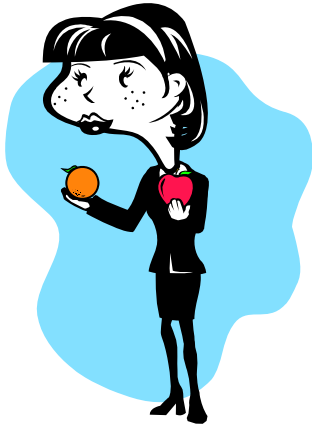


Comparison of national catastrophe insurance proposals

POA



Homeowners Insurance Protection Act

- ◆ Creates a national catastrophe fund.
- ◆ States that create their own catastrophe funds would be able to buy coverage from the national catastrophe fund.
- ◆ State funds must be financed through insurance premiums.
- ◆ Coverage would apply in the event of a major disaster whose losses exceed an amount set by the secretary of the treasury. Such disasters would be those projected to occur once in 200 years.
- ◆ Requires participating states to earmark a portion of their funds for disaster loss-prevention and mitigation efforts.
- ◆ States would be required to ensure that any savings from the state or federal catastrophe plan be passed on to homeowners.

Sponsored by U.S. Rep. Ginny Brown-Waite, R-Brooksville.

Homeowners Insurance Availability Act

- ◆ Creates at least six federal disaster reinsurance regions.
- ◆ Reinsurance would cover home, condominium, co-op and apartment owners only.
- ◆ Reinsurance contracts would be sold directly to state catastrophe insurance funds, private insurance companies and private reinsurance companies.
- ◆ Requires participating states to earmark a portion of their funds for disaster loss-prevention and mitigation efforts.
- ◆ Federal disaster reinsurance would be triggered by events such as earthquakes, fires from earthquakes, tornados, hurricanes and typhoons whose damage would be projected to occur once in 100 years.

Sponsored by U.S. Rep. Ginny Brown-Waite, R-Brooksville.

Multiple Peril Insurance Act

- ◆ Would amend the National Flood Insurance Program to cover damage from both wind and flood events.
- ◆ Coverage would be available only in areas where an appropriate governmental body has adopted certain land-use measures.
- ◆ Would eliminate the discount on flood insurance to anyone who purchases multi-peril coverage.
- ◆ Policies could be sold either through private insurance companies or directly through the federal program.

Sponsored by U.S. Rep. Gene Taylor, D-Miss

Insurance: Private firms aren't doing job

Clarion Ledger Opinion



Political strategist Karl Rove thumbs his nose.

President Bush's White House advisers must not be well acquainted with the post-Katrina realities of private insurance, given their downright bizarre assessment uttered this week.

Edward Lazear, chairman of the Council of Economic Advisers, told members of a Senate Banking Committee that the federal government should reject offering catastrophic insurance.

"The insurance industry is healthy, and the private sector is well-equipped to provide insurance for hurricanes and other natural catastrophes," he said Wednesday, adding that "state regulators and the federal government must allow the private market to function."

Well, it's "functioning" down here to not offer insurance or at such high rates as to be unaffordable to all but the most wealthy, harming the recovery.

The proposal to create a federal catastrophic insurance fund that would cover hurricanes as well as floods, and earthquakes, is gaining support in Congress for a reason. Private insurers cannot provide adequate, affordable coverage on the Coast.

Hurricane Katrina showed the problems with private insurance coverage.

Thousands who had bought "hurricane" insurance found that the companies refused to pay for wind-driven water, Katrina's storm

surge, deeming it "flooding" covered by federal insurance - even if policyholders didn't live in a flood plain and weren't eligible.

The private insurance industry may be healthy, but consumers are not served.

Sen. Trent Lott has a point that he doesn't want the government to be "the" insurance company.

But without some federal help for difficult markets, there will be no Gulf Coast as we know it, with middle-class people living there and small family businesses. Instead, it will be only for the wealthy.

Some balance must be struck.

Multiple perils coverage debated

Taylor calls for swift action to close down insurers' loopholes By BRENDAN MCKENNA, Sun Herald

WASHINGTON - Rep. Gene Taylor, D-Miss., called for swift action Tuesday on legislation to eliminate insurance loopholes that allowed some insurance companies to deny or reduce claims payments in the aftermath of Hurricane Katrina.

Many Mississippi residents have had insurance claims denied because insurance companies maintained all of the damage to their property was caused by flooding, which is not covered by commercial insurance policies. Wind damage, typically, is covered.

Taylor introduced a bill in February that would establish multiple perils insurance coverage so residents could receive money to rebuild regardless of the cause of damage in a natural disaster. He told the panel he believes the federal government could administer this program - an expansion of the National Flood Insurance Program - in a way that would be self-financing and not require additional taxes.

Taylor, testifying for the House Financial Services subcommittee on housing, said the tragedy of Hurricane Katrina was compounded by the fact that virtually the only claims for wind damage paid by insurers have gone to residents who stayed behind to photograph or otherwise record damage to their homes.

"People should be encouraged to get out of coastal areas in times of catastrophe instead of staying behind to document damage," Taylor said. "The present system isn't working. It's not working for the individuals who suffered from the storm and it's not working for the taxpayers who have to pick up the difference."

Taylor said Congress needs to protect all coastal residents who build their homes to proper standards and who faithfully pay their premiums.

He also said many homeowners rebuilding in South Mississippi are being forced to settle for smaller houses because of skimpy insurance payouts and skyrocketing property-insurance premiums.

"It just stands to reason we've got to do better," Taylor said.

"I am pleased to see such a large delegation recognizing that there is a problem," Taylor said of fellow witnesses from Florida.

However, not all of those who applauded Taylor for his testimony were necessarily willing to support his bill calling for a federal, self-funding multiple perils risk program.

Rep. Spencer Bachus, R-Ala., worried government involvement or "interference" might be

counterproductive.

"The track record in the past has not been sterling," Bachus said.

Bachus said he favored "reducing excessive government regulation to allow the market to react more freely" but added he was open to Taylor's suggestions about multiple perils insurance programs.

"There is a need for us to at least consider some of your advice...," Bachus said. "As one member of this committee, I will keep an open mind on this entire subject."

As pointed out by Representative Taylor during his testimony, the only folks who got paid for Katrina damage were those who stayed behind and could "witness" the damage as it occurred.

Translated, this means that you are more likely to be paid on damage if you've got a WITNESS who can attest to the fact that the damage done to the structure was caused by WIND, not rising flood waters.

Catastrophe insurance spawns storm of debate

By Larry Lipman, Palm Beach Post



Mother Nature can deal some powerful blows. Will we be ready for her next round?

WASHINGTON — As Congress begins working on a national catastrophe insurance program, it is getting mixed messages from the insurance industry.

On one side are large insurance trade groups such as the American Insurance Association and the Reinsurance Association of America whose hundreds of member companies oppose a federal role in disaster insurance role.

On the other side are state insurance commissioners and some of the largest property and casualty insurers — such as State Farm and Allstate — who have joined with a coalition of emergency first responders and business organizations that support a federal backstop for catastrophe insurance losses combined with incentives to mitigate and prevent future damages.

With the Democrats in charge of both houses for the first time in a dozen years, Congress has begun hearings on the issue.

Late last month, a House Financial Services Committee panel heard from members of Congress, state insurance commissioners, the insurance industry and outside experts. On Wednesday, the Senate Commerce Committee will hold a similar hearing.

Several disaster insurance bills have been filed in the House and Senate, but what might be the major House bill is still in the works.

Freshman Reps. Ron Klein, D-Boca Raton, and Tim Ma-

honey, D-Palm Beach Gardens, have been appointed by Financial Services Chairman Barney Frank, D-Mass., to draft a bill that will become the vehicle for the committee's action.

Meanwhile, Rep. Ginny Brown-Waite, R-Brooksville, who also serves on the committee, recently reintroduced two versions of a catastrophe insurance plan.

In the last Congress, 15 of Florida's 25 House members co-sponsored Brown-Waite's bill, which would create a federal catastrophe insurance fund that would back up state catastrophe funds. Nine Florida members backed her bill to create a federal disaster reinsurance fund that would sell directly to states, private insurers and private reinsurance companies. Reinsurance is insurance for insurance companies.

**Expanding flood insurance**

Several other bills have been introduced, including one by Rep. Gene Taylor, D-Miss., that would expand the federal flood insurance program into a multi-peril program. Taylor, whose home was destroyed by Hurricane Katrina, has been battling the insurance industry over widespread disputes regarding whether damage was caused by wind or flood.

In the Senate, Florida Sens. Bill Nelson, a Democrat, and Mel Martinez, a Republican, have jointly sponsored a "six-pack" of property insurance bills, including one that would create a national catastrophe insurance fund and one that would establish

a commission to recommend a federal role.

Talk about creating a national catastrophe fund goes back to the early 1990s, following the bicoastal disasters of Hurricane Andrew in South Florida and the Northridge earthquake in Southern California.

But congressional proposals historically have run into a wall of opposition from lawmakers who represent interior states that are prone to neither hurricanes nor earthquakes. Those lawmakers question why their constituents should pay higher insurance premiums to cover people who live in disaster-prone areas.

Hurricane Katrina in 2005 changed much of that thinking as Americans realized that the federal government's tab for restoring the damaged area would reach many billions of dollars.

"This is starting to become recognized as a national issue, and hopefully it will become a national priority," said Pete McDonough, spokesman for ProtectingAmerica.org, a coalition of insurers and first responders that supports a federal role in catastrophe insurance.

**One side: U.S. help needed**

The nation's two largest homeowners and automobile insurers, State Farm and Allstate, are among

*continued on page 9*

### Catastrophe insurance spawns storm of debate

those who argue that some natural disasters are simply too large for the private insurance market, even when backed by state catastrophe funds.

Commercially available insurance is designed for localized disasters, not "mega-catastrophes," State Farm spokesman Jeff McCollum said. "We're talking about things as big or bigger than Katrina. Insurance was never designed to cover a catastrophe of that size."

Providing a federal backstop to insurance losses would provide more protection to property owners, stabilize the insurance market and lower premiums because much of the reinsurance burden would be borne by a federally chartered tax-exempt reinsurance fund, said Ed Collins, a counsel for Allstate who also serves as national director of ProtectingAmerica.org.

The National Association of Insurance Commissioners has endorsed the concept of a federal role in catastrophe insurance but has not endorsed a specific plan.

"Large natural catastrophes are a national economic problem, not simply a local insurance problem," Florida Insurance Commissioner Kevin McCarty told the House Financial Services panel last month on behalf of the association. "Congress and the states need to work together to develop a comprehensive plan to better manage and mitigate the natural catastrophic events of tomorrow."

#### Other side: U.S. disruptive

Marc Racicot, the former Republican governor of Montana and now president of the American Insurance Association, told the Financial Services panel his organization disagreed with the premise that private insurance cannot cover catastrophes.

"Even after Katrina, private-sector capacity for dealing with natural disasters has grown — with approximately \$28 billion in new capital entering the market last year — and is adequate to spread and manage this risk," he said.

Racicot warned that the greatest threat to the property insurance market "is not the force of hurricane winds but legislation and regulations that displace available private capital or make it economically unfeasible for private companies to operate in coastal markets."

The reinsurance industry argues that creating a federal fund to serve as a backstop to state catastrophe funds would "displace the vibrant private reinsurance market to the detriment and cost of the U.S. taxpayers," Frank Nutter, president of the Reinsurance Association of America, told the House panel.

While natural disasters may occur in any state, Nutter noted, most are economically modest. He also said 97 percent of all earthquake losses were in California and 75 percent of hurricane losses since 1900 were in Florida, Texas and Louisi-

ana.

Having a federal catastrophe fund won't reduce the cost for taxpayers, Nutter said, because most federal assistance in emergencies goes for immediate aid such as food, water and temporary shelter, not for reimbursing property losses.

*continued from page 8*

#### Insurance 101:

**Currently, FEMA (through the National Flood Program) pays private insurance companies like State Farm, Allstate, Travelers, Farmers, Nationwide, etc... a significant amount of the flood insurance premium to ADJUST flood claims because FEMA has no adjusters. These private carriers are called "Write Your Own" carriers and they also sell the government-underwritten flood policies.**

**If the Federal government took on a bigger role, some insurers worry that their federal gravy train would stop.**

**Consumer advocates believe that private carriers have dumped onto the U.S. taxpayer the financial liabilities spelled out in homeowner policies and have gotten away with it because their adjusters manipulate how the cause of damage is characterized.**

**This became painfully obvious in Katrina's aftermath.**

POA

## Shelby opposes insurance fund

By SEAN REILLY Press-Register

WASHINGTON -- As Gulf Coast insurance companies cut homeowners' coverage and raise premiums, U.S. Sen. Richard Shelby took aim Wednesday at one proposed answer: creation of a federal catastrophe fund as a last-resort backup.

Although some insurers may favor the idea, "our experience has shown that government-operated insurance programs have a record of financial mismanagement," Shelby, R-Tuscaloosa, said at a Senate Banking Committee hearing. Shelby is the panel's top Republican.

The legislation, introduced last month, would create a national catastrophe fund as a backstop to state-run insurance programs, such as Florida's, that aim to keep coverage available and affordable, said U.S. Sen. Bill Nelson, D-Fla., who is sponsoring the measure with U.S. Sen. Mel Martinez, R-Fla.

"The big one is coming," Nelson said, referring to the specter of another monster storm striking a densely populated urban area along the coast.

One way or another, he said, the federal government will pick up the tab for recovery. The question then becomes how to "rationally" develop a system that ensures insurance is still available in the aftermath.

While many of the mechanics have yet to be worked

out, money for the fund could come from insurance premiums or from insurance companies themselves with the encouragement of tax breaks.

The concept has been endorsed by the Southern Governors' Association, which includes Alabama Gov. Bob Riley, as well as the National Association of Insurance Commissioners, a group representing state regulators.

But "there is no single solution to this problem," Alabama Insurance Commissioner Walter Bell, the association's president, cautioned at Wednesday's hearing.

The banking committee's chairman, U.S. Sen. Christopher Dodd, D-Conn., did not state a position on the legislation, although he did endorse creation of a commission to study the insurance issue and report back to Congress "in very short order."

The Bush administration believes that the private market is adequate, while the insurance industry is split on the issue.

Throughout Wednesday's hearing, a repeated theme was the woeful condition of the National Flood Insurance Program, a federally backed venture created in 1968 because private companies are generally reluctant to cover water damage.

Although intended to be self-supporting, the pro-

gram is now more than \$17.6 billion in debt to the federal treasury, mainly because of payments on Katrina claims.

While many observers expect Congress to eventually write off those losses, the program continues to subsidize many older properties, including vacation homes.

As banking committee chairman last year, Shelby pushed legislation to strengthen the flood insurance program, but the measure died in the face of opposition from Louisiana lawmakers.

While Dodd said Wednesday that he wants to put the program on a sound financial footing, he has so far offered no specifics.

For this fiscal year, the program is expected to pay more than \$718 million -- or roughly one third of premium revenues -- in interest on the money owed to the federal treasury.

### WHERE THEY STAND:

U.S. Senator Richard Shelby (R-AL) opposes a federal catastrophe fund.

Such a fund would negate the power of insurance companies and would most likely make insurance more available and affordable.

Some insurance companies are also against the fund.

U.S. Senators Bill Nelson (D-FL) and Mel Martinez (D-FL) are sponsoring the legislation that would create such a fund.

The Southern Governors' Association has endorsed the legislation.

The Bush administration still believes everything is hunky-dory and there is no need for a fund.

## Lott introduces bill to make insurance policies more

### understandable

By Brendan McKenna, The Sun Herald

WASHINGTON - Sen. Trent Lott this week renewed his efforts to make Homeowners' insurance more understandable.

Lott, R-Miss., introduced the Homeowners' Insurance Non-coverage Disclosure Act, which would require insurance companies to list specifically what is not covered by the policy on the front page of the policy in simple language and large type.

The bill is similar to one Lott introduced last year, said Lee Youngblood, Lott's spokesman. Many attempts to extend federal regulations to the insurance industry, which is largely regulated by the states, have failed in the past.

The goal of the bill is not to eliminate complex language in insurance, Youngblood said. It only seeks to put a clearer explanation of the small print in an easily accessible place for consumers.

"Legalese is part of our daily lives, especially when you're talking about insurance, which is a contract," Youngblood said. "But insurance is more than a contract. It's a product purchased by consumers."

He added, "This is something Sen. Lott believes is very simple, very easy to do that

could save a lot of heartache, legal disputes, time and anguish of trying to understand the policy."

The bill would require the Federal Trade Commission to enforce the disclosure by expanding the reach of existing regulations to cover the home insurance policies, Youngblood said. The disclosure would include "all conditions, exclusions and other limitations" on the policy's coverage, he said.

June Holmes, interim chief executive officer of the Property Casualty Insurers Association of America, said in a statement that Lott's bill was unnecessary.

"PCI has long supported efforts to make policy language clear and understandable. . . . As a result of our support and that of state regulators, many states - including Senator Lott's home state of Mississippi - are already doing an excellent job in enacting and enforcing these 'plain language' requirements," Holmes said. "Senator Lott's proposal will do nothing to enhance the 'plain language' requirements already on the books in almost every state."

Holmes added, "By calling for the FTC to enforce this redundant and unnecessary

requirement, Senator Lott's proposal will add another layer of costly and duplicative federal oversight of a function best left to the states - not to mention the confusion that dueling federal and state regulations would cause for consumers."

Youngblood disputed Holmes' assertion that the bill would be costly.

"I think most consumers would appreciate insurance policies that have this component as a simple, straightforward addition to the policy," Youngblood said.

Lott's experience with insurance after Hurricane Katrina prompted this and other initiatives to reform the insurance industry, Youngblood said.

"Sen. Lott learned some things about insurance he didn't know before, and many Mississippians were forced to do the same thing," Youngblood said. "He found out some things he was not comfortable with and would like to change."

Lott has sued his insurance company, State Farm Fire and Casualty Co., over the insurer's refusal to cover Hurricane Katrina damage to his home.

Now there's a novel idea!

Insurance policies must spell out exclusions in layman's terms and on the first page!

In related news: Senator Lott, R-Mississippi, settled his suit against State Farm. The terms of the settlement are confidential.

We will have to see if Lott continues to question the insurance industry's practices now that his claim is resolved.