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CONTACT: Susan Nolan
Candace Thorson
NCOIL National Office
518-687-0178

NCOIL TAKES HARD LOOK AT NAIC MEGA-CATASTROPHE PLAN, VOICES INITIAL COMMENTS

Napa Valley, California, November 15, 2006—Legislators took a hard look at a proposal for national mega-catastrophe preparedness at the recent National Conference of Insurance Legislators (NCOIL) Annual Meeting here, when the NCOIL Subcommittee on Natural Disaster Insurance Legislation began its substantive review of—and voiced initial comments on—a draft National Association of Insurance Commissioners (NAIC) catastrophe plan.

The draft contemplates a multi-layered system in which primary responsibility would fall to consumers and the private industry; secondary responsibility would rest on optional state or regional catastrophe funds; final responsibility would lie with a federal catastrophe backstop; and states would be required to implement strong mitigation initiatives at every tier of the proposal.

Legislators at the meeting focused on the first layer. The Subcommittee expressed clear support for authorizing fixed-dollar deductibles for non-catastrophe losses, percentage-of-insured-value deductibles for catastrophe claims, and the ability of consumers to purchase lower catastrophe deductibles for additional premiums.

The Subcommittee reasserted its prior support for both tax-deferred catastrophe reserves and strong statewide building codes, noting that the group would begin in-depth consideration of a proposed model uniform building standard at the 2007 Spring Meeting.

The Subcommittee likewise showed interest in certain other mitigation initiatives contemplated by the plan, including, among other things, low-interest mitigation loans and thoughtful land-use policies.

Lawmakers endorsed the provision that would have rates be fully reflect risk, though the Subcommittee pressed for a clear definition in order to prevent marketplace abuses. David Foy of the Florida Division of Insurance, representing the NAIC, welcomed NCOIL suggestions.

However, the Subcommittee was far less supportive of a proposed mandatory offer of all-perils coverage. Among other concerns with the sweeping change, legislators strongly doubted the ability of small insurers to pay flood claims themselves while depending on subsequent infusions of reinsurance money from the National Flood Insurance Program (NFIP).

According to the Subcommittee, the administrative burdens involved in creating such an all-perils, one-insurance-adjuster system would likely be Herculean.

Legislators will submit their initial comments to the NAIC Catastrophe Insurance Working Group prior to the December NAIC Winter Meeting, and will continue their review of the proposal at the 2007 NCOIL Spring Meeting.

The Working Group had submitted the draft to NCOIL in accordance with the NCOIL 30-day deadline rule. Legislators and the NAIC have committed to working together toward a national system.

The Subcommittee met on November 9, during the November 9 through 12 Annual Meeting. The Spring Meeting will take place in Savannah, Georgia, from March 1 through 4.

NCOIL is an organization of state legislators whose main public policy concern is insurance legislation and regulation. Many legislators active in NCOIL either chair or are members of the committee responsible for insurance legislation in their respective state houses across the country. More information is available at www.ncoil.org.

For further details, please contact the NCOIL National Office at 518-687-0178, or by e-mail at cthorsen@ncoil.org.

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