terrorism (as defined in the Act) at deductibles and limits that do not differ materially from the coverage provided for other perils.

For the purposes of this interim guidance, the ''make available'' requirement does not mean that insurers must make available coverage for all types of risks. For example, if an insurer does not cover all types of risks, either because the insurer is outside of direct State regulatory oversight or a State permits exclusions for certain types of losses (*e.g.*, nuclear, biological, or chemical events) an insurer would not be required to make such coverage available.

This interim guidance is consistent with the Act's stated purpose of ensuring widespread availability of terrorism risk insurance while preserving State insurance regulation. During the course of implementing the Program, Treasury will be monitoring the pricing and availability of terrorism risk insurance coverage as part of the Act's requirements that Treasury study the effectiveness of the Program (section 108(d)(1)) and compile information on the premium rates of insurers (section 104(f)).

How May Insurers Comply With the ''Make Available'' Provision?

For purposes of this interim guidance, an insurer that makes a formal offer of coverage to a policyholder that does not differ materially from the terms (other than price), amounts and other coverage limitations offered to the policyholder will be deemed in compliance with the ''make available'' requirement.

May an Insurer Offer Coverage for Acts of Terrorism (as Defined in the Act) That Differs Materially From the Terms, Amounts, and Other Coverage Limitations for Losses Arising From Events Other Than Acts of Terrorism?

For the purposes of this interim guidance, an insurer may offer coverage that is on different terms, amounts, or coverage limitations as long as the insurer satisfies the ''make available'' requirements (as described in the previous question and answer) and as long as such offers do not violate any State laws or regulations. For example, in a State that requires the provision of full coverage without any exclusion, the Act would not preempt that State's preexisting requirements. In contrast, if a State permits certain exclusions or allows for other limitations, or if an insurance policy is not directly governed by State requirements, then after first satisfying the ''make available'' requirement (as described in the previous question and answer), an insurer could offer limited coverage or coverage with exclusions.

C. Property and Casualty Insurance and Direct Earned Premium

What Types of Property and Casualty Insurance Are Covered by the Program?

Section 102(12) of the Act defines property and casualty insurance to mean commercial lines of property and casualty insurance, including excess insurance, workers' compensation insurance, and surety insurance.

As interim guidance prior to the issuance of regulations, Treasury deems the following lines of insurance from the NAIC's Exhibit of Premiums and Losses (commonly known as Statutory Page 14) to be included in the Program: Line 1—Fire; Line 2.1—Allied Lines; Line 3—Farmowners Multiple Peril; Line 5.1—Commercial Multiple Peril (non-liability portion); Line 5.2—Commercial Multiple Peril (liability portion); Line 8—Ocean Marine; Line 9—Inland Marine; Line 16—Workers' Compensation; Line 17—Other Liability; Line 18—Products Liability; Line 19.3—Commercial Auto No-Fault (personal injury protection); Line 19.4—Other Commercial Auto Liability; Line 21.2—Commercial Auto Physical Damage; Line 22—Aircraft (all perils); Line 24—Surety; Line 26—Burglary and Theft; and Line 27—Boiler and Machinery.

Section 102(12) (B) of the Act lists types of insurance coverage that are excluded from the Program. These are private mortgage or title insurance; financial guaranty insurance issued by monoline financial guaranty insurance corporations; insurance for medical malpractice; health or life insurance, including group life insurance; flood insurance provided under the National Flood Insurance Act of 1968; and reinsurance or retrocessional reinsurance.

In addition, the Act excludes, ''Federal crop insurance issued or reinsured under the Federal Crop Insurance Act, or any other type of crop or livestock insurance that is privately issued or reinsured.'' As interim guidance to facilitate implementation, Treasury deems the phrase ''any other type of crop or livestock insurance that is privately issued or reinsured'' to mean Multiple Peril Crop insurance reported on Line 2.2 of the NAIC's Exhibit of Premiums and Losses (commonly known as Statutory Page 14).

How Is Direct Earned Premium Measured?

The Act contains the term ''direct earned premium.'' The Act specifies an insurer's direct earned premiums over a given calendar year as the deductible base for purposes of calculating an ''insurer deductible'' as defined in section 102(7) of the Act. For purposes of interim guidance to enable insurers that report to the NAIC to calculate their ''insurer deductible'' and to facilitate immediate implementation of the Program, the term ''direct earned premium'' means the direct premiums earned as reported to the NAIC in the Annual Statement in column 2 of the Exhibit of Premiums and Losses (commonly known as Statutory Page 14). Treasury will be issuing additional guidance for entities covered under the Program that do not report to the NAIC.

Dated: December 3, 2002.

Peter R. Fisher,

Under Secretary of the Treasury.

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DEPARTMENT OF THE TREASURY

Departmental Offices; Study of the Impact of Threat of Terrorism on Availability of Group Life Insurance

AGENCY: Department of the Treasury, Departmental Offices.

ACTION: Notice; request for comments.

SUMMARY: Recently enacted terrorism insurance legislation requires the Secretary of the Treasury (Treasury) to study, on an expedited basis, whether adequate and affordable catastrophe reinsurance for acts of terrorism is available to life insurers in the United States that issue group life insurance, and the extent to which the threat of terrorism is reducing the availability of group life insurance for consumers in the United States. To assist in this study, the Treasury is soliciting comments on the questions listed below.

DATES: Comments must be in writing and received by January 10, 2003.

ADDRESSES: Send comments by e-mail to *grouplifestudy@do.treas.gov.* Please include your name, affiliation, address, e-mail address, and telephone number. All submissions should be captioned ''Comments on Group Life Insurance Study''.

FOR FURTHER INFORMATION CONTACT: Lucy Huffman, Project Manager, Office of Microeconomic Analysis, 202–622–0198; John Worth, Acting Director, Office of Microeconomic Analysis, 202–622–2683; U.S. Treasury Department.

SUPPLEMENTARY INFORMATION: Section 103(h) of the Terrorism Risk Insurance Act of 2002 (Public Law No. 107–297)

(Act) requires the Treasury to study, on an expedited basis, whether adequate and affordable catastrophe reinsurance for acts of terrorism is available to life insurers in the United States that offer group life insurance, and the extent to which the threat of terrorism is reducing the availability of group life insurance coverage for consumers in the United States. To the extent that the Treasury determines that such coverage is not or will not be reasonably available to both such insurers and consumers, the Treasury is directed to apply, in consultation with the National Association of Insurance Commissioners, the provisions of the Act, as appropriate, to group life insurers; and provide such restrictions, limitations, or conditions with respect to any financial assistance provided that Treasury deems appropriate, based on this study.

The purpose of the Act is to establish a temporary Federal program that provides for a transparent system of shared public and private compensation for insured losses resulting from acts of terrorism, in order to protect consumers by addressing market disruptions and ensure the continued widespread availability and affordability of property and casualty insurance for terrorism risk; and to allow for a transitional period for the private markets to stabilize, resume pricing of such insurance, and build capacity to absorb any future losses, while preserving state insurance regulation and consumer protections.

Treasury is soliciting comment in response to the following questions, including empirical data in support of such comments where appropriate and available.

I. The Impact of Terrorism Risk on Group Life Insurers

1.1 Who are the suppliers of the group life insurance in the U.S.; who are the buyers; and how are sellers and buyer brought together?

1.2 What is the corporate status of group life insurers? Are they generally stand-alone companies, or affiliates of other corporations? If the latter, what are the major business interests of the other corporations?

1.3 What characterizes group life insurance offerings? Please describe typical terms of coverage, offer and renewal procedures, and other relevant information.

1.4 How is group life insurance regulated in the U.S.? Are there significant differences in group life regulation among the states and, if so, what are these differences?

1.5 What are the risk exposures of customers and how are they concentrated—by locality, by type of employer, other? What is the annual premium structure for these different exposures?

1.6 What amounts of loss exposure are typically reinsured? Please describe the structure of typical reinsurance contracts, including the period of coverage and typical renewal process.

1.7 What was the amount of group life insurance losses in the terrorist attack of September 11, 2001; and how was it distributed—losses to insurers versus losses to reinsurers? How was it distributed within each group?

1.8 What was the availability and price of reinsurance in the period before and following September 11, 2001, for group life insurance? What is it today? Please be specific by type and amount of coverage available, deductible, sublimit, renewability, and other relevant characteristics.

1.9 What is the current capacity of group life insurers in the U.S. to bear terrorism risk, individually and as affiliates of other companies, taking into consideration their reinsurance situation? Please provide empirical support for responses as available and appropriate.

1.10 Are there other sources of protection for terrorism risks in group life insurance, *e.g.*, through capital markets? To what extent are these sources used currently? What are the issues associated with expanded use of these sources?

1.11 Please address and provide empirical support for whether group life insurers have reasonable access to adequate and affordable catastrophe reinsurance, and, if not, why inclusion in the Act would correct this situation. In so doing, please compare the magnitude and scope of the situation of group life insurers to the situation previous to the passage of the Act of those property and casualty insurers that are included in the Act.

II. The Impact of Terrorism Risk on Group Life Insurance Markets

2.1 Please describe in detail, current group life insurance market conditions, including availability and pricing, by type and location of employers and other purchasers.

2.2 What is the impact of terrorism risk on group life insurance availability for employees and other consumers? Please describe in as much detail as possible which employees and other consumers have been significantly affected, including availability and pricing, by type and location of employer or other purchaser of group life coverage.

2.3 What is the cost and availability of alternative sources of life insurance coverage for those employees and other consumers affected by the reduced availability and affordability of group life insurance?

2.4 Please explain and provide empirical support concerning the extent to which the threat of terrorism is reducing reasonable availability of group life insurance coverage for employees and other consumers in the U.S., and whether it would continue to be reduced if group life insurers continue to be excluded from the Program. Please compare the magnitude and scope of the impact on consumers of not including group life insurance to the impact on consumers previous to the passage of the Act of those property and casualty insurance lines covered under the Act. Please explain how inclusion would correct this situation.

III. The Potential for Inclusion in the Federal Program

3.1 Treasury presumes that, if it would be appropriate to include group life insurance under the Act, Treasury would apply the current provisions of the Act to group life insurers. If this is not the case, please discuss and provide a detailed explanation of the changes that would need to be made to implement the Program for group life insurers. Please include discussion of any operational difficulties with applying the current provisions in the Act to group life insurers, any other characteristics of group life insurance that should be considered with respect to any financial assistance if group life insurers were included under the Act, and the benefits and costs, including administrative costs, of any proposed changes to the provisions for group life insurers.

Dated: December 3, 2002.

Mark Warshawsky,

Deputy Assistant Secretary for Economic Policy, Microeconomic Analysis.

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DEPARTMENT OF THE TREASURY

Internal Revenue Service

Open Meeting of the Area 1 Taxpayer Advocacy Panel (Including the States of New York, Connecticut, Massachusetts, Rhode Island, New Hampshire, Vermont and Maine)

AGENCY: Internal Revenue Service (IRS), Treasury.