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Keep Government Out Of Coastal Insurance

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As Congress returns to Washington to tackle the country's economic downturn and subprime mortgage meltdown, the critical issue of insurance availability and affordability has seemingly faded to the background. Federal and state legislators seem to focus on coastal and natural catastrophe concerns only when an event is imminent or immediately following one.

Thankfully, Connecticut Sen. Chris Dodd recognizes this flawed strategy. As chairman of the Senate Banking Committee, Dodd recently announced the committee's 2008 legislative priorities, and among them are comprehensive reform of the National Flood Insurance Program and addressing consumer issues related to the cost of homeowners and business insurance.

Some in Congress and a small but vocal band of insurers have suggested that the government should be granted a role in underwriting natural catastrophe risk for those living on our coasts, notwithstanding the \$17 billion deficit the current federal government-backed flood insurance program already boasts. Dodd is sensibly seeking reform, not expansion.

Proponents of an expanded government role apparently believe that taxpayer subsidies for coastal living are preferable to having insurance for those areas reflect the true cost of the catastrophic risk. They overlook an insurance market that has successfully insured and reinsured natural catastrophes for over 100 years. From the insured losses of the 1906 San Francisco earthquake to Hurricanes Katrina, Rita and Wilma in 2005, the industry has remained resilient.

In fact, \$41 billion of new capital was pumped back into the industry following the 2005 storm season, which saw the worldwide insurance industry pay out \$65 billion in insured losses.

Some argue that federal disaster assistance already provides a federal subsidy to coastal residents, and that to further socialize the risk is a small step.

Even if this were accurate, it would not be good public policy to encourage and, in fact, subsidize growth in high-risk coastal areas and in precious, environmentally sensitive enclaves. But the argument is not accurate.

Government disaster assistance largely goes to infrastructure repair, immediate disaster relief and public entities. From 1994 to 2006, insurers paid approximately \$120 billion in hurricane, earthquake and wildfire claims. During that same period, the government spent about \$20 billion on individuals for disaster assistance, mostly for temporary housing.

During this same period, the insurance industry remained profitable, principally due to the fact that the industry wisely spread its risk to global financial and reinsurance markets, which actively seek to underwrite U.S. property catastrophe risk.

Dodd is correct to focus on market-based solutions to coastal insurance issues, and to provide government programs directed at consumers, not insurers. Introduced last fall, the Homeowners Insurance Assistance Act would provide tax credits directly to consumers to help them defray the cost of insurance. Additionally, Dodd's legislation proposes to expand a federal program to provide low-interest loans to property owners for projects designed to protect their homes from natural catastrophes.

These worthwhile proposals mirror those passed by South Carolina and seek to provide tax credits for low-income individuals, and provide consumer catastrophe savings accounts by allowing a tax deduction for savings directed at insurance costs and tax credits for home mitigation.

Providing government programs based on the personal responsibility of those living in coastal areas should take precedence over half-baked government programs that force citizens with low risk of catastrophe to provide taxpayer-subsidized insurance to coastal residents. This is particularly true for those programs that provide taxpayer-subsidized incentives to expand development in ecologically sensitive habitats and government backstops for insurers.

Let's put the reward for property mitigation back in the hands of the American public rather than crossing our fingers that some trickle-down economics will lower coastal insurance costs.

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