

October 26, 2001

MEMORANDUM TO: Chairman Meserve  
Commissioner Dicus  
Commissioner Diaz  
Commissioner McGaffigan  
Commissioner Merrifield

FROM: Dennis K. Rathbun, Director */RA/*  
Office of Congressional Affairs

SUBJECT: CONGRESSIONAL HEARINGS ON TERRORISM RISK INSURANCE

On October 24, 2001, the House Financial Services Committee's Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises held a hearing to receive testimony on what legislative action is needed to ensure that businesses will be able to obtain reasonably priced insurance in the wake of September 11. As a result of the attacks, the insurance industry has to pay out between \$30 and \$60 billion. Until now, the previous largest pay outs were incurred after Hurricane Andrew which cost the industry about \$19 billion. While the industry will be able to cover its September 11 pay outs, they will begin dropping coverage for losses by acts of terrorism when property casualty insurance policies are rewritten beginning in January 2002 because they can no longer rely on reinsurers to provide coverage. Coverage would still be available but the cost to businesses would be prohibitive.

While no bills have yet been introduced, a number are being contemplated, one of which is being put together by the Administration. At the hearing, Treasury Secretary Paul O'Neill and R. Glenn Hubbard, Chairman of the Council of Economic Advisors, represented the Administration. In sum, they are proposing a three-year government-shared loss compensation program with the government absorbing 80% of the first \$20 billion of insured losses through the end of 2002 and 90% of losses in excess of that amount. In 2003, insurers would be responsible for 100% of the first \$10 billion of insured losses, 50% of losses between \$10 and \$20 billion and 10% of losses above \$20 billion. In 2004, insurers would be responsible for 100% of the first \$20 billion, 50% of the losses between \$20 and \$40 billion, and 10% of losses above \$40 billion. There would be an annual cap of \$100 billion for the combined private/public liability with Congress to determine payments above that amount. Copies of their testimony are attached. Subcommittee members seemed to believe that this proposal would saddle the government with too much liability.

The insurance industry's proposal would mimic one in use in the United Kingdom that would utilize a pooling structure by establishing a special state-chartered reinsurance company. The

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company would then reinsure 95% of the risk from terrorism to the Federal government. This proposal did not seem to attract much favorable attention. At the end of the hearing, sentiment seemed to lie with some modification of the Administration's proposal. However, Subcommittee Chairman Richard Baker (R-LA) observed that a stop-gap, limited term measure extending until Spring 2002, would be a more realistic approach given the short amount of time Congress will be in session this year. It was unclear, however, whether such an approach would give adequate assurance to the insurers to renew coverages expiring on December 31, 2001.

Marjorie Nordlinger, OGC, represented NRC by describing the provisions of the Price-Anderson Act and how it would operate in the event of a nuclear accident. She was not asked any questions.

Earlier in the day, the Senate Committee on Banking, Housing and Urban Affairs held a hearing on the same subject with Secretary O'Neill and CEA Chairman Hubbard again providing testimony. At that hearing, Senators were generally more favorable to the Administration's proposals. Christopher Dodd (D-CT) and Phil Gramm (R-TX) said they favored a modified version of the Administration plan but would limit the Federal share of losses to 80% or 90% of losses over \$10 billion. They said their bill would be introduced in the near future. NRC was not invited to provide testimony at the Senate hearing.

Attachments:

As stated

cc: OEDO	RES	OIG	NMSS
OGC	NRR	ACNW	SECY
OGC (Cyr)	OPA	OCFO	OCAA