**NATIONAL CONFERENCE OF INSURANCE LEGISLATORS   
RESOLUTION IN SUPPORT OF TAX-DEDUCTIBLE PRE-EVENT NATURAL DISASTER RESERVE FUNDS AND FEDERAL BACKUP INSURANCE**

**Adopted by the NCOIL Executive Committee on July 13, 2001.   
Amended by the NCOIL Executive Committee on November 16, 2001.**

WHEREAS, the loss of life and property from severe natural disasters represents a major national problem; and

WHEREAS, severe natural disasters can strike any state or several states at any time**.**Severe natural disasters, including but not limited to damages caused by windstorm or earthquake, have the potential to threaten the vast majority of the population of the United States; and

WHEREAS, severe natural disasters can cause losses in the tens of billions of dollars or more, threatening the solvency of insurers and the viability of insurance markets on a local, regional and national level; and

WHEREAS, individual state responses are appropriate but limited in protecting against disasters, as state and private insurers lack the resources to cover catastrophic disasters; and

WHEREAS, the existing federal disaster programs rely a great degree on the Congressional appropriation of disaster relief dollars on an ad hoc basis and at great and unnecessary cost to taxpayers; and

WHEREAS, states and insurers would be better able to plan, and make insurance more available and affordable to the public, if the states and insureds knew that the Federal government would step in as an insurer of last resort at some stage; and

WHEREAS, it will be necessary for the Federal Government to intervene in the event of a catastrophic disaster costing in the scores of billions of dollars, because the alternative would be widespread insolvency in the insurance industry, which would also cause major financial difficulties in the banking, manufacturing, homebuilding and other industries; and

WHEREAS, Federal intervention could be tied to a variety of triggers, including, but not limited to, a minimum total loss level (such as a loss of a certain number of billion dollars) and/or a loss level in a particular state (such as an amount equal to a specific percentage of insurance premium written in that state) in order to ensure that the program would be fair to both large and small states; and

WHEREAS, NCOIL, through its Property-Casualty Insurance Committee and its Subcommittee on Natural Disaster Insurance Legislation, has devoted considerable attention over the last decade to issues related to natural disaster insurance legislation by conducting public hearings, seminars and committee meetings; and

WHEREAS, NCOIL has participated in Congressional discussions and public hearings relative to the development of federal natural disaster insurance legislation; and

WHEREAS, the above-referenced proceedings have documented that problems in the current insurance market are rooted in and exacerbated by:

            --    the failure to adopt and enforce building codes that emphasize resistance to natural disasters;

            --     inadequate loss prevention programs;

            --     federal tax policy which discourages reserving for future catastrophes; and

            --     increased concentration of exposure to natural disasters; and

WHEREAS, the 1995 NCOIL State Reinsurance Catastrophe Fund Model Act states in its preamble that federal action is necessary to fully address natural disaster insurance problems; and

WHEREAS, the NCOIL Property-Casualty Insurance Committee and Executive Committee adopted a resolution in 1997 that called upon Congress to enact comprehensive natural disaster insurance legislation affecting financial capacity and loss prevention; and

WHEREAS, the Federal government has not enacted any comprehensive natural disaster insurance legislation;

WHEREAS, federal tax laws and accounting principles do not permit deduction of reserves for future natural disaster losses and discourage insurers from accumulating assets to pay for future catastrophic losses; and

WHEREAS, some non-U.S. insurers are able to deduct reserves for future catastrophe losses free of tax, giving those insurers a competitive advantage over U.S. insurers by enabling them to attract insurance and reinsurance business that would otherwise be written by U.S. insurers; and

WHEREAS, the 1997 Coopers & Lybrand report entitled, *Analysis of Pre-Event Tax-Deductible Catastrophe Reserves,*underscored the following projections if Congress were to enact legislation to encourage the use of pre-event tax deductible catastrophe reserves:

            --    the property and casualty industry would build a catastrophe reserve fund of $16.1 billion over a 10-year period;

            --    overall industry assets would increase by $4.5 billion over a 10-year period;

            --    the number of insolvencies taking place after a catastrophic disasterwould significantly decrease;

            --    the magnitude of insolvencies taking place after a catastrophic disasterwould significantly decrease;

            --    U.S reinsurers would become more competitive in the global reinsurance marketplace;

            --      U.S. insurers would likely cede up to $1.25 billion to U.S. reinsurers, rather than to foreign reinsurers as is now the case;

            --      federal tax receipts could increase more than two-fold due to increased tax revenue collected from underwriting profits associated with retained U.S. premium, investment income earned on that same premium, and profits from additional foreign premiums that would come onshore as U.S. reinsurers seek to diversify their catastrophe risks; and

            --    the number of policyholders who lose insurance after a major event could decrease; and

NOW, THEREFORE, BE IT RESOLVED, that NCOIL reaffirms its call upon Congress to enact comprehensive natural disaster insurance legislation affecting financial capacity and loss prevention that will address, encourage and support:

            --            insurance company reserving for future catastrophes by making such reserves deductible for

                        federal income tax purposes;

--      placing some absolute cap on the amount that states and insurers would need to pay in the event of a catastrophic disaster before the federal government steps in as the insurer of last resort;

            --            availability of reinsurance and capital market funded risk transfer to relieve pressure                            on private, primary market insurers; and

            --            state loss prevention programs; and

NOW, THEREFORE, BE IT FURTHER RESOLVED, that NCOIL will work with the NAIC and federal legislators in developing tax-deductible pre-event catastrophe reserve legislation and legislation providing for a cap on the amount of damages which would have to be paid by state and private insurers.