

[The ‘red flags’ in INSURE Act natural catastrophe reinsurance program bill](#)

Insurance Business

Insurance policyholder advocates believe reinsurance program is needed amid insurer pullbacks

Millions of Americans are squaring up to a homeowners’ insurance affordability and availability crisis, aided by climate change impacts, and legislators are set to grapple with whether a federal reinsurance backstop that has garnered insurance industry opposition could offer a solution.

Representative Adam Schiff’s Incorporating National Support for Unprecedented Risks and Emergencies (INSURE) Act, introduced as a Bill in early January, will test the waters over whether legislators believe a government-led \$50 billion reinsurance program could cut homeowners’ and property insurance costs for policyholders in a hard market and encourage capacity back into states, like California and Florida, that have so far borne the brunt of constrictions and exits.

Under the bill, the federal property reinsurance program would offer cover for wind and hurricane, flood, wildfire, and severe convective storm. Feasibility studies into bundling in earthquake cover, in addition to relocation funding, are also mooted.

Schiff – of wildfire-prone California – has labeled the bill a “critical step forward” in protecting vulnerable individuals, and policyholder advocate organizations including United Policyholders and Consumer Watchdog have thrown their backing behind it, but the would-be legislation has so far met with strong insurance industry resistance.

The INSURE Act could “put families at risk of losing access to the coverage they need,” American Property and Casualty Insurance Association (APCIA) president of federal government relations Nat Wienecke said in January.

A federal re/insurance program is “not needed” and could drive insurance costs up further while shifting the burden away from global reinsurance markets and on to the American taxpayer, Lee Covington, Reinsurance Association of America (RAA) president told Insurance Business.

That property reinsurance costs have spiked is not at issue; global property catastrophe reinsurance rates rose by 37% in the January 2023 renewals, the biggest hike since 1992, according to broker Howden. An upwards trajectory continued into 2024 with rates stabilizing somewhat to rise 3% according to Howden’s latest 1/1 renewals analysis.

Amid this pivotal shift, then, it is perhaps unsurprising that reinsurance has come under scrutiny, with US consumer advocates like Consumer Federation of America director of insurance Douglas Heller having blasted rises and the “unregulated” nature of global reinsurance contracts.

However, reinsurance and insurer representative associations have contended that the INSURE Act would fail to tackle the root causes of rising rates and could have unintended consequences for insurance markets and the policyholders they serve, potentially leaving taxpayers footing the bill for spiraling costs as a result.

Some of these aforementioned root causes – including natural catastrophes that drove \$123 billion in global insured losses and \$357 billion in economic losses (\$116 billion excluding earthquakes and non-atmospheric-driven events) as per Gallagher Re analysis, and geopolitical and economic and inflationary pressures – are being felt not just US-wide but across the globe. Others are being felt at a state level, insurance industry sources have contended.

Legal system abuse, “outdated” regulatory systems, and the continued accumulation of populations and properties in at-risk areas, are all responsible for skyrocketing insurance costs in certain states, insurance industry stakeholders have set out.

Further, well-intended as the Bill may be, reinsurance subsidization could have a dangerous effect on encouraging developer growth in catastrophe-prone areas despite a relocation feasibility study also mooted in the potential legislation, with the ultimate result being higher demand for federal assistance when disaster hits and a burden placed on those living in areas not affected, sources said.

Effectively, sources said, insurance and reinsurance costs are a symptom of much bigger problems.

Insurance in the spotlight – America is facing a “risk” crisis

America is not facing an insurance crisis, but rather a “risk crisis”, Mark Friedlander, Insurance Information Institute (Triple-I) director, corporate communications, told Insurance Business.

Premiums have moved in line with the frequency and severity of the perils they cover, and a core downfall of the Bill as it stands is its failure to address actuarial soundness, the “bedrock” of any tenable insurance program, Friedlander set out.

“Prior federal attempts at providing coverage have struggled to balance their goal of increasing availability and reducing premiums against the need to base underwriting and pricing on actuarially sound principles to ensure sufficient reserves for paying claims – that’s essential for insurance markets to work,” Friedlander said.

Under the Bill as it stands, insurer participants would be required to offer multi-year policies, a departure from the traditional one-year offerings seen across most of the market.

Combined with the lack of actuarial soundness and policyholder surplus focus, this raises a “big red flag” when it comes to pricing and paying out for surprising costs trends, Friedlander said.

Replacement building costs rose a cumulative 55% from 2020 to 2023, as inflation bit and the COVID-19 pandemic spurred labor shortages and construction and supply chain backlogs, according to Triple-I analysis.

“If you had a five-year term in place and you couldn’t account for increasing replacement costs, you’d have a massive drain of policyholder surplus,” Friedlander said.

NFIP should serve as a warning on INSURE Act, insurers warn

APCIA, Triple-I and other industry stakeholders have pointed to the National Flood Insurance Program’s (NFIP) \$20.5 billion Treasury debt and previous Congress bail out, arguing that it should serve as a wake-up call and a warning of the risks of a federally implemented insurance program.

With the implementation of Risk Rating 2.0 and a building out of its reinsurance backing, the NFIP itself is finally looking to be back on track, industry sources said, and there are concerns that this hard work could all be undone by bundling flood insurance into an even wider federal program.

Another worry is that the introduction of a federal program could again spur bad behavior that was alleged during the NFIP's earlier days.

"The program would expose taxpayers to potentially huge liabilities, as the federal government would be on the hook for losses above a certain threshold and large insurers could potentially abuse the relatively low attachment points contemplated by the act," Craig Poulton, CEO of Poulton Associates, which administers private flood insurance program the Natural Catastrophe Insurance Program, told Insurance Business.

Poulton, who labeled the Bill "disaster posing as a solution" also raised fears that the program could undermine the private insurance market's role, may disproportionately benefit wealthier individuals, and could open the door for the misallocation of claims.

"Claims which might otherwise have been allocated to a peril which is not reinsured by the government might easily be allocated to a peril that is reinsured by the government," Poulton said. "For many years this was standard practice under the NFIP, and this practice was only discontinued after Hurricane Katrina when Congress finally realized how massive the misallocation of losses was."

An existential question - INSURE Act and the role of state and federal regulation

Federal programs have been implemented before, with mixed results. The terrorism risk insurance program launched under 2002's Terrorism Risk Insurance Act (TRIA) has been seen as having proved generally effective, though looming cyber risk has posed concerns; the NFIP, not so much.

For the INSURE Act to be palatable on any level to insurers, sources suggested it would need a big trimming down of participants to cut down on 'too many cooks' fears; in its current guise, more than 27 representatives across government departments, regulators, reinsurers, banks, mortgage lenders, and consumer advocates would be involved in building it out.

Outside of cost, bureaucracy and feasibility concerns, for some the Bill gives rise to an even bigger, perhaps even existential, question around the role of states and the federal government in insurance.

"The challenge with this bill, in my mind, is how it's really pointing to a deeper fundamental question of whether our states are the right place to provide this regulatory oversight, or whether we want to shift more of the regulatory oversight of the insurance industry to the federal government," said Benjamin

Keys, professor of real estate and finance at the University of Pennsylvania's Wharton School.

Keys had previously warned that insurance challenges should serve as a "canary in the coalmine" for a looming real estate threat. An "era of complacency" is ending and individuals who flock to cat prone or at-risk areas can no longer ignore the potential insurance or property risk costs, he wrote in a May 2023 NY Times op ed.

Whether a federal reinsurance backstop would encourage capacity back into hard hit areas remains an "open question", Keys, who was nevertheless buoyant on the INSURE Act's potential, told Insurance Business.

"There are some laudable goals in this bill - expanding coverage, internalizing costs, targeting government assistance and innovation on longer-term policies, those dimensions are very promising," Keys said.

Getting the price right on a longer-term policy may be a challenge, Keys acknowledged, but policyholders could benefit from a "more predictable contract".

"Homeowners are completely in the dark on what their insurance rates going to be next year, or the year after that," Keys said. "And so, when you're making a homeownership decision, it's supposed to be a very forward-looking decision. And the lack of long term insurance contracts hampers homeowners' ability to get that forecast, so some innovation in that space is long overdue."

INSURE Act opposition comes as no surprise to policyholder advocate groups
Stiff insurer opposition to the INSURE Act bill proposals was anticipated by policyholder advocates, who have accused insurers of shifting risk back on to consumers via high deductibles and additional exclusions, with appetite for certain geographies and postcodes having shrunk, resulting in disaster-hit individuals struggling to access insurance funds.

"Insurers will definitely resist the bill, but it's a starting point for discussions that have to be taking place," Amy Bach, executive director, United Policyholders told Insurance Business.

On United Policyholders' support for the Bill, Bach cited a need for available insurance products in the market that provide basic coverage in the event of extreme weather, "regardless of the type of event".

“We need insurers to be fully engaged in incentivizing and rewarding risk reduction at the individual and community level,” Bach said. “If insurers don’t like government mandates and competition from government supported insurers of last resort, they need to get back to selling policies that actually generate funds for repairs and rebuilding after a disaster.”

INSURE Act bill comes at a pivotal time as US faces natural catastrophe cost

One thing that all stakeholders appear to agree on: attempts to address the crisis come at a critical juncture. Sea-surface temperatures have been hitting records, threatening a continued onslaught of severe events, and the climate challenge appears to be going nowhere anytime soon.

In hurricane-exposed Florida, which bore the brunt of Category 4 Hurricane Ian’s destructive rampage in 2022, the average homeowner’s annual premium is now \$6,000, according to Triple-I figures, and insurer of last resort Citizens has been on a mission to redistribute its load among the private market after it became home to a peak of more than 1.4 million policies last year.

Between 15% to 20% of Florida homeowners were self-insuring in 2023, well above the national average of 12%, based on figures from a Munich Re and Triple-I consumer survey. Even before Hurricane Ian hit, the state had faced a rash of insurer insolvencies, blamed by many insurance stakeholders on its litigation culture, something the state sought to address with a package of measures in 2022 and 2023 amid rising costs and political pressure.

Residents of other hurricane-exposed Gulf Coast states, among them Louisiana and Texas, have also found themselves tied up with premium hikes amid insurer cutbacks and failures.

In Schiff’s wildfire-prone home state of California, now battling atmospheric river impacts, insureds have been pushed towards the FAIR Plan as household name insurers including Allstate and State Farm have pulled back from new business entirely or chopped down their homeowners’ insurance appetite, citing a raft of reasons from inflation, to wildfire impacts, to “overburdensome” rate regulation under Proposition 103.

There are fears that other at-risk states are already on the way to a capacity crunch.

In the Midwest, storm-exposed homeowners already face some of the highest insurance bills in the country. Last year was the costliest on record for SCS insured losses, with the US alone accounting for

nearly \$60 billion, according to Gallagher Re.

Meanwhile, flood poses a nationwide threat, with just 4% of homeowners covered, the peril driving billions in uninsured losses, according to industry estimates, and 90% of US natural disasters having a flood element.

The “reality is that the insurability and affordability issue is a 50-state problem,” Gallagher Re said in its 2023 Natural Catastrophe and Climate Report, in which it predicted that the federal government may ultimately have no choice but to guarantee financial protection for major catastrophes.

Nevertheless, it appears it will take a lot for insurers and reinsurers to swallow a well-intended and ambitious INSURE Act as it stands as a solution, rather than a sinkhole, when it comes to this very present crisis.