DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

June 30, 2005

The Honorable Michael G. Oxley
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Oxley:

The Terrorism Risk Insurance Act of 2002 (TRIA) required the Treasury Department, as administrator of the Terrorism Risk Insurance Program, to assess features of the program and its environment, and report to Congress on its findings by June 30, 2005. As required by law, I am submitting to you an assessment of TRIA.

President Bush signed TRIA into law to help safeguard America's economy in the wake of the terrorist attacks of September 11, 2001. TRIA established a temporary federal program of shared public and private compensation for insured commercial property and casualty losses resulting from foreign acts of terrorism.

The Treasury Department was required by TRIA to specifically assess the effectiveness of the program, the availability and affordability of such insurance for various policyholders, and the likely capacity of the property and casualty insurance industry to offer insurance for terrorism risk after the expiration of the program. The attached report, based in part on surveys of the insurers and policyholders that were developed after extensive consultations with the National Association of Insurance Commissioners, policyholders, the insurance industry, and other experts in the insurance field, evaluates the effectiveness of TRIA in the context of the purpose of the legislation. The report finds that TRIA has achieved its goals of supporting the industry during a transitional period and stabilizing the private insurance market.

While TRIA has been effective in achieving its temporary objectives, the economy is more robust today than when TRIA was enacted. GDP growth is up from 2.3 percent in 2002 to 3.9 percent in 2004 (fourth quarter over fourth quarter). Unemployment, which reached 6.0 percent in December 2002, is down to 5.1 percent in May 2005. Construction jobs, taking residential and nonresidential together, now stand at a record high 7.2 million. Extending TRIA would have little impact on the economy given its current strength.

It is our view that continuation of the program in its current form is likely to hinder the further development of the insurance market by crowding out innovation and capacity building. Consistent with its original purpose as a temporary program scheduled to end on December 31, 2005, and the need to encourage further development of the private market, the administration opposes extension of TRIA in its current form.

Any extension of the program should recognize several key principles, including the temporary nature of the program, the rapid expansion of private market development (particularly for insurers and reinsurers to grow capacity), and the need to significantly reduce taxpayer exposure. The administration would accept an extension only if it includes a significant increase to $500 million of the event size that triggers coverage, increases the dollar deductibles and percentage co-payments, and eliminates from the program certain lines of insurance, such as Commercial Auto, General Liability, and other smaller lines, that are far less subject to aggregation risks and should be left to the private market.

It is also important to keep in mind that the program would cover damages awarded in litigation against policyholders following a terrorist attack. Current litigation rules would allow unscrupulous trial lawyers to profit from a terrorist attack and would expose the American taxpayer to excessive and inappropriate costs. The administration supports reasonable reforms to ensure that injured plaintiffs can recover against negligent defendants, but that no person is able to exploit the litigation system.

We look forward to further discussions with the Congress on this very important issue.

Sincerely,

John W Snow

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

June 30, 2005

The Honorable Paul S. Sarbanes
Ranking Member
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, DC 20510

Dear Senator Sarbanes:

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WASHINGTON, D.C.

SECRETARY OF THE TREASURY

June 30, 2005

The Honorable Barney Frank
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Frank:

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SECRETARY OF THE TREASURY

June 30, 2005

The Honorable Richard C. Shelby
Chairman
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, DC 20510

Dear Chairman Shelby:

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