Federal natural catastrophe backstop would increase premiums, reinsurers warn

Insurance Business

Recent Bill INSURE Act has policyholder advocate backing but RAA has concerns

The Reinsurance Association of America (RAA) has aired concerns that a federal natural catastrophe reinsurance program, like that mooted in the recently introduced INSURE Act, would add to insurance costs for Americans rather than tackle rising premiums and availability issues.

“A federal (re)insurance program is not needed; it does not address the root causes of insurance premium increases in certain parts of the country and would only increase risk and resulting premiums by encouraging development in high-risk areas,” RAA president Lee Covington told Insurance Business in an emailed statement.

District of California Representative Adam Schiff introduced the Incorporating National Support for Unprecedent Risks and Emergencies Act (INSURE) Act (INSURE Act) earlier this month, seeking to create a federal catastrophe reinsurance program and cut costs for consumers grappling with home insurance availability and affordability issues.INSURE Act has consumer advocate backing, but (re)insurance stakeholders warn of unintended consequences
The Bill has the backing of multiple policyholder advocate organizations, including Consumer Watchdog and United Policyholders, who have argued that a new safety net is needed to protect consumers from rising insurance prices.

However, the RAA, which includes both reinsurers and reinsurance brokers among its membership, has contended that the Bill would not tackle key issues driving up insurance costs and legislators would be better focusing on risk mitigation and resilience funding initiatives.

“Inflation, concentration of property risk in high-risk areas, lawsuit abuse in too many states, and increasing frequency and severity of natural catastrophes and severe convective storms across the country are the overwhelming contributing factors to the rising cost of insurance,” Covington said. “We do believe the federal government has a significant role in promoting risk mitigation and directing funding and other resources to reduce property risk, as the Federal Emergency Management Agency and other agencies are doing as they are deploying significant funding as part of implementing the Community Disaster Resilience Zones (CDRZ) Act.

“Any increases in reinsurance costs due to the driving cost factors have a de minimis impact on policyholder premiums, and therefore, reinsurance is not a problem; but rather, reinsurance spreads the risk and costs across the globe, versus placing the burden on the American taxpayers.”
Insurer trade association APCIA has previously spoken out against the Bill, which it has cautioned could “put families at risk of losing access to the coverage they need.”

US grapples with property insurance affordability and availability
Natural catastrophe exposed areas of the US have been wrestling with an insurance affordability and availability challenge, with major insurers, including State Farm and Farmers Insurance, having cut down their appetite or pulled back from key states.

The US accounted for 66% of total global insured property losses in 2023, which stood at $123 billion, according to a January Gallagher Re report. Severe convective storms alone drove $60 billion of insured losses.

The country swerved a major hurricane hit in 2023, the year after Hurricane Ian tore through Florida and nearby states causing insured losses estimated in the tens of billions of dollars.

US insurers booked nearly $140 billion in reinsurance recoverables in 2022, equivalent to a quarter (25%) of the $558 billion of direct insured US losses faced that year, according to RAA analysis of National Association of Insurance Commissioner (NAIC) data via S&P Global Capital IQ Pro.