Toward greater efficiency in pre-funding disaster recovery through private/public insurance

A Presentation at the

National Association of Insurance Commissioners

NAIC Consumer Liaison Committee

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(Fair Insurance Rates in Monroe)

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Who is FIRM?

FAIR INSURANCE RATES IN MONROE
www.FIRMKeys.org

- FIRM is a 501c 4, grassroots organization founded in Key West with 5,000+ members countywide, run by volunteers and funded through donations
- Brought attention to statewide windstorm insurance crisis
- FIRM successfully challenged Citizens Property Insurance Corporation (CPIC) 2006 Monroe County FL windstorm rate filings
- The Office of Insurance Regulation therefore rolled-back Monroe County residential rates by 32% resulting in an effective rate of $13.44/$1,000 of coverage
- FIRM has worked with a coalition of consumer groups around the state of Florida for insurance reform

Who is UP?

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- A national 501 (c) (3) non-profit with 18 years experience with post disaster claim scenarios
- Extensive self-help resources for policyholders
- Work on solving coverage gaps/post loss surprises on "front-end"
- Work is funded by donations and grants
- A national network of volunteers and limited paid staff
- Coordination with state regulators, other non-profits

United Policyholders Programs and Tools

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- **Roadmap to Recovery™** [*Post-disaster]* Tools and resources for disaster victims, case managers/ aid workers.

- **Roadmap to Preparedness** [*Pre-disaster]* Tools and resources aimed at promoting financial preparedness and loss mitigation.

- **Amicus Project and Advocacy work** [*Legal and Other]* Advancing the interests of policyholders in courts of law, regulatory agencies and legislative proceedings

The Hurricane Insurance Challenge

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- Two simultaneous perils – wind and water
- Wind insurance is provided by private insurers and Citizens Property Insurance Corp.
- Flood insurance is a federal program
- Current risk models do not separate the perils and, therefore, do not accurately reflect probable maximum loss for damage caused by each
- “All risk” policies would eliminate this problem

Delays are Costly to the Consumer

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- Currently, policyholders' claims can be delayed by each insurer until hurricane damage is assessed proportionately to wind and flood
- Repair and rebuilding delays cause considerable additional financial burdens
- Lifestyle is continuously interrupted
- It can take years to properly settle claims

National Climatic Data Center (NCDC - Division of NOAA)

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- "Nations Scorekeeper" when addressing severe natural catastrophic events in their historical perspective
- NCDC tracks and evaluates climate events in US and globally that have great economic and societal impacts
- US has sustained 90 natural disasters over the past 29 years in which estimated losses, insured and uninsured, exceed $700 billion
- In 2008 alone, an estimated $58 billion was spent on weather related events in 44 states before accounting for the Northeast ice storms in December

Source: National Climatic Data Center (NOAA)

Layered Insurance Coverage

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- If in fact, a majority of states suffer from natural catastrophic events, then high risk areas should have 4 levels of "all risk" insurance coverage
- Level 1-Individual "all risk" policyholder pays premium *and* deductible
- Level 2-Private insurance "all risk" policy pays claims to cap loss
- Level 3-State Catastrophe Fund pays "all risk" claims over private insurance to cap loss limit
- Level 4-Federal Catastrophe Insurance Plan provides a catastrophic financial obligation guarantee to state for amounts over the state's cap loss limit

US Rep. Ron Klein:

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- Reintroduced the 2007 bill as HR 2555 "Homeowners Defense Act of 2009" with minimal modifications on May 21, 2009

- "Whether it is a hurricane in Florida, an earthquake in California, a wildfire in Arizona or a tornado in Kansas, there is no reason why we can't spread the risk across states and natural disasters in order to bring down prices for homeowners," Klein said. "At its heart, this bill is designed to make sure insurance is doing what it is supposed to do: spread the risk."

- Congressman Klein's legislation has broad, bipartisan support. The Homeowners' Defense Act of 2009 has more than 50 co-sponsors from at least 21 states across the country.

Source: U.S. Rep. Ron Klein (FL-22)

Taxpayers are the State and Federal Governments

- All taxpayers are picking up the tab now for hurricane damages caused by flood ***and wind*** on properties without insurance
- Taxpayers who buy wind and flood policies are taking responsibility for their choices
- Every property owner needs to be motivated and able to take personal responsibility for their property and the welfare of their family members

Building and Mitigation Education

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- Property owners need to know the cost/savings benefits of strong building and mitigation in their own high risk area
- Civic groups, insurance brokers, mortgage brokers, and the real estate industry could provide ‘high risk area specific’ mitigation seminars to educate consumers
- Low interest loans, grants, and premium credits should be available to help consumers strengthen their properties
- Counties and municipalities have a critical responsibility to the public welfare when developing land use regulations

Personal Responsibility

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- Tax incentives could be provided to owners who take personal responsibility, harden their properties, and buy underlying insurance
- Private insurance company policies could eliminate exclusions but cap losses on "all risk" policies
- State catastrophe funds should be required before tapping federal guarantees
- Federal assistance should be limited to providing financial help to property owners who mitigate for risk and/or buy underlying insurance, in the states that provide a catastrophe fund

A Source of Funding, albeit After the Fact

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- Property rebuilding and repair purchases (labor and materials) are a result of natural disasters
- Most states charge sales tax on purchases which, for these expenses, provides a state "windfall" tax revenue stream
- Unanticipated state sales tax revenue could be used to build reserves in state catastrophe funds and/or to fund mitigation programs, such as My Safe Florida Home
- The "windfall" income should never be available to any state's general revenue fund
- The funds result from catastrophic events and should be available to offset future catastrophic claims

S. 886 update:

- Private property insurance in states with catastrophic natural disaster risks is fast becoming scarce and unaffordable.
- Residential property insurance is vital to post-disaster recovery.
- Public insurance/reinsurance programs need to be competitive/ viable
- Planned obsolescence not materializing
- They need substantial post-catastrophe capital to pay their claims, but for public entities, the only available form of external capital is debt capital.

Sound Public Policy

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- **COGA is sound public policy →** Will meet the ongoing common need of established programs in California, Florida, Louisiana, and Texas for reliable, adequate private financing.
- **The fluctuating and heavy cost burden of private reinsurance = built in inefficiency**
- **Federal guarantees of State programs' post-event debt.** COGA will provide these State programs, and any other qualifying State program, with dramatically enhanced debt-market access, across all market conditions, at much lower borrowing costs.

Common Ground

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- **Uninsured risks = inefficient/taxpayer exposure**
- **Mitigation**: follow Florida and California's approaches to creating funding for mitigation grants and loans, insurers need to create more discounts/incentives
- **Consistent rate regulation = rate stability**
- **Public insurance programs need access to reasonably priced capacity to meet high level risk exposures**
- **Consumer education** on high deductibles/options
- **Strong enforcement of building codes**