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National Catastrophe Fund Will Pay Dividends For All

BY JAMES LEE WITT AND JAMES M. LOY

California Insurance Commissioner John Garamendi took a bold step last year to alert America that as a nation we are not as prepared as we should be for the consequences of catastrophe.

The step the commissioner took to convene a summit of the nation's insurance regulators, for the purpose of preparing for and protecting America from disaster losses, came at a critical moment as the threat of catastrophic events continues to rise.

The fact that Mr. Garamendi was joined by top regulators from New York, Florida and Illinois underscores the nationwide concern and acknowledges that catastrophes are not contained and isolated events. These policymakers question whether we will have the mechanisms in place to enable families to be prepared for and protected from catastrophes when they strike.

A new coalition of first responders, emergency personnel, building code experts, insurers and others began calling for the creation of a privately funded national catastrophe fund even before the onset of the devastating hurricane season of 2005.

The members of this coalition—ProtectingAmerica.org—applaud the vision and leadership of these insurance regulators from across the country.

The national economic impact of catastrophes is shouldered not by the residents of individual states, but by all Americans. Earthquake faults run all along the West Coast and throughout the Midwest, while hurricanes run throughout the Gulf and eastern shores. Had state, local and federal officials paid closer attention to preparing for natural disasters, the consequences from the 2005 hurricane season might have been less tragic.

As California marks the 100th anniversary of the Great Earthquake of 1906, it is worth noting that if an earthquake struck today at the same location with the same magnitude as that of only a century ago, the likely economic losses are estimated to exceed \$400 billion. Financial recovery in the wake of such a catastrophic event would be an unrivaled national economic challenge for our families, our communities and our nation.

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San Francisco's experience in 1906 is thought by many Americans as the largest of all earthquakes to hit the United States, but the fact is that San Francisco's earthquake doesn't even rank in the top-10 strongest in U.S. history.

Eight of the top-10 U.S. earthquakes occurred in remote parts of Alaska, but two enormous earthquakes occurred along the New Madrid Fault, right in the middle of our nation, in 1810 and 1811. Had the Richter Scale been in use at the time, these quakes would have registered an eight. Their tremors were felt from Mississippi to Michigan, from Pennsylvania to Nebraska.

When the New Madrid series of earthquakes struck, our heartland was vast and uninhabited. Were either of the New Madrid quakes to occur today, the damage would be enormous.

The point is, catastrophes can strike anywhere in America. They are not an issue for our coastlines alone, but for every American in every state.

The 2005 hurricane season brought with it the most extensive and expensive damages our nation has ever incurred. In fact, eight of the most costly catastrophes in U.S. history occurred in the past four years.

As the National Geographic noted at the outset of the 2005 hurricane season, "The mighty Atlantic conveyor belt is in high gear, and sea-surface temperatures are up. That means we could be in for decades of coast-crushing hurricanes."

With every possibility that America will be facing years of record-shattering catastrophes, the commissioners are absolutely right to call for a national financial backstop standing behind the private insurance market to help us repair, rebuild and recover from catastrophe.

The creation of a national catastrophe fund would assure the viability of the private market and its ability to provide coverage to families, businesses and communities.

Such a catastrophe fund would function much in the same way as personal IRAs. Insurers would be required to deposit a portion of homeowners insurance premiums into the fund, where they would grow free of taxes, just like in an IRA. And, just like IRAs, those funds could only be tapped for very restrictive purposes. The fund would only be used to help pay claims in the aftermath of a true catastrophe.

Shortly after the national catastrophe summit, H.R. 4366—the Homeowners Insurance Protection Act of 2005—was introduced in the House of Representatives by two Florida Republican representatives, Ginny Brown-Waite and Clay Shaw. These members of Congress recognize that America can do a better job preparing for and protecting its citizens from natural catastrophes.

H.R. 4366 is a comprehensive approach that protects homes and property at a lower cost. It improves preparedness, strengthens first responders, mitigates the impact of a catastrophe on our economy, and reduces the financial burden on consumers and taxpayers.

The bill would use private premium dollars to fund a backstop to the private market and state catastrophe funds. This Consumer HELP Fund will stand behind state catastrophe funds and pay claims when the state fund has exceeded its capacity.

Contributions to the fund would be based on actuarially sound and self-sufficient rates according to local exposures to ensure there will be no subsidization of catastrophe-prone states by other states.

H.R. 4366 is a market-based approach to a true national challenge that should be embraced by all members of the House of Representative and the Senate before the next catastrophe strikes.

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