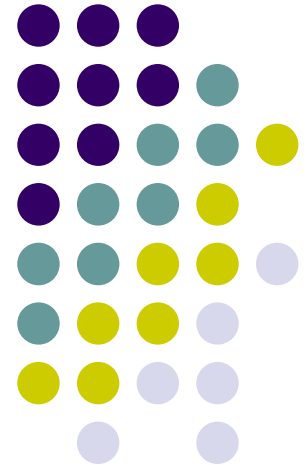
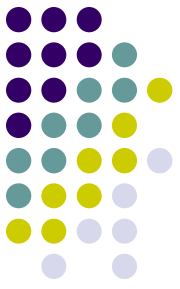




# **Southeastern Regulators Association 2008 Conference**

Catastrophe Legislation Issues  
Ethan Sonnichsen  
NAIC Government Relations



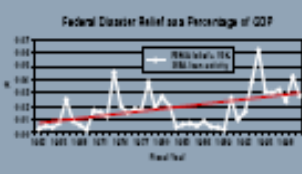


# Natural Catastrophes

- Motivation on Capitol Hill
  - Federal response to Hurricane Katrina
  - No rational national plan
  - NFIP was under water
  - Wind vs. Water
  - Affordability and Availability
- Natural catastrophe legislation is contentious
  - Geography not ideology
- So why is this a national issue?
  - 67 major disaster declarations in 31 States (none in FL)

### NATURAL DISASTERS

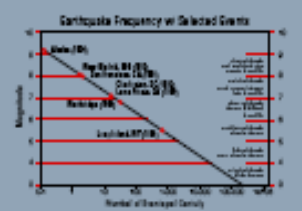
Result from the combination of natural events with the built environment. To reduce natural disaster risk, we need to reduce the level of natural disasters and the physical vulnerability of high-risk locations. An essential step has been clearly established: the need to reduce the level of natural disasters. However, the focus must be on the physical vulnerability of high-risk locations. To do this, we must identify the locations of high vulnerability within the United States. Although that requires a high level of detail, the availability of detailed digital data has become available, and this data can be used to identify and map areas of high vulnerability within the United States. This data can be used to identify and map areas of high vulnerability within the United States. This data can be used to identify and map areas of high vulnerability within the United States.



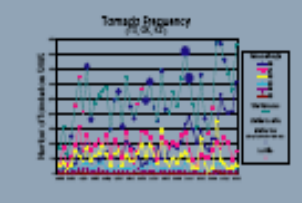
The cost of natural disasters has been increasing exponentially. In 1980, the cost of natural disasters was \$1.5 billion. In 2000, the cost of natural disasters was \$15 billion. This is a 10-fold increase. The cost of natural disasters is increasing exponentially. In 1980, the cost of natural disasters was \$1.5 billion. In 2000, the cost of natural disasters was \$15 billion. This is a 10-fold increase. The cost of natural disasters is increasing exponentially.



All the purposes of the analysis, population is used not only to explain income, but also to explain the relationship between income and population. In the figure above, the relationship between income and population is very strong. In the figure above, the relationship between income and population is very strong. In the figure above, the relationship between income and population is very strong.

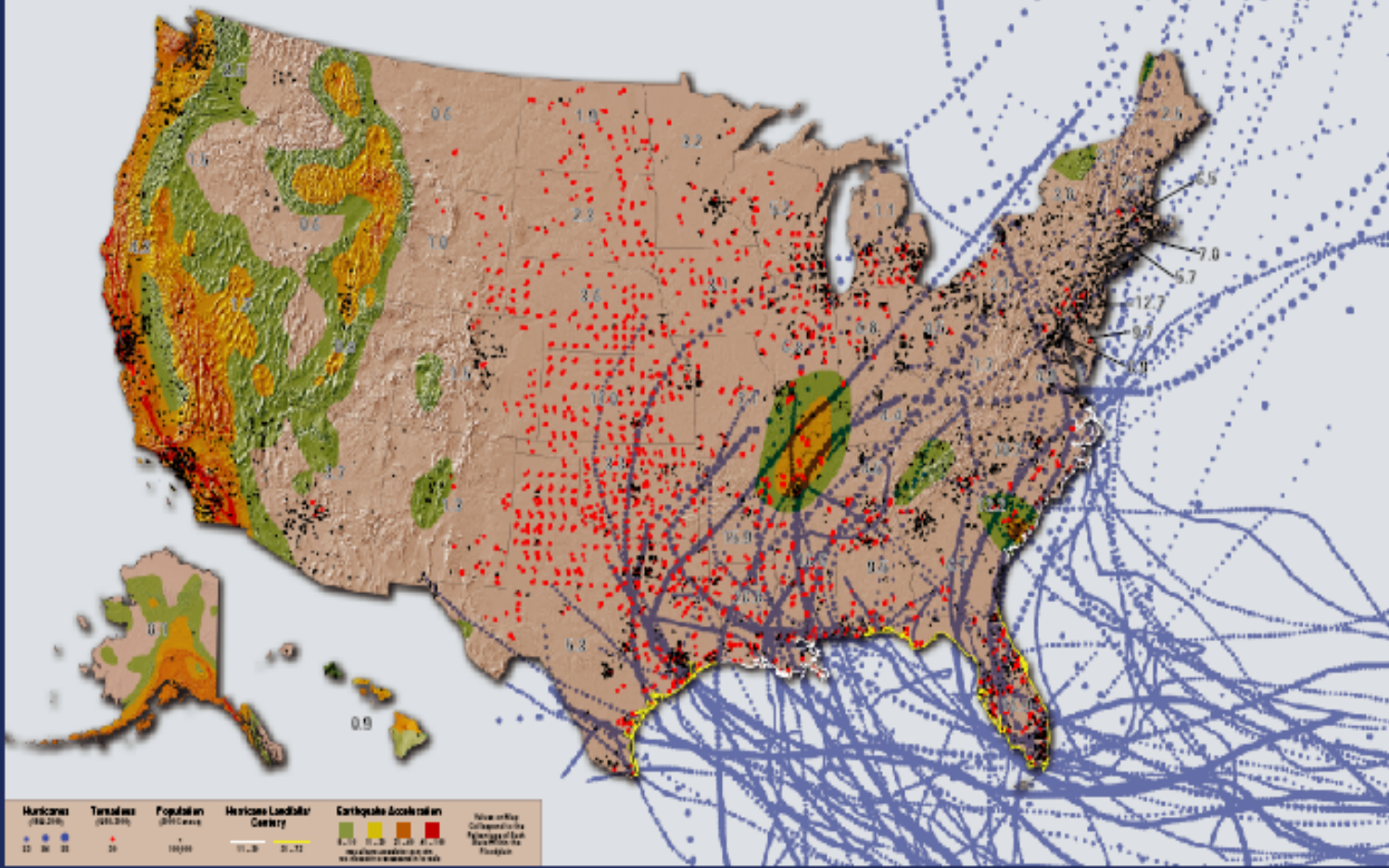


In general, the number of seismic events is higher in regions with a higher population density. This is because there are more people living in these areas, and therefore more buildings and infrastructure that can be damaged by earthquakes. In general, the number of seismic events is higher in regions with a higher population density. This is because there are more people living in these areas, and therefore more buildings and infrastructure that can be damaged by earthquakes.



There are about 1,000 tornadoes in the US each year. The incidence, particularly in the central US, is probably due to regional weather patterns. There are about 1,000 tornadoes in the US each year. The incidence, particularly in the central US, is probably due to regional weather patterns.

# US Vulnerability to Natural Hazards



Percent of Area in Floodplain by State



FEMA Cost per Person in Floodplain per Year



Hurricane Tracks at Approximately 20 Year Intervals



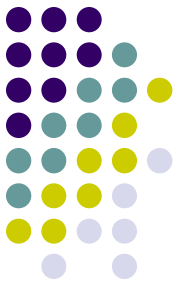
The value of the United States within the 100 year floodplain is approximately that of Texas. At present, more than 2 million households are in floodplains, and each year, the number increases. More than 2 million households are in floodplains, and each year, the number increases. More than 2 million households are in floodplains, and each year, the number increases.

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In the last century about 150 hurricanes have struck the United States. Each year in the future, approximately 100 hurricanes will strike the United States. Each year in the future, approximately 100 hurricanes will strike the United States. Each year in the future, approximately 100 hurricanes will strike the United States.



CONGRESSIONAL NATURAL HAZARDS CAUCUS  
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# Natural Catastrophes

- How involved is Capitol Hill in considering natural disasters when passing a bill?
  - 232 bills in the 110<sup>th</sup> Congress
  - Direct legislation: Flood, natcat plan, building codes, FEMA and first responders
  - Indirect legislation: No Child Left Behind, Election law, Identity theft law, Energy policy, DHS and Military approps

# Natural Catastrophes



## State Activity

- Rapid response after Katrina – contrast to federal government
- Post Katrina, numerous changes:
  - SC cat saving accounts
  - LA incentive program
  - NY cat reserving
  - FL Reinsurance collateral reduction
  - Numerous states considering catastrophe funds

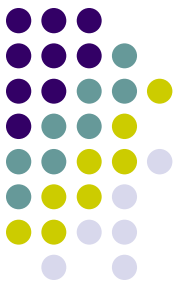
## Federal Activity

- Many ideas lifted from states but little action:
  - National cat fund, cat savings accounts, cat reserves, building code improvements, etc
- House did pass H.R. 3355 – Homeowners Defense Act
- Senator Dodd has two proposals
  - Mitigation Grants to the States
  - Tax Credits



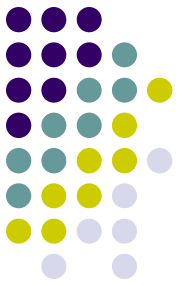
# Natural Catastrophes

- Reserves and savings accounts
- Building codes
- Surplus lines/reinsurance?
- Mitigation grants/Premium tax credits
- Homeowners Defense Act
  - State cat fund loans
  - Securitization of cat risk
- Obama and McCain



# Flood Insurance

- Post 2004/2005: NFIP had \$2 billion to pay claims that could exceed \$20 billion.
- Borrowing authority expanded – twice.
- Reauthorization by September 30, 2008 – and Reform
- How did it play out?
  - House passed reform legislation twice – Senate bill stalled twice
  - Senate ultimately passes a bill
  - House and Senate couldn't agree
  - Short term reauthorization until March 6, 2009
  - Start again next year



# Flood Insurance

- House and Senate legislation
  - Agree
    - Improve flood maps
    - phase in actuarial rates for second homes/businesses'
    - FEMA participate in state mediation programs
  - Disagree
    - Wind coverage vs. natcat commission
    - Debt forgiveness
    - Increased coverage limits



# Going forward

- 2008: 15 named storms, 7 hurricanes, >\$50 billion losses – yet little national attention and no Congressional action
- New administration and new Congress
  - Climate change/Energy may drive discussion toward natural catastrophe management
- Regulatory control and structure
- Economy and markets