Opening Statement

Chairman Mike Oxley

Committee on Financial Services

Committee Mark-up on H.R. 3210:
"The Terrorism Risk Protection Act"
November 7, 2001

In the last month, our Committee has held two hearings plus a roundtable on the state of the insurance industry after the September 11 terrorist attack. There appeared to be consensus on two general conclusions from these meetings (1) the lack of available terrorism reinsurance may cause significant disruption in the primary commercial insurance markets at the beginning of next year, and (2) the commercial insurance industry as a whole remains healthy, and for most companies, profitable, despite the September 11 catastrophe.

My office has been flooded with requests for assistance totaling hundreds of billions of dollars from various business and labor groups that have been hurt by the September 11 attack. While most of these requests have merit, Congress simply does not have the resources to satisfy every need.

That is why the major decision we have before us today is whether to provide the insurance industry with a backstop or a bailout. Unlike other approaches that have been suggested by the Senate and the Administration, the bill that I and 30 other bipartisan Members introduced last week is clearly a backstop, not a bailout. We are providing a helping hand-up, by creating immediate Federal assistance in the aftermath of another terrorist attack, but not a hand-out, by demanding that every dollar of American taxpayer assistance ultimately be repaid.

The initial solution proposed by the insurance trade associations was to create an industry-wide pool that every company would contribute to in return for individual coverage in the case of an event. The problem with a pre-funded pool, besides the creation of a potentially unnecessary monopoly, is that you always have to over-reserve to protect against the unknown event. Our bill achieves exactly the same goal of spreading terrorism risks across the industry, but without the bureaucracy or the over-pricing. And we do it based on existing State insurance models that have been working successfully in the real world for decades.

Almost every State in this country has an insurance guarantee fund with a post-event assessment system. After an event, the State steps in to ensure payment of the policyholders. Then, the payments are recouped by assessing the entire property-casualty industry based on each company's net premiums. Assessments are typically capped at 2-3% per year to spread the costs out over time. It's a proven system that works.

The States have also used a combination of approaches, including post-event assessments and surcharges for their catastrophic insurance funds, such as for earthquakes in California and hurricanes in Florida. This real life system used for decades by the States has been adopted for our use in H.R. 3210 as suggested by witnesses ranging from Professor Harrington and Cummins to Florida Commissioner Gallagher and consumer advocates Bob Hunter and Travis Plunkett.

A strong insurance industry benefits the entire nation. But ultimately, the primary beneficiaries of any Federal subsidies are the commercial insurers and insureds. These are the entities that are seeking legislation. We don't have any taxpayer or consumer groups breaking down our door arguing for greater terrorist subsidies. In fact, many of these taxpayer and consumer groups have already come out publicly in favor of our approach.

H.R. 3210 provides immediate assistance in the case of a terrorist disaster, and it not only spreads the risk across the industry, helping the industry to essentially act as its own reinsurer, but it also spreads the costs out over time, to minimize the impact of an event in any given year. It also provides the most backstop coverage for any individual company, and creates the greatest incentive for each individual company to maintain terrorism coverage for consumers. But it does this without handing over our wallets to the industry and making the United States Treasury liable for potentially unlimited amounts.

H.R. 3210 is based on proven insurance programs that have worked in this country without putting taxpayers on the hook. I hope we can keep it clean of extraneous amendments and move it to the House floor with strong bipartisan support.

In conclusion, I would like to thank the original sponsors of this bill for their support. In particular, Mr. Baker deserves to be commended for his important contributions throughout this process, and Mr. Bentsen's support was also critical in the early development of the bill. My thanks go to all of the others whose help has been invaluable in moving this legislation forward.