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EDITORIAL

Hurricane Ike reminds us of the need for planning. Texas CAT fund would help do so.

In its messy wake, Hurricane Ike left us a clear message: Category 3 or stronger storm winds will come this way again, perhaps soon. Prepare well for them and do so without delay.

And so we pay heed — shoring up infrastructure and buildings, and cleaning out bayous so flood waters will flow more smoothly.

But some of this work is more nuanced. It must get done in Austin, where Gulf Coast area legislators are pressing the case for better preparedness.

A major component of these efforts is the Texas Catastrophe Fund, put forward by state Rep. Craig Eiland, D-Galveston, and state Sen. Juan “Chuy” Hinojosa, D-Mission.

The CAT fund would be seeded with \$10 million in state funds, then rely on payments from private insurers, now used to buy reinsurance, to build up a literal rainy day fund. The idea would be to pre-fund insurance coverage for losses from major natural disasters. Some of the money also would go into tasks such as mitigating the impact of future natural disasters, boosting the training and improving the equipment of first responders and improving public education on dealing with disasters. Most critically, CAT would provide a needed financial cushion against catastrophes. The fund is designed to replace the costly use of reinsurance, which comes into play when costs from disasters push up dramatically. Reinsurance has two problems: It must be purchased annually at prices that can fluctuate wildly; and it does not accumulate long-term value.

Unlike money spent for reinsurance, dollars from the CAT fund that are not used in a given year would accumulate and grow. This would result in hundreds of millions of dollars in savings that would be required by law to be passed on to homeowners through cuts in homeowners’ insurance premiums.

The CAT fund contemplated for Texas is part of a national effort to improve disaster response. Backers advocate forming a national risk pool through the issuance of federal catastrophe bonds. Via direct-loan programs, the national legislation also would provide funds to states in response to disasters that result in losses above certain levels.

The case for creating a Texas CAT fund is strong. It rests on some inarguable facts, beginning with the inevitability of future disasters likely to be every bit as destructive and costly as Ike.

As we've seen from the examples of Hurricanes Rita and Katrina, responses to disasters can be agonizingly slow, haphazard and ineffective. That's likely to be improved by the methods proposed in the Texas CAT fund.

The use of largely unregulated reinsurance is demonstrably wasteful. If the money doesn't get spent it goes into the reinsurers' pockets and the public is left to renegotiate a new and often more costly deal annually. Having funds build up, as the CAT dollars would, is a better use of money that private insurers will be required to provide. Passing along the savings to Texas homeowners in the manner described above is simple and overdue fairness.

The national effort to better deal with natural disasters is backed by a powerful and diverse coalition of groups that includes leading thinkers and policy-makers as well as first responders and insurers. Texas should be in step with this effort. Passing the CAT fund would put us in step.