

PRESS-REGISTER

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There would be no obligation to satisfy the demands of shareholders

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You don't need to live in New Orleans to know that the Gulf and Atlantic states are dangerously exposed to hurricanes. Unless we heed the warnings that storms will become more frequent and devastating, and take steps now to prepare and protect ourselves and our communities, the consequences could be dire.

There are few states where this is more apparent than in Alabama.

The current climate conditions are frightening and amplify the dangers we face. Warm ocean water temperatures that fuel hurricanes are significantly above normal, while the wind shear that weakens them is considerably below normal.

Forecasters are united in their predictions of heightened hurricane seasons for years to come.

While we can't control the forces of nature, we can take steps to prepare our communities and families before catastrophe strikes, improve our first-responder programs to protect us during a massive natural event, and shore up the insurance system so that residents have the resources to repair, re build and recover in the aftermath of catastrophe.

A comprehensive and integrated program that relies on private funding from insurance companies to establish a mandatory pre-funded catastrophe backstop, commonly called a catastrophe fund, or "CAT fund," could meet the goals of improving mitigation and enhancing public awareness.

It also could bolster the training and equipment of first responders, and provide the financial backstop that will be needed when the next massive storm makes landfall in Alabama.

In addition to protecting property and saving lives, an integrated state and national program could annually save Alabama's homeowners an estimated \$187 million, or about \$90 per homeowner, on their insurance premiums. Because a CAT fund would actually take costs out of the system, those savings would repeat each year.

How would a CAT fund work? It's pretty simple. Insurers today purchase reinsurance — a sort of insurance for insurance companies — to cover the potential losses from extraordinary and unpredictable events.

Reinsurance is very costly and is itself unpredictable. It is an unregulated product that is offered primarily from foreign companies that don't have their rates approved by state regulators in this country.

A CAT fund would replace a portion, but not all, of the coverage that is now purchased from reinsurers.

Traditional insurers would be required by law to deposit private dollars into a state CAT fund. The deposits would be tax exempt, as would the earnings of the fund.

Unlike a reinsurance contract, which has no value and provides no coverage upon its annual expiration, the value of the CAT fund would grow year after year.

The CAT fund could only be tapped in the event of a massive hurricane that caused losses above what is called an "attachment point." Below that level, losses would be fully covered by traditional insurance companies and by their reinsurers.

A program like this would take real costs out of the insurance system because the normal operating and financing expenses of a state catastrophe fund would be far less than those of unregulated reinsurers.

Because insurers would be statutorily required to make contributions of private capital to the CAT fund, the cost of accumulating capital would be far less.

Finally, because the CAT fund would be operated as a nonprofit public-private partnership, there would be no need to satisfy the profit demands of shareholders.

The savings resulting from the establishment of a CAT fund would, by law, have to be passed on to consumers.

Besides the savings that a state catastrophe fund would generate, a portion of the investment income of the fund would be used to support critical first-responder programs, to improve mitigation efforts and to enhance important homeowner education programs.

Establishing a state CAT fund in Alabama with a national backstop like the one that passed in the U.S. House of Representatives would reinforce our financial infrastructure and build a backstop so that when a massive catastrophe strikes, the taxpayers will not be asked to take on a burden like the destruction from Katrina.

Alabama and the entire nation will, indeed, confront another massive natural catastrophe, perhaps a hurricane that destroys a critical metropolitan area or an earthquake that levels a city.

The question before us today is: Will we have the foresight to call on private insurers to pre-fund a program to address the catastrophe that we know is coming?

Or will we once again ignore the warnings and simply hope for the best?

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