Testimony of
The National Association of Insurance Commissioners

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On Behalf of the National Association of Insurance Commissioners

Chairman Baker, Ranking Member Kanjorski, and members of the Subcommittee, I thank you for the opportunity to testify here today on the role of insurance commissioners in stabilizing the coastal insurance market, and thank you for your leadership on this important issue.

My name is Kevin McCarty, and I am the Insurance Commissioner for the State of Florida. I am also the Chairman of the Property & Casualty Insurance Committee of the National Association of Insurance Commissioners (the "NAIC") as well as chair of the Committee's Catastrophe Insurance Working Group.

Today I would like to provide my perspective by answering a few questions that must be considered before we can set about developing a local, regional, or national plan for managing natural catastrophes:

- First, what are the factors that contribute to the availability and affordability of insurance in coastal areas?
- Second, what is the current state of the insurance market in these high-risk areas?
- Third, what types of mechanisms exist in the states to manage catastrophic risk and to make insurance available and affordable?
- Finally, what are the merits of pre-disaster concepts like tax-deferred catastrophe reserving, mitigations tools, catastrophe savings accounts, and state and federal reinsurance programs?

1. Insurance Availability and Affordability in Coastal Regions

The ability of regional economies to withstand and recover from the next natural catastrophe depends critically on the availability and affordability of insurance. In high-risk coastal areas, we typically see greater fluctuations in these factors than in more stable areas, but we must not overlook the possibility of large-scale natural disaster that have little to do with coastlines. The recent hurricanes of the 2004 and 2005 season have focused our attention in these areas, but the threat of natural disaster on a massive scale exists in virtually all states. Inland flooding and earthquakes are capable of widespread devastation that can span multiple states, and wild fires and winter storms can cripple states with no coastline to speak of. The problems and solutions we discuss today are in the context of the coast because of the last catastrophe, but they are every bit as relevant for the next catastrophe, regardless of what it is or where it occurs.

The availability of insurance is impacted by the perceived risk and historical experience of the region. Simply put, insurers have an expectation based on modeling, actuarial judgment, and past experience of the type, scope, and likelihood of risks they will face in a given area. They use that information to price their products. When an event comes along that falls outside of those expectations, or at least at the far end of that spectrum, whether for severity and likelihood (such as Hurricane Katrina) or frequency (such as the four consecutive hurricanes that hit Florida in 2004), insurers must rethink the expectations they have and typically respond by making their products less available, introducing coverage limitations, and/or by raising prices. Following the devastation of hurricane Andrew in 1992, the availability of insurance in Florida became a serious concern as insurers began to question their exposure in a market with volatility they did not fully anticipate. That being said, when the four hurricanes hit Florida in 2004, and when Katrina and Rita hit the gulf coast in 2005, given their size, severity, and frequency, a certain amount of constriction in the insurance market was inevitable. This constriction also was exacerbated because of the recent development boom, which created greater levels of exposure in areas where the risk is highest.

Impact of Regulation on Insurance Pricing and Affordability

Much has been written about the impact of regulation on the affordability and pricing of insurance. The term “price controls” has been widely used by those who prefer total deregulation of the insurance market to refer to rate regulation. The term implies heavy-handed control by insurance regulators over what an insurer can charge. *In actuality, insurance companies, not regulators, develop the rates and rating systems in 49 of the 50 states.* Insurers look at historical experience, future expected losses, reinsurance and operational costs, anticipated profit, and then apply actuarial judgment to help them select a price. The role of state regulators is to review the rates to ensure they are actuarially sound. Their goal is not to tell an insurer what to charge, but rather to verify that consumers are not being charged rates that are excessive, inadequate, or unfairly discriminatory.

There are a few types of systems that states use to review rates for personal lines insurance (homeowner's insurance, auto insurance, etc.), simplified here for the sake of this testimony. Only one state, Massachusetts, has regulatory control of insurance rates. Eighteen states have a "prior approval" system, where the insurance company develops a product, looks at various risk factors and the market, and then files to sell the product at a particular price. The state insurance department then reviews the rate to make sure it complies with statutory regulatory requirements, and is actuarially sound. Thirty-two jurisdictions use some type of flexible or competitive rating system. In some cases, this is a "use-and-file" system where the insurer begins selling a product and files with the regulator. The regulator then can review the rate to make sure it is compliant and actuarially sound, but the insurer does not have to wait for regulatory approval. Some states, including Louisiana, utilize a "flex-band" system where an insurer files to sell a product at a particular rate and can raise or lower that price immediately by a certain percentage, for example five or ten percent, to respond to competitive needs, changes in the market, or changes in their perceived risk. Regardless of the system, the state regulator is there to review the rate, not determine it.

Some in the insurance industry are in favor of total rate deregulation to let the "competitive market" arrive at a price. In most cases, the rates under rate regulation ARE competitive because insurers pick them and do not turn a blind eye to what their competitors are charging. One auto insurance provider has even built an ad campaign around comparing competitors' rates. In most markets, there are multiple companies vying for business and they compete aggressively on price and service. Some have also asserted that a lack of regulation will lead directly to lower insurance costs. In South Carolina, a state with flexible, competitive rating and often pointed to by the industry as a model for rate regulation, coastal homeowners there are experiencing the same 300 and 400 percent rate increases that are happening in other states – and this without having had a significant hurricane in decades. This is particularly troubling because many in the coastal areas of South Carolina are retirees or others living on a fixed income without the means to significantly adjust their insurance spending. So this is not simply a case of the wealthiest individuals with large homes on the beach, the problems of affordability are most dramatically impacting the working class who live near the coast. In Florida and elsewhere, surplus lines carriers whose rates are not regulated provide much of the available capacity. Even in this situation, carriers are pulling out of the market, so it is inaccurate to think that availability disruptions are the result of regulation. Healthy competition and efficient regulation are not mutually exclusive. This distinction is important because, as prices in coastal areas have risen in response to the recent spate of hurricanes, it is up to regulators to allow companies to accurately price the risk so that those companies can continue paying claims. It does a regulator no good to suppress rates to the point where an insurer is not profitable, has no desire to remain in his or her state, or is not retaining enough money to pay claims. In the state of Florida, I face the direct results of back-to-back storm seasons that are driving the price of insurance up to levels we have never seen, because the newly demonstrated potential for catastrophic loss to a coastline with $1.9 trillion in exposure is at a level we have never seen. As for claims that insurance rates are suppressed, I think any member of this subcommittee, or any member of the insurance industry, would be extremely hard-pressed to find a policyholder in the state of Florida, and likely anywhere else in the near-coastal counties and parishes of the Gulf of Mexico, who feels his or her insurance rates are being suppressed.

<u>Costs in the Current Market</u>

As insurers raise rates for individuals and businesses across the coastal market and in some cases pull back from those markets entirely, they cite a few key reasons. The first is the anticipation of exposure to future losses. Anticipating future losses is the main factor that adds volatility and subjectivity to insurance pricing. To better estimate future losses, insurers turn to risk modeling companies that attempt to predict and quantify future catastrophic activity. Those modeling companies have revised their models and are showing a greater risk of storm activity in the years to come. Regardless of improved models, no one can predict with total certainty what the future holds for natural catastrophic events, and having witnessed two devastating storm seasons in consecutive years, insurers are pulling back from markets on the coast where the risk of loss is high and the value of property has skyrocketed. For example, in terms of dollars, New York has roughly the same amount of coastal property exposure as Florida: about $1.9 trillion. Yet, it has about one tenth the coastline. Despite the fact that New York has not been hit with a significant catastrophe in decades, some insurers are recognizing the potential in such a concentrated area and are not renewing policies. It is worth noting that while we read in the newspaper about how these increases or cancellations impact individuals, the situation for commercial properties in many cases is far worse. Where will people work when businesses close their doors not because they can't turn a profit but because they can't afford insurance?

The second reason insurers are charging more is the rising cost of reinsurance. Reinsurance is an unregulated market where insurance companies purchase insurance to better spread the risk they've assumed. Affordable reinsurance options allow private insurers to limit their own exposure by diversifying risk, which in turn, allows private insurers to write more business at a more inexpensive rate. I personally have spoken to representatives of the global reinsurance markets in the Caribbean and in Europe to encourage more investment in Florida and the Gulf Region. Frankly, it is a difficult sell. Given the current situation, there is little interest in expanding investment to insure against mega-catastrophes. I suspect that if Katrina and Rita were names given to earthquakes in California or along the New Madrid fault in Missouri or Kentucky, those states would see a similar response from the reinsurance markets there.

For reinsurance contracts that have been written, private insurers are finding that costs have risen dramatically, and reinsurers are changing the conditions of their reinsurance treaties *(or contracts)* forcing insurance companies to retain more of the risk. Compounding this problem are rating agencies *(e.g. Standard & Poor's, Moody's and Fitch)* that have begun requiring higher capital retention for insurers and reinsurers to maintain their bond ratings. All of these developments have caused capital to "dry up," meaning higher prices and less availability for the average American.

A recent report by Guy Carpenter and Company indicates that in 2006 reinsurance rates across the United States have risen 76 percent on average, and this while insurers and reinsurers are covering less and less. However, as is the case with direct insurance, the numbers are much more dramatic in coastal regions where insurers cite reinsurance rates doubling, tripling and, in at least one case, going up ten fold. In some areas in Florida, companies cannot purchase reinsurance at ANY price. Affordable reinsurance is a crucial risk transfer tool that insurers use to spread risk, particularly in catastrophe prone areas. As those rates go up exponentially, direct insurers have no choice but to raise rates and pass those costs on directly to policyholders.

2. Current State of the Insurance Market in Coastal Areas

Nationwide, the property and casualty insurance market for individuals and businesses is healthy and competitive. It has been well recorded that despite record catastrophic losses, the industry is also enjoying record profits. However, there are some coastal regions of the country where the insurance market is in crisis, due largely to insurers' reluctance to provide insurance in areas of perceived high risk and, subsequently, the reinsurance costs associated with those areas. It is important for you to know that insurance costs are not going up directly to recoup the losses of 2004 and 2005. They are going up because the losses of 2004 and 2005 have demonstrated a level of risk potential for the future that has insurers rethinking what their prospective losses will be going forward. When an insurer suffers a 1-in-500 year event in consecutive years, it rightly begins to question the validity of its models and risk management assumptions, and adjusts its future expected losses accordingly. At the same time, reinsurers are drawing those same conclusions, which adds to the overall price increase.

In terms of what areas of the country are suffering an insurance crisis, another important distinction is the difference between coastal states, and coastal regions. Most coastal states, perhaps with the exception of Florida, have a relatively healthy property and casualty market in the vast majority of the state. In Alabama, only 2 of the 67 counties are having insurance issues, and even within those counties, the problems are limited largely to within just a few miles of the coast. In Mississippi, 6 of its 82 counties are directly experiencing problems. Louisiana, which took the brunt of hurricane Katrina, only has experienced troubles in the 24 coastal parishes of its 62 total parishes. These trouble spots are somewhat limited, but they comprise the bulk of the cases we've all heard about on the news, where insurance costs are skyrocketing, building has come to a standstill, and mortgage defaults are on the rise.

All of this leads us to the exception to the limited areas in the Gulf Coast: Florida. The Florida market has been battered by 8 storms in 2 years resulting in $38 billion in losses, and the impact spans virtually the entire state. For those living in Florida's high-risk areas, the real tragedy occurred after the storms as policyholders experienced displacement, shortages in building supplies, shortages in homebuilding labor, rising insurance premiums, mortgage defaults, and the unavailability of private insurance. Even today, during a recent trip to South Florida, I saw blue tarps covering homes that have not been fully repaired from the last hurricane season.

Although the voluntary market recapitalized by infusing approximately $1 billion of new capital into the private market, this situation is not self-sustaining. There are a far greater number of insurance companies exiting the homeowners insurance market than there are new companies entering. Even for those companies staying in the market, there has been a significant retrenchment. Companies are enforcing stricter underwriting standards to limit their exposure in certain high-risk areas or limiting types of property they select to insure.

In stark contract to Florida, South Carolina has not had a major storm since Hurricane Hugo in 1989. South Carolina adopted the 1996 International Building Codes in 1997. South Carolina has been at the forefront of regulatory modernization and is considered a model regulatory environment by many insurers. Yet, South Carolina is experiencing a near meltdown in its coastal insurance market similar to Florida. Admitted carriers are increasing rates by 100 to 200 percent, decreasing coverage by requiring 5 to 10 percent deductibles, non-renewing long-term policyholders and discontinuing writing new business in certain areas. Surplus lines carriers are increasing rates even more, as much as 700 percent. Condominiums are particularly hard hit as insurers seem to have just realized that condo projects represent a significant concentration of risk in a confined area. One condominium development saw its premium increased from $126,000 to $879,000 and it took 5 different insurers to piece together the coverage. Many condominium owners in South Carolina are retirees and senior citizens on fixed incomes so, again, this problem is having a disparate impact on a large segment of the population who don't have many options. South Carolina has already done everything the insurance industry says needs to be done to create the kind of free-market environment that would enable the private sector to handle this problem, and yet, we are seeing any relief from the lack of availability and affordability.

Outside of Florida, those markets are absorbing the impact of recent catastrophic events, but in areas that were hit hardest, insurers are responding as if the next big catastrophe is certain to be a hurricane that hits the exact same region in the gulf coast, and pricing coverage accordingly. This begs the question, what happens if the next catastrophe is an earthquake in the Midwest or a massive Nor'easter in New England? Will those policyholders see a doubling and tripling of their rates because insurers are not adequately hedging their risk, and we as a nation are not doing the pre-event building, planning, and mitigation steps that limit those losses? Clearly, people who build and buy homes or operate businesses directly in harms way, whether that is on a coastline or a fault line, should pay insurance costs that reflect that risk, but they should not be the scapegoats for insurers, reinsurers, risk modelers, regulators, and legislators, who fail to learn the lessons of 2004 and 2005.

3. State Insurance Mechanisms to Manage Natural Catastrophes

There are a number of initiatives that states employ when responding to natural catastrophes, but I want to focus on just a few of those we use to manage the availability and affordability of insurance prior to an event. When the private insurance market refuses to provide coverage for a particular risk in a particular area, the states have responded to fill that need through a variety of tools. One of these tools in place in coastal regions of the Gulf prior to Katrina and Rita were state residual markets referred to generally as “wind pools.” These are state-run insurers-of-last-resort that take on customers the private market will not insure. If not for these wind pools, the financial and social impact of the 2004 and 2005 storm season would have been far worse. These pools are run as non-profit entities, and rates are set significantly above the private market so as to not compete with private insurers. Following hurricanes Katrina and Rita, these pools grew dramatically as private insurers began to pull back from the coastal market. As with regular insurers, these wind pools typically purchase reinsurance and are finding similar problems with rising reinsurance costs as more and more policyholders at the highest level of risk are entering the wind pool programs. When the losses to the wind pools exceed the retained premiums, as they did following 2004 and 2005, they often issue bonds or assess policyholders statewide to cover the discrepancy.

In Florida, the sheer severity and frequency of storms in 2004 and 2005 has pushed our insurer-of-last resort, the Citizen Corporation, to the breaking point. Eight storms inflicted $38 billion in damage and have placed a tremendous strain on the state’s resources and, ultimately, the citizens of Florida. As private insurers limit their exposure, the Citizens Corporation has experienced an explosion of growth. Currently Citizens has 880,000 policies and insures over $217 billion in structure exposure. Moreover, it is on pace to become the largest insurer in the state of Florida. In 2005, Citizens Corporation ran a deficit of $1.7 billion that had to be financed through premium increases and a state-government bailout.

Another tool that Florida in particular has used is the creation of the state CAT Fund in 1993. The CAT fund was created to provide a stable and ongoing source of reimbursement to insurers for a portion of their catastrophic hurricane losses in order to provide additional insurance capacity. This program supports the private sector’s role as the primary risk bearer. The CAT Fund currently provides $15 billion of reinsurance capacity for insurers in the state of Florida. The cost of CAT fund coverage is significantly less than the cost of private reinsurance due to its tax-exempt status, low administrative costs, and lack of a profit or risk-load. As a result, the CAT Fund has helped stabilize the market; it has enabled more insurance to be written in the state; and it has helped keep business out of the residual market.

Louisiana, which took the brunt of Hurricane Katrina, points to a different tool that has kept its market functioning. In addition to an effective wind pool, they have a statute in place, which says that if a policyholder has homeowners insurance from an insurer for at least three consecutive years, the insurer cannot cancel the policy unless they have had more than two non-act-of-God events. This mechanism provided stability in a market that likely would have seen a wave of companies abandon it in the most difficult of times. Innovations such as these are possible at the state level where local needs require the creation of local solutions.

4. Pre-Disaster Concepts to Managing Natural Catastrophes

As we observed from Hurricane Katrina, the Indian Ocean tsunami, and the 2005 earthquake in Pakistan, federal governments will always need to become involved if there is a national catastrophe that affects its citizens. In the instance of Katrina, our federal government eventually appropriated $120 billion to help those in need, and to help rebuild the storm-ravaged region. However, it is like the old television commercial featuring the auto mechanic – "You can pay me now, or you can pay me later." It is always more inexpensive to finance disaster recovery <u>before</u> a catastrophe occurs, than after-the-fact. This is precisely the purpose of insurance --- to pay prior to the accident, to provide an economic cushion to survive the adverse event.

In testimony I gave to Housing Subcommittee in June, I highlighted some of the broader initiatives underway, both in the state of Florida, and in the NAIC, to develop practical and effective solutions to managing and planning for natural catastrophic risk. The NAIC has been involved in research and analysis of the effect of natural disasters on our society for a number of years, and is currently heavily engaged in developing a comprehensive national plan for managing the economy wide risk of catastrophic natural disasters. In addition, the NAIC has adopted resolutions, both in December of 2005 and most recently in June of 2006, supporting a national disaster plan and calling for a Federal Commission to further study the issues and any alternative solutions.

Although I believe this Subcommittee should consider all options for federal involvement, it is important to stress the solution to handling natural catastrophes, and ensuring a stable insurance market, does not necessarily begin or end with a massive federal program. In its Constitutional powers of taxation and interstate commerce, Congress' powers directly and indirectly affect state insurance markets. The loan conditions put on federal mortgages, the tax treatment of insurance company's reserves, economic incentives for individuals to retrofit their homes, improved building codes, and even upgrading our nation's infrastructure are all areas Congress can address to positively impact the insurance marketplace. In the following section, I will attempt to summarize a few of the key ideas currently being considered.

Improve Disaster Preparedness and Disaster Response

Disaster planning and disaster response are the very first steps to saving lives and protecting communities. The sad evidence from Hurricane Katrina bears solemn testament to this fact. The recently released study of community disaster preparedness by the Department of Homeland Security suggests there is still much to be done around the country. The report states the "current catastrophic planning is unsystematic and not linked within a national planning system." It states that, "this is incompatible with 21st century homeland security challenges..." It goes on to suggest, "the need for a fundamental modernization of our Nation's planning processes." The NAIC has endorsed disaster planning as a top priority and maintains disaster preparedness manual for use by all states.

Build Better Homes

We cannot stop natural disasters, but there are measures we can take to mitigate damage. The first component of any comprehensive national strategy must be mitigation. By mitigation I mean preemptive measures taken to reduce or eliminate risk to property from hazards and their effects. In practical terms, this involves toughening building codes for new structures by making them more resistant to hazards such as wind, flood, and earthquakes. It also means stricter state and local guidelines to limit construction in highly hazardous areas.

In Florida, we are implementing rules mandating that insurance companies provide appropriate insurance premium discounts for homes that employ mitigation measures. In 2002, the Department of Community Affairs commissioned a study by the Applied Research Associates that calculated potential savings based on mitigation procedures. Shortly thereafter, the Florida Legislature passed a law that required companies to implement mitigation credits. Initially the Florida Office of Insurance Regulation adopted one-half of the recommended credits, but after two years of hurricane damage related data, we are asking the Florida Cabinet to approve the full ARA credits, and make these credits mandatory for the insurance industry in Florida. The message is clear: we must provide economic incentives for private citizens to protect themselves from catastrophic loss.

Some building techniques include reinforcing roof-to-wall connections, reinforcing roof systems, use of superior roof material attachment methods, placement of secondary water barriers on roof decking, and protection of all openings (windows, doors, garage doors and gable vents) by either installing shutter systems or using wind and impact-resistant window and/or door systems.

The federal government can positively impact these decisions by predicating federal loan decisions through the Federal Home Association (FHA) and Rural Development Home Program to only allow the purchase of homes that meet the most stringent building code standards. If a home does not meet these standards, a procedure for requiring the retrofitting of the home must be enforced.

These techniques work, and we have seen their successful utilization in Florida. The Florida Department of Financial Services provided $2.3 million to develop four model "hurricane houses" with advanced building techniques to withstand 140mph winds. In 2004, the eye of Hurricane Frances, a category 2 hurricane, passed over one of these houses located in Ft. Pierce. The house survived with no appreciable damage.

Although strengthening building codes for new structures will improve the housing stock on a going-forward basis, this will have a minor impact on the entire book of business in the short-run. According to the Shimberg Center at the University of Florida, the average age of a house in Florida is 24 years. Other states probably have similar age in their housing stock. Many of these houses were built prior to new building standards promulgated in 2001 or even the revised standards in 1994 following Hurricane Andrew. According to a study by the International Hurricane Research Center at Florida International University, over 85% of mobile homes were constructed prior to 1994 --- which is a particularly vulnerable segment of our housing stock.

I am glad to report that in this year's legislative session, the Florida Legislature passed the Florida Comprehensive Hurricane Mitigation Program, which provides for free home inspections, as well as 50% matching grants of up to $5,000 to encourage single-family homes to reduce vulnerability to hurricane damage. The response has been overwhelming. The Florida Department of Financial Services has already received 65,000 applications for the free home inspections that will alert consumers how to harden their homes. Regrettably the target for this year is to inspect 12,000 homes based on resource constraints, but this illustrates the interest homeowners have in protecting their homes when the proper financial incentives are provided.

Mitigate by Improving Infrastructure

Another element of improving the homeowners market is to improve our nation's infrastructure. This includes dikes, levees, tunnels, bridges, solid waste facilities, transportation facilities, and roads. Let us recall during the Hurricane Katrina tragedy in New Orleans, many of the structures withstood the initial damage of the storm, only to be destroyed due to the failed levee system. The American Society of Civil Engineers' March 2005 Report Card showed deteriorating conditions in 13 of the 15 infrastructure areas surveyed. Insurers are becoming reluctant to insure structures in areas with outdated or outmoded infrastructure risks. A commitment to improving our infrastructure, especially as it relates to structures that place homes in greater risk during a catastrophic event, will help prevent or mitigate damages to homes.

Expand the Capacity of the Insurance Marketplace

The current system of insurance is very good at handling the "normal" disasters ranging from car accidents, to storms, and even to large hurricanes. Catastrophic natural disasters, especially the prospect of mega-catastrophes (i.e. the "big one" hitting California, a category 3 or 4 hurricane hitting New York, the New Madrid Fault leveling the Midwest), create risks that could simply destroy an insurance company or potentially the entire industry. This risk of ruin will likely keep the private sector from offering sufficient capacity for entirely rational reasons. No potential rate of return is going to be worth the risk of losing the entire company.

Natural Catastrophe Reserves

In order to expand the capacity base, both the quantity available and the terms at which coverage is offered, several things can be done. One concept is to develop a catastrophe reserve for individuals. This has also been articulated as a Catastrophe Savings Account (CSAs). Modeled after the success of the Health Savings Accounts (HSAs), this would allow individuals to set aside money on a yearly basis that would accumulate tax free, and could only be withdrawn for specific purposes such as paying their hurricane deductible, or perhaps, to take mitigation measures to the homes to lessen hurricane damage. Although originally envisioned for the hurricane risk, it is sensible this concept could be expanded to include all catastrophe risk pertaining to the insurance of one's home.

Another concept is to overhaul the IRS tax code to provide incentives for individual insurance companies to set aside reserves for catastrophic losses on a tax-deferred basis. Current tax laws discourage property & casualty insurers from accumulating assets to pay for future catastrophe losses. Payments for catastrophe losses are made from unrestricted policyholder surplus after losses have incurred. Current tax law and accompanying accounting standards require insurers to limit the recording of loss reserves which have already occurred, and require the recognition of catastrophe premiums in prior periods.

Currently if a company obtains higher than average profits, and creates an excess reserve, these reserves would be taxed at an ordinary tax rate, as well as negatively impact future rate requests. These limitations are not necessarily true for alien (overseas) insurers. Some non-U.S. insurers are able to deduct reserves for future catastrophe losses tax-free, which potentially gives them a competitive advantage over their U.S. counterparts. Allowing U.S. companies to set aside tax-deferred reserves specifically for catastrophes, when structured appropriately so as not shelter income, could provide additional capacity for the market.

Another concept would be to have the federal government, through the U.S. Treasury Department, implement a reinsurance program offering reinsurance contracts sold at regional auctions. One variation of this proposal would be to allow private insurers to obtain reinsurance contracts. Other proposals would restrict these reinsurance funds to authorized state catastrophe funds, similar to our Florida Catastrophe Fund, or the California Earthquake Authority.

<u>National Catastrophe Reinsurance</u>

Currently, the United States is one of the only industrialized nations in the world not to have a federal comprehensive catastrophe plan. The Office of Insurance Regulation staff has not concluded its review of the details of the pending federal legislation outlined in HR 4366, and HR 846, but I think these ideas deserve strong consideration.

A multi-layered approach, with the federal government's commitment to reinsure state entities against a mega-catastrophe as its capstone, will not only proactively help in any catastrophe recovery effort, but also provide stability in the housing insurance market by allowing state agencies to diversify their risk. If we can accomplish this goal it will likely lure additional private capital to the insurance market, stimulating more availability, more competition, and ultimately lower premiums.

Given the variety and complexity of concepts under consideration, I strongly endorse the concept of a National Commission on Catastrophe Preparation to weigh the merits of each and develop the best mix of solutions. Clearly there are a number of forward thinking ideas that need further consideration, but they should be framed to answer the question, "Will this make insurance for individuals and businesses more available, and more affordable?" We will work with this Subcommittee to find the right answers to that question. The lessons of recent catastrophes may be the only warning we get to start making those decisions, so I thank you for holding this hearing, for inviting me here today, and for your continued interest and leadership on this crucial issue. I'd be happy to answer any questions you have.