

Statement of Chairwoman Sue Kelly
Joint Hearing
Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises
Subcommittee on Oversight and Investigations
“A Review of TRIA and its Effect on the Economy: Helping America Move Forward”
April 28, 2004

In the last two-and-a-half years, our country has been engaged in a war against terror that has permeated virtually every aspect of American life. Congress and the Administration have responded to our new realities with comprehensive reforms that seek to eradicate the threat posed by fanatical terror networks to our citizens, our economy and our way-of-life.

Today’s hearing highlights a law that has made a significant contribution to this effort. The Terrorism Risk Insurance Act ensures the availability of terrorism insurance that is crucial to our economic security.

After 9/11, the marketplace for terrorism insurance vanished. With losses from the terrorist attacks exceeding \$40 billion and uncertainty in the marketplace, insurers and reinsurers began to exclude terrorism coverage from commercial policies.

Hospitals, office buildings, malls, stadiums and museums – and even small businesses located near these large facilities – had difficulty finding terrorism insurance coverage. Without this insurance, commercial development stalled and workers missed out on jobs.

As the availability of coverage continued to disappear and threaten our economic security, it was clear that the market for terrorism insurance would not return on its own. Something needed to be done to provide stability and avoid market disruptions. Congress – with strong support from the Administration – passed legislation to address the uncertainty in the market, protect American jobs, and strengthen the resiliency of our economy.

TRIA established a three-year program to pay the federal share of compensation for insured losses resulting from foreign acts of terrorism.

In TRIA, our goals were clear: make terrorism insurance affordable and available to policyholders in the short term, while also giving the market time to develop resources and mechanisms to ensure viability beyond expiration of the Act.

Today, the Committee will examine the effectiveness of TRIA and its impact on the economy. Thus far, the results of TRIA have been positive. Terrorism insurance is widely available, and a growing number of businesses are accessing this coverage.

By enabling commercial policyholders to obtain terrorism insurance, TRIA has provided a boost to construction and job creation, strengthened economic growth and security, and reduced the impact of any future terrorist attack. Overall, TRIA has been an important stabilizing factor in the market, as we will hear from the General Accounting Office today.

But, as the program moves closer to expiration in 2005, we must examine the future of terrorism insurance and whether the private market will be able to make coverage available without a federal backstop. While there is no doubt that our country is better prepared today than it was prior to 9/11, we remain on heightened alert and still face the threat of terrorist activity. This uncertainty makes it difficult to determine methods to price coverage and to ensure a viable marketplace without a federal backstop. As a result, it remains unclear whether there will be sustainable marketplace after TRIA expires.

Given state of the insurance marketplace and the continued war against terror, there is compelling reason to continue a federal backstop for terrorism insurance until we can ensure a viable marketplace that enables businesses to receive coverage. To begin, it is crucial that the Treasury Department extend the requirement that private insurers continue to “make available” terrorism reinsurance.

This provision – which sunsets at the end of 2004 – guarantees that commercial policyholders have access to terrorism coverage. A wide range of businesses and organizations – from the transportation, energy and real estate industries to manufacturing, construction, entertainment and retail sectors – are rightfully concerned that the failure to extend the “make available” provision will ultimately impact their operations, business development and ability to create jobs. This clearly threatens both our economic growth and security.

When it comes to the security of our country and our economy, we must take every necessary precaution to defend the American people. The Administration is doing everything possible to strengthen our security, from efforts to secure our nation’s borders, ports and major transportation systems to additional resources to dry up terrorist financing.

The TRIA program also is essential to the economic security of the American people. It helps stabilize the market prior to a terrorist attack and ensures that Americans have access to low-cost insurance, which prevents market disruptions that adversely impact businesses that fuel our economy.

The benefits that a federal backstop provides to the post-9/11 economic security of the American people far outweigh the costs of the program. Until there are meaningful alternatives in place, we should not function without a federal backstop. It is better to have a program in place and not need it, than to need a program and not have it.

I thank Chairman Oxley and Subcommittee Chairman Baker for their cooperation in holding this important and timely hearing on terrorism insurance. Their leadership and perseverance, along with that of the President, is the reason that Congress was initially able to pass this monumental legislation despite significant obstacles.

I also commend the Treasury Department and the National Association of Insurance Commissioners (NAIC) for their collaborative work on these important issues under extraordinary circumstances. The Treasury Department and state insurance commissioners have been faced with the extremely difficult task of developing a reinsurance marketplace through an unprecedented program.

As we speak, businesses and insurers are beginning to make decisions that impact operations beyond the potential sunset of the “make available” language and the expiration of TRIA. As a result of these operational realities, I urge the Treasury Department to provide Congress with information on the future of TRIA in a timely manner in order to help make informed decisions about the future of the program.

I look forward to continuing to work with the public and private sectors to protect and preserve the economic security of the American people.