THE SENATE SHOULD <u>NOT</u> ADOPT S. 2310 (CLINTON/NELSON)

National Catastrophe Risk Consortium Bill Protects Faulty State Programs, Not Homes

Although S. 2310 tries to address natural disaster catastrophic risk preparedness, the bill badly misses the mark. It would establish a National Catastrophe Risk Consortium of states that have created reinsurance programs for property and casualty insurers. The Department of Treasury would be required to provide catastrophic loans to states if insured losses exceeded 150 percent of the premiums assessed. Federal liquidity loans also could be issued to fill smaller shortages in state catastrophic reinsurance pools. (A similar House-passed bill, H.R. 3355, goes even further.)

S. 2310 is the wrong answer to catastrophic preparedness goals. The bill would:

- **Promote the continuation of financially unsound state reinsurance programs**. Florida, for example, charges policyholders below-market premiums that do not reflect the risk of living in hurricane prone zones and are insufficient to cover claims in the event of a catastrophic event. The Casualty Actuarial Society notes that Florida has more than $400 billion in exposure, but only receives $3 billion in yearly premiums. Rather than encourage changes in Florida's programs, this bill encourages states to continue, adopt, or expand poorly conceived programs with the assurance that federal taxpayers will fix any shortfalls they experience.

- **Encourage subsidized development in unsafe and environmentally sensitive areas**. Environmental groups agree that S. 2310 should not be passed because it does not consider meaningful hazard mitigation, will jeopardize public safety, and will continue subsidized risky development in ecologically sensitive areas. The limited requirements of the bill, e.g., requiring that "new construction, substantial rehabilitation, and renovation" comply with applicable state codes, will not effectively reduce future development in high-risk areas or future casualty and property losses. S. 2310 does <u>not</u> require the implementation of adequate mitigation reforms—such as changes in building design and materials, and the physical siting of buildings—to limit damages in the event of natural disasters.

- **Set up the Federal Government for costly taxpayer bailouts**. Most state reinsurance programs would be eligible for the low-interest federal loans. But the bill provides <u>no</u> fixed repayment period and <u>no</u> penalty for a state's default. Responsibility for state insurance and reinsurance programs that pool natural disaster risks should remain with those states which have established such programs, rather than shifting the financing to the Federal government through such means as Federal loans or reinsurance.

- **Be geographically and demographically unfair.** Subsidies authorized by S. 2310 would, in effect, impose burdens on all taxpayers regardless of economic means, but generally benefit the more affluent.

- **Replace the functioning private reinsurance industry**. Since Hurricane Katrina, the reinsurance industry has infused more than $26 billion into the catastrophic risk market and used state of the art equipment, actuarial experts, and top risk modeling programs that can assess and spread the financial risk associated with catastrophic storms. S. 2310 would establish a new, inexperienced entity to assist in managing billions of dollars in reinsurance pool resources. In an industry where slight miscalculations equate to billion dollar shortfalls, a Consortium-managed reinsurance market could leave taxpayers on the hook when it is time for homeowners to collect on valid claims.

There is a better way. Congress should make on-the-ground changes that would benefit homeowners (particularly working and middle class homeowners) and actually protect homes from damage. Congress should provide means-based tax incentives to promote mitigation efforts to "harden" homes (S. 2327) as has been done by the state of South Carolina, and should support private sector efforts to provide reinsurance at realistic and affordable rates (S. 2328).