

The Miami Herald

June 11, 2009

Editorial: Congress should pass national catastrophe bill

The last time that Congress had a chance to pass a consumer-friendly law strengthening insurance for natural disasters, lawmakers blew it.

A bill creating a national catastrophe consortium to spread the risk -- and reduce premiums by policyholders -- passed the House but died in the Senate last year. Now Congress has a chance to redeem itself and should waste no time doing so.

Fundamentally, the bill sponsored by South Florida Rep. Ron Klein is a modest proposal. It does not require creation of a new government program, nor a federal appropriation. It merely allows states with their own catastrophe funds to voluntarily pool their resources so they can help each other when disaster strikes. The federal government's involvement would be limited to providing a guarantee of repayment for money borrowed by the consortium. That would make it easier and cheaper to sell bonds, reducing the cost to the ultimate payer -- the consumer.

Statewide risk

Until now, the limits of insurance coverage for all natural disasters except floods have been defined by state boundaries. Policyholders pay premiums on the basis of statewide risk as defined by state regulators and the state's insurance industry.

Mr. Klein's bill would leave this arrangement unchanged, but the consortium it creates could sell catastrophe bonds or buy reinsurance to cover potential future losses.

That spreads the risk among a much wider pool of premium-payers and should reduce individual assessments for reinsurance within participating states.

Natural disasters do not recognize state boundaries. Disaster insurance shouldn't either. Hurricanes that hit the mainland often strike more than one state. The risk and the resources available to pay for damages should likewise extend beyond state boundaries.

Create national fund

One urgently needed feature of the consortium would create a National Catastrophe Reinsurance Fund, which would cover losses incurred for the most destructive events -- the once-in-200-years hurricane, for example.

The fund would be maintained through premiums paid into it by state programs. The pricing of the premiums, by law, would have to be actuarially sound, guaranteeing that available funds would match expected outlays.

Years ago, states were able to pay for expected damage with reasonable insurance-pricing structures. Hurricane Andrew in 1992 changed that, sending premiums soaring and leaving policyholders outraged by the cost of protection.

Then came Hurricane Katrina in 2005, with its \$100-billion-plus federal recovery program. Katrina proved that state insurance markets alone cannot cover the costs of some disasters. Combining the resources of several states, with support by the federal government, is the best way to cope with this permanent threat.

<http://www.miamiherald.com/opinion/editorials/story/1091680.html>