

NATIONAL CONFERENCE OF INSURANCE LEGISLATORS (NCOIL)
Proposed Resolution Regarding a New Approach to
State Catastrophe Funds and Federal Mega-Disaster Assistance

To be considered by the NCOIL Subcommittee on Natural Disaster Insurance Legislation on July 10, 2008.

Sponsored by Sen. Steven Geller, FL

WHEREAS, recent natural disasters—including wildfires, floods, tornadoes, and hail, among others—have threatened the personal and economic well-being of millions of United States citizens; and

WHEREAS, the risk of a catastrophic event of national and global consequence may extend beyond these disasters and also include windstorm, earthquake, and seismic activity, and may effect states and communities inland as well as along coastlines; and

WHEREAS, Hurricanes Katrina, Rita, and Wilma in 2005 demonstrated that the devastation of a mega-catastrophe can stretch far beyond where the event occurred; and

WHEREAS, the National Conference of Insurance Legislators (NCOIL) has long-supported the need for a national system of catastrophe preparedness—one that would include strong state planning and response; implementation of mitigation efforts such as effective statewide building codes and thoughtful land-use policies; and creation of state catastrophe funds, as needed; and

WHEREAS, NCOIL also supports changing IRS tax code to allow for insurer tax-deferred catastrophe reserves and establishing an appropriate federal role to support private-market and state initiatives; and

WHEREAS, any suitable mega-catastrophe plan must place primary responsibility on the private markets and on the states, while recognizing that some losses may be too large for them to bear; and

WHEREAS, state legislatures and Members of Congress, insurance regulators, consumer advocates, insurance industry representatives, and other interested parties are debating the need for, and form of, a national mega-catastrophe system; and

WHEREAS, this ongoing dialogue—though informative and productive—is not responding quickly enough to the very real threat of a natural disaster of catastrophic proportions; and

WHEREAS, NCOIL believes that further action is needed to stabilize, protect, and preserve insurance markets across the country and, in that way, to directly and significantly impact the lives of consumers;

NOW, THEREFORE, BE IT RESOLVED that NCOIL urges those debating the issue to move swiftly and thoughtfully, and supports a system in which:

- every state may choose to establish a state catastrophe fund ~~into~~ which may be eligible to receive federal funds under specified conditions may flow;

- any state with such a fund may choose to contribute or not to contribute toward it financially;

- ~~• the fund would be in place to make payments on behalf of private insurers when insured losses exceed a state's direct written property casualty premium (minus workers' compensation)—a threshold that is herein after known as the "liability cap";~~

- after a natural disaster in which insured losses exceed ~~the a designated threshold~~ liability cap, the federal ~~g~~Government would provide the such state fund the amount of money necessary to cover pay all private sector insured claims- insured losses above the threshold beyond the liability cap through funding options that allow the states to further benefit consumers;

- the federal options should include a catastrophe reinsurance backstop and a federal loan program;

- the catastrophe reinsurance backstop is not a risk transfer mechanism but a financial backstop, because each state fund will ultimately pay for the full cost of the catastrophe coverage if it participates in the national fund for the long-term; and

- under the loan program, the federal government would provide the state fund the amount of money necessary to pay all insured losses above the designated threshold; and a state subsequently would repay the Treasury—interest-free over the course of 20 years—the amount of money that the federal government had loaned the state for payments above the designated threshold.

~~would loan the state fund the amount of money necessary to pay all private sector insured claims beyond the liability cap~~

~~in such a situation, a state fund would serve as a vehicle to disperse federal monies~~

- ~~• a state subsequently would repay the Treasury—interest free over the course of 20 years—the amount of money that the federal government had loaned the state for payments beyond the liability cap~~

BE IT ALSO RESOLVED that NCOIL believes such a state-federal system would result in dramatically lower property-casualty insurance rates and would substantially strengthen the solvency of the private sector insurance industry, to the benefit of citizens nationwide;

BE IT FINALLY RESOLVED that NCOIL will distribute this resolution to state and federal legislative leaders, as well as to insurance commissioners and governors around the country, and will continue to work with interested parties to effect much-needed mega-catastrophe reform.

Additions indicated by underline.
Deletions indicated by ~~strikethrough~~.