NATIONAL CONFERENCE OF INSURANCE LEGISLATORS
SUBCOMMITTEE ON NATURAL DISASTER INSURANCE LEGISLATION
WASHINGTON, DC
FEBRUARY 27, 2009
MINUTES

The National Conference of Insurance Legislators (NCOIL) Subcommittee on Natural Disaster Insurance Legislation met at the Hyatt Regency Washington on Capitol Hill in Washington, DC, on Thursday, February 27, 2009, at 1:30 p.m.

Rep. Chuck Kleckley of Louisiana, co-vice chair of the Subcommittee, presided.

Other members of the Subcommittee present were:

- Sen. Ralph Hudgens, GA
- Rep. George Keiser, ND
- Assem. Will Barclay, NY
- Sen. William J. Larkin, Jr., NY
- Sen. Keith Faber, OH
- Rep. Charles Curtiss, TN

Other legislators present were:

- Sen. William Haine, IL
- Rep. Robert Godshall, PA
- Rep. Tony Melio, PA
- Rep. Hubert Vo, TX
- Sen. Frank Deem, WV
- Sen. Joseph Minard, WV

Also in attendance were:

- Susan Nolan, NCOIL Executive Director
- Candace Thorson, NCOIL Deputy Executive Director
- Mike Humphreys, NCOIL Director of State-Federal Relations
- Jordan Estey, NCOIL Director of Legislative Affairs & Education

MINUTES

Upon a motion made and seconded, the Subcommittee voted unanimously to approve the minutes of its November 20, 2008, meeting in Duck Key, Florida.

NAIC CATASTROPHE RATING MODEL

Eric Nordman of the National Association of Insurance Commissioners (NAIC) reported that regulators had authorized funds in the 2009 NAIC budget to conduct a feasibility study on development of a computer model to measure catastrophe risks. He said regulators would use an existing public hurricane model in Florida as their starting point and from there would consider how such a model might also address hurricane risk in other states, as well as earthquake threats across the country. He reported on regulator activity thus far and said that a working group was analyzing fiscal impacts and would present its report during a public discussion phase of the proposed 2010 NAIC budget.

Deirdre Manna of the Property Casualty Insurers Association of America (PCI) said that development and implementation of an NAIC catastrophe risk model would cost millions of dollars—perhaps between $20 and $25 million—and raised industry concerns regarding how regulators would fund such an endeavor. She acknowledged that the 2009 NAIC budget allocated a much smaller amount of $200,000 for the feasibility study. Ms. Manna stated that regardless of potential costs, the insurance industry was troubled by a possibility that state officials would politicize a catastrophe model.

TAX INCENTIVE AND PREMIUM DISCOUNTS

Mr. Nordman overviewed a 2007 multi-pronged South Carolina law in the absence of the state's insurance director, Scott Richardson.

Legislators then viewed a video, entitled *Against the Wind*, regarding the South Carolina law. The video said that the 2007 reform, among other things, had authorized homeowner catastrophe savings accounts; tax credits for retrofitting and mitigation; extended periods of notice for cancellations and non-renewals; insurer tax credits for writing full coverage in coastal areas; "adequate" rates for the state wind pool, which officials would review twice a year; and formation of a coastal captive insurance company to offer primary and excess wind and storm coverage for South Carolina properties. The video also said that the law had established a Safe Home Grant Program to encourage retrofitting and consumer education.

Rep. Keiser suggested that NCOIL work with interested parties to find alternatives for catastrophe financing reform. He said legislators should calculate a maximum level of exposure that states could face, and then use an "actuarially sound" formula to gauge how much of that risk the public and private markets could handle. He said that any system would need to include some level of federal backstop. He then discussed options related to private-market tax incentives.

Rep. Keiser said NCOIL already had addressed building codes and land-use and now must address standards for catastrophe financing. Upon a motion made and seconded, the Subcommittee voted to pursue the issue.

PENDING STATE INITIATIVES

Robert Zeman of Allstate Insurance Companies reported on state activity, including proposals to establish state catastrophe funds based on an NCOIL catastrophe fund model law. He said, among other things, that pending legislation in Florida would revise that state's fund to address concerns that it would be unable to issue bonds sufficient to cover its significant liabilities. He also predicted that a catastrophe fund bill would be introduced in the Texas House and would be similar to legislation offered last year by NCOIL Past President Rep. Craig Eiland.

Dennis Burke of the Reinsurance Association of America (RAA) issued his group's support for the 2007 South Carolina effort and contrasted it to Florida and other catastrophe fund initiatives in the states. He praised what he said were private market-friendly approaches in Louisiana and Mississippi.

Mr. Burke, James Tuite of State Farm Insurance Companies, and others then discussed state catastrophe funds in the context of a proposed federal backstop.

IMPACT OF CREDIT MARKETS ON CATASTROPHE FINANCING

Scott Gilliam of Cincinnati Insurance Companies said that tightened credit markets were challenging the financing needs of state catastrophe funds, using the Florida experience as an example. He said, though, that the economic crisis had not affected the ability of property-casualty insurers to honor their obligations.

Mr. Gilliam encouraged legislators to study the impact that catastrophe funds have on private markets. Regarding federal activity, Mr. Gilliam predicted that Congress, due to issues surrounding the financial crisis, would not consider proposals to create backstops for state catastrophe funds and/or to establish catastrophe reinsurance mechanisms.

Mr. Zeman said that the economic crisis, despite leading to some financing challenges, had shown no fundamental problem with the concept of catastrophe funds. He said the credit crunch also had affected private insurers and reinsurers. He added that catastrophe funds, in conjunction with mitigation efforts, are critical to state responses to catastrophe exposure.

Mr. Burke discussed the impact of the financial crisis on the reinsurance industry. He agreed with the need for mitigation but said that state responses should focus on allowing insurers to charge adequate premiums for their risks, rather than include establishment of catastrophe funds.

Mr. Burke then overviewed an existing mechanism that he said alleviates insurers' financial burdens following a catastrophe. He explained, in general, that a provision in federal tax code, known as a "tax loss carryback," lets an insurer, once a catastrophe takes place, immediately offset its capital gains for that year with its catastrophe-related losses. He commented that this offset ability amounts to a financial recovery from the federal government.

PENDING FEDERAL INITIATIVES

Tom Glassic of the U.S. House Financial Services Committee reported on the Committee's 2009 agenda, including prospects for broad natural catastrophe and National Flood Insurance Program (NFIP) reform.

ADJOURNMENT

There being no further business, the meeting adjourned at 2:15 p.m.

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