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Catastrophe insurance measure offers some calm after a storm

BY DAVID JONES

Today, the Legislature will begin hearings on how to best protect New Jersey homeowners from the devastation of major hurricanes or other natural disasters. This is an important and timely step; the Atlantic hurricane season begins in less than a month and New Jersey is both exposed and vulnerable to those storms.

The Senate Commerce Committee will hear testimony on the "New Jersey Consumer Catastrophe Preparedness and Protection Act" (S2089), sponsored by Senate Majority Leader Steve Sweeney (D-Gloucester). It would use private insurer dollars to create a fund that would stand behind the traditional insurance market to cover the most extreme losses from truly massive hurricanes — not the routine storms that sweep across beachfront properties, but those whose devastation would stretch far beyond our coastal communities and well into many of our urban centers.

Because the fund would be a public-private partnership, private insurer dollars that are deposited into the fund, as well as the fund's investment income, would be exempt from state and federal taxes. Mandatory annual deposits combined with tax-free investment income would help the fund to grow year after year.

A portion of the investment income, but not the principal deposits, would by law be annually appropriated for preparation and planning so that damages from storms could be minimized. A portion would be used to enhance first-responder training and equipment so that lives could be better protected when the unthinkable does happen. A portion would also be dedicated to improve consumer

and homeowner education so that residents can be informed and prepared in the event of a massive natural event.

The importance of this funding source for education, training and other programs intended to mitigate damage from a natural disaster cannot be overstated. My fellow New Jersey State Troopers, like other first responders, are on the front lines when disaster strikes. We know how well things can go when communications, training and equipment are put into action effectively and efficiently. We've seen how terribly wrong things can go when first-responder activities become dysfunctional due to poor training, preparation or equipment.

Never was this brought into sharper focus than when the New Jersey State Police volunteered to rush to New Orleans in the wake of Hurricane Katrina. Where the first-responder systems worked effectively, lives were saved and communities were protected. Where efforts were ill-coordinated or equipment and training was inadequate, unnecessary injuries were sustained, lives were lost and families were shattered.

I am proud to volunteer my off-service time to protect New Jersey's families and families anywhere in America that are in need of the assistance of trained first responders. But we can't do it alone. We need the kind of support that the New Jersey Consumer Catastrophe Preparedness and Protection Act would provide.

Homeowners need help, too, and the financial backstop aspect of this legislation will mean several important things for them.

The backstop will replace a portion, but not all, of the

expensive and unregulated reinsurance that insurance companies now buy to cover unpredictable and extreme losses. Reinsurance — which is best thought of as insurance for insurance companies — is offered in the global marketplace and tends to be very expensive with rates that often spike by double-digit increases every year.

Some of the money that is now spent on reinsurance would be dedicated to the catastrophe fund. This coverage would be far more affordable because the catastrophe fund would be a non-profit entity. It wouldn't have to compete for capital in the volatile global markets, nor turn a profit for its Wall Street investors. The resulting savings, under the provisions of Senator Stephen Sweeney's (D-Gloucester) bill, would by law have to be passed on to consumers.

Stabilizing the homeowners insurance market, and making coverage more affordable and available, means that families and communities stricken by a major storm can more quickly and effectively recover.

Improving mitigation programs and establishing sensible land use programs will mean that the loss of property when the next "big one" hits will be minimized.

State resources are scarce, the global markets are in turmoil and our state's residents are vulnerable and exposed to massive storms. As much as ever, the creation of a privately funded state catastrophe fund makes good sense.

We can only hope that the Legislature acts before the next catastrophe strikes.

The writer is a New Jersey State Trooper and is president of the New Jersey State Troopers' Fraternal Association.