

NATIONAL CONFERENCE OF INSURANCE LEGISLATORS

Proposed System for Public-Private Natural Catastrophe Financing

*To be considered by the Property-Casualty Insurance Committee on March 5, 2010.
Sponsored by Rep. George Keiser (ND)*

State Role

- States should develop a long-term strategy for providing financial support to address natural disasters.
- States should consider incentivizing insurer participation in a state pool (*see below*) by offering premium tax credits and other items.
- Each state would determine whether it needed a catastrophe pool.
- A state financing program should require enactment of strong statewide building codes and land-use strategies.

State Pool

- Individual insurance companies could participate in a state pool based on their market share.
- The money that insurers pay in would be tax-exempt.
- Earnings of the pool would continue to roll over and be reinvested into the fund and credited on a pro-rata basis to insurers based on the level of their participation in the pool.
- The pool's targeted level would be 70 percent of the total insured amount that the state would need in order to cover the average exposure of the three largest natural catastrophes within the state over the last 15 years.
 - The state would use an “actuarially sound” formula to calculate what the maximum state exposure would be each year adjusting for the addition/elimination of catastrophes and for inflation.

Federal Government

- Federal involvement would be “triggered” once a state pool had covered 70 percent of the maximum state exposure.

Outstanding Questions

- What happens if the state pool cannot cover its 70 percent responsibility? Would it assess insurers? Issue bonds? Would insurers be allowed to pass any additional costs onto their policyholders?
- What strings would come with federal involvement, i.e., what interest rates and timeframes for repayment?
- How long would the state pool have to ramp up to its 70 percent funding level?
- What would happen during the first few years?