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September 26, 2007

The Honorable Nancy Pelosi
Speaker
U.S. House of Representatives
Washington, DC 20515

The Honorable John Boehner
Minority Leader
U.S. House of Representatives
Washington, DC 20515

Dear Madam Speaker and Minority Leader Boehner:

On behalf of the undersigned associations, we are writing to express our opposition to House passage of H.R. 3121, “The Flood Insurance Reform and Modernization Act of 2007.” While we are supportive of the reforms to the National Flood Insurance Program (NFIP) contained in the legislation, we strongly object to the provisions that would add the peril of windstorm to the NFIP.

The addition of wind coverage to the NFIP has the potential to dramatically increase the exposure of the NFIP and the federal government to catastrophic losses. The states along the Gulf coast and eastern seaboard contain more than \$19 trillion in insured property values. The majority of these risks are currently insured in the private marketplace or in state residual market programs where the private insurance industry shares the potential losses. Writing a significant number of these properties in the NFIP would markedly increase the federal government’s exposure to loss and, despite the provision that calls for “actuarially sound” rates for the windstorm portion of this coverage, the potential for a significant taxpayer subsidy. The bill also calls for the NFIP to stop writing and renewing multiple-peril coverage for these policyholders if it is required to borrow federal funds to pay its losses. This has already occurred at the state level, following the events of 2005, several state windstorm residual market plans, which are statutorily required to use “actuarially sound” rates, exhausted all of their available assets and had to fund these shortfalls by assessing the insurance industry and/or policyholders.

The policyholders most likely to buy this new federal coverage would be those living in areas that are highly exposed to wind damage, creating adverse selection, as happens with state residual market wind pools today. The amount of “multiple-peril” insurance that the NFIP would sell cannot accurately be determined at this time; thus, determining the unsubsidized premium for such coverage would be, even using the best actuarial science, a guess. Although the “pay as you go” (PAY-GO) rules require that the costs of the insurance program be unsubsidized by taxpayers, there is a real possibility that the program will not be self-sustaining, particularly in early years when the accumulation of premiums could be vastly exceeded by losses in the event of a hurricane of any significance.

Finally, nationalizing wind coverage under the NFIP, as proposed by this bill, will not resolve “wind versus water” disputes following a hurricane, and would do little to facilitate the resolution of these claims because many homeowners, even in flood-prone

regions, do not purchase flood insurance—for example, fewer than 20 percent in coastal Mississippi prior to Hurricane Katrina. H.R. 3121 does not mandate the purchase of flood insurance and will not facilitate the resolution of claims for policyholders who do not purchase this coverage.

For these reasons, we strongly urge members to vote no on passage of H.R. 3121.

Respectfully,

American Insurance Association
National Association of Mutual Insurance Companies
Property Casualty Insurers Association of America
The Financial Services Roundtable

cc:

Members, U.S. House of Representatives

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