplace, fully exposed to future terrorism events. This reality has created significant anxiety in the life insurance industry and uncertainty for individuals who obtain life insurance through their employers.

In closing, Mr. Chairman, time is of the essence. I stand ready to work with you and all other interested parties on these matters in the upcoming months. I am also looking forward to hearing from each of our witnesses to learn of their insights on these matters.
