

NATIONAL CONFERENCE OF INSURANCE LEGISLATORS
SUBCOMMITTEE ON NATURAL DISASTER INSURANCE LEGISLATION
HILTON HEAD, SOUTH CAROLINA
MARCH 3, 2005
DRAFT MINUTES

The National Conference of Insurance Legislators (NCOIL) Subcommittee on Natural Disaster Insurance Legislation met at the Hilton Oceanfront Resort in Hilton Head, South Carolina, on Thursday, March 3, 2005, at 1:15 p.m.

Rep. Dan Tripp of South Carolina, chair of the Subcommittee, presided.

Other members of the Subcommittee present were:

Rep. George Keiser, ND

Rep. Donald Brown, FL

Rep. Craig Eiland, TX

Other legislators present were:

Rep. Larry Taylor, TX

Also in attendance were:

Candace Thorson, NCOIL Director of Legislative Affairs & Education,
Property-Casualty Insurance

MINUTES

The Subcommittee voted unanimously to approve the minutes of its November 19, 2004, meeting in Duck Key, Florida.

PUERTO RICAN CATASTROPHE FUND

Scott Gilliam of Cincinnati Insurance Companies reported on details of the Puerto Rican natural disaster catastrophe fund, which he said might serve as a model for a similar fund in the United States. He explained that the Puerto Rican fund, which includes both personal and commercial lines, was created in 1994 following the country's devastating losses from Hurricane Hugo in 1989. The fund is mandatory for carriers writing catastrophe coverage, he said.

Mr. Gilliam noted that the legislative intent of the fund was to reduce the reliance of Puerto Rican insurers on foreign reinsurers in order to lessen the impact that world reinsurance pricing had on Puerto Rican catastrophe coverage. He noted that the fund requires Puerto Rican domestic insurers to establish a reserve for future catastrophic losses, particularly for earthquakes and hurricanes. He said that the assets an insurer assigns to the fund are treated as surplus and are held in a trust.

Mr. Gilliam continued that the money is tax-deferred, with any additions to the fund treated as tax-deductible losses. He added, in part, that an insurer can make an annual withdrawal when its catastrophic losses for the previous calendar year exceed five (5) percent of the carrier's net direct written premium. He commented that legislators had designed the Puerto Rican fund to be a first layer of protection and that it was not limited to mega-catastrophes. Events, he said, had triggered the fund several times.

FLORIDA MULTIPLE DEDUCTIBLE INSURANCE ISSUES

Ray Spudeck of the Florida Office of Insurance Regulation reported that the state had in excess of 1.6 million claims as a result of the four hurricanes that hit Florida last season. He commented that the post-Hurricane Andrew system that Florida had put in place in order to forestall future catastrophe-related insolvencies had been working well.

Mr. Spudeck said that one issue raised by the 2004 events related to multiple windstorm deductibles. Many policyholders, he said, had incurred damage from more than one hurricane and were subject to paying more than one deductible. He reported that the Florida legislature had passed a bill that provided reimbursement for affected policyholders. The law required consumers to submit requests for reimbursement by March 1, he said, adding that the Department had received approximately 31,000 such claims. Mr. Spudeck noted that the money used to pay policyholders was essentially a loan from the Florida Hurricane Catastrophe Fund.

Mr. Spudeck said that during a special session, the legislature also had created a joint special committee charged with offering recommendations on how to improve the Florida system. He reported that following the Committee's deliberations in January and February, the group had made approximately 20 recommendations, including possibly making the one-deductible-per-season program permanent.

Mr. Spudeck added that Florida's Chief Financial Officer, Tom Gallagher, strongly supported Congressional approval of personal savings accounts that consumers would use when faced with catastrophic losses from natural disasters. Mr. Spudeck noted that such an initiative would be consistent with other recommendations made by the joint special committee.

Mr. Spudeck concluded by noting that Kevin McCarty, head of the Florida Office of Insurance Regulation and chair of NAIC's Catastrophe Insurance Working Group, was leading an effort to encourage Congressional consideration of federal natural disaster insurance legislation. He said that regulators had developed a plan for a concept paper that would endorse a multi-pronged approach. He said that NAIC welcomed collaboration with NCOIL.

ACTUARIAL ISSUES RELATED TO NATURAL DISASTER INSURANCE LEGISLATION

Greg Vass of the American Academy of Actuaries (AAA) commented that a major obstacle toward preparing for a catastrophic natural event was gathering the tremendous amount of capital that would be necessary. Among other things, he said that when an event put such significant capital at risk, the markets would demand a higher rate of return in order to compensate for the increased exposure.

Mr. Vass said that because there is ample data to support natural disaster catastrophe modeling, a pre-funded backstop system would make more sense than it would for terrorist events, for which there is little historical information. He noted that the Terrorism Risk Insurance Act (TRIA) of 2002 established a post-funded program.

Mr. Vass said that modeling a natural disaster insurance system on the Terrorism Risk Insurance Program (TRIP) could provide immediate relief and could solve capacity problems, but it also could reduce the influence of reinsurance on the natural catastrophe market.

Regarding incorporating natural disaster risk into the National Flood Insurance Program (NFIP), Mr. Vass cautioned that flood insurance operates differently from other property-casualty insurance coverages and that legislators should take care when pursuing that option.

Mr. Vass also said that it would take years, perhaps decades, to establish a regional and/or national natural disaster catastrophe fund. He noted that this would not be an immediate solution.

DISCUSSION OF FUTURE SUBCOMMITTEE ACTION

Rep. Eiland said that he would like to see the 20 recommendations offered by the special Florida joint committee on natural disaster insurance. He said that review of those suggestions could help determine future NCOIL/NAIC action. Rep. Tripp asked staff to obtain the information.

ADJOURNMENT

There being no further business, the meeting adjourned at 2:30 p.m.