

STATEMENT OF THE INDEPENDENT INSURANCE AGENTS OF AMERICA

UNITED STATES HOUSE FINANCIAL SERVICES COMMITTEE

OCTOBER 24, 2001

This testimony is submitted on behalf of the Independent Insurance Agents of America (IIAA). IIAA is a non-profit trade association that represents over 300,000 independent insurance agents and brokers and their employees nationwide. IIAA's membership is composed of large and small businesses that offer consumers a wide array of products in every state, city, and town in the country. The independent insurance agent and broker industry sells 75 percent of all commercial lines policies in the country. In essence, independent agents and brokers write coverage for America's businesses, and through this unique prism of expertise and for the reasons outlined below, we strongly urge the passage of legislation to ensure the availability and affordability of essential business insurance products in the aftermath of the horrific acts of September 11.

The terrorist acts of September 11 have had a profound impact upon all of us, with the insurance industry being hit particularly hard, both physically and financially. IIAA has over 20 agency members in Lower Manhattan, including one that was previously located in the South Tower of the World Trade Center, and many more had valued customers who were located in the complex. In the days and weeks that have followed the attacks, countless victims and survivors have begun putting their lives back in order, and the insurance industry has played a pivotal role in this recovery-and-rebuilding process. We are proud and pleased by the manner in which our industry responded to the events of September 11, and the best news was that things worked as they were intended. The insurance industry has honored its commitment to thousands of Americans in their greatest time of need—and the industry is proving that it has the resources needed to quickly and fully pay claims.

Although the insurance industry has responded efficiently and effectively to these attacks, we must now work to ensure that the industry is in a position to respond in similar ways to future terrorist attacks. In order to address these new challenges, we will need the leadership and assistance of the United States Congress and the Bush Administration to ensure that appropriate insurance coverage remains available. The issue of terrorism reinsurance is so vital to the future of American businesses—large and small alike—and to the health of the nation's economy that it needs Washington's immediate attention. The time for action is now. Congress and the Administration need to address this important national policy issue as soon as possible.

The possibility of further terrorist attacks elucidates the need for mechanisms to assure the continuing availability of coverage for these risks. Although the insurance industry is prudently managed and well capitalized, it cannot and should not be expected to provide coverage for an uncertain number of attacks in the future (that cannot be scientifically modeled) without the establishment of a government mechanism that can provide a

backstop for losses caused by terrorism. While most insurance policies today exclude damage from war, they typically do not include terrorism exclusions.

The problem now is that many understandably skittish domestic and foreign reinsurers stated that they would not cover terrorist acts when contracts come up for renewal on January 1. Primary insurers warn they cannot support repeated terror claims, especially if reinsurers exclude such losses from coverage. Without reinsurance, insurers will leave markets, exclude terrorism coverage or charge premiums that in essence will make insurance coverage unaffordable and largely unavailable. The specter of any of these options has dire ramifications for commercial consumers of insurance products that need the financial protection offered by insurance to stay in business and on commercial lines insurers, agents and brokers that serve them. Failure to address this potential coverage gap will thus not be felt only within the insurance industry but on the national economy as a whole.

Development of a terrorism reinsurance pool to cover commercial policies is critically important not just to insurance companies, agents and brokers, but also to the future viability of literally hundreds of thousands of small and large U.S. businesses. Without some kind of mechanism to cover terrorism losses, insurance protection would be difficult—if not impossible—to find, financiers would be reluctant to lend, and businesses would be hesitant to invest. The end result is an economic shockwave to the U.S. economy. No one wants to return to an insurance market like the mid-to-late '80s when the lack of available or affordable insurance altered the business and personal activities of Americans. Therefore, the issue of terrorism reinsurance is critical.

For this reason, IIAA supports the creation of a federal backstop to ensure that the industry will be able to continue offering coverage for damages caused by terrorism. In establishing such a backstop, we will be able to restore coverage for the millions of businesses that will otherwise be unable to renew their current insurance policies and we will be able to restore the confidence customers rely upon in securing their needs through all insurance policies.

When insurance industry representatives testified before the United States House of Representatives Financial Services Committee on September 26, the panelists' concerns focused more on the future than the present, and all seemed to agree that the U.S. government must play a role in addressing the need for terrorism reinsurance. IIAA believes that congressional action is necessary, and we believe the creation of a federal backstop is a necessary element of any proposal that attempts to address these issues. The establishment of a federal backstop would help ensure the continued solvency of the insurance industry, stabilize premiums, allow reinsurance companies to have renewed confidence to underwrite primary insurers, and make terrorism coverage available to the buyers who urgently need it. Regardless of whether it is the stability expected from the proposed establishment of a U.S. Treasury federal backstop that the insurance industry agrees upon, a division of future terrorist claims between the insurance industry and the federal government suggested by the Administration, or a hybrid proposal, the core objective must be to insure that mechanism are instituted to enable small and large

businesses to purchase insurance policies that might otherwise be unavailable or unaffordable in the wake of the September 11th attacks. IIAA pledges to continue working with the Administration, members of this committee, consumers, our industry colleagues, and any others to ensure that an appropriate solution is attained.

The issue of terrorism reinsurance is so vital to the future of American businesses and to the health of the nation's economy that it needs the immediate attention of Congress.

Without a backstop for acts of terrorism, most insurance companies have two options – stop writing many types of commercial insurance or charge significantly higher premiums. The specter of either option has dire ramifications for many business owners and agents and brokers. The impact on independent agents and brokers and their business clients is such a major concern that IIAA believes prompt congressional action is absolutely necessary. We are very pragmatic when it comes to drafting and moving legislation to address this national issue. While interested parties may have differing opinions on how such a mechanism should work, we believe it is far more important to expeditiously work through differences to achieve the timely enactment of a proposal that can meet the immediate and long-term needs of the customers of independent agents and brokers. We stand ready to work with you on this important national issue.