Testimony of
The National Association of Insurance Commissioners

Before the
U.S. Senate Committee on Banking, Housing, and Urban Affairs

Regarding:
The Availability of Property and Casualty Insurance in Coastal Areas

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Chairman Dodd, Ranking Member Shelby and Members of the Committee, thank you for the opportunity to testify here today on behalf of the National Association of Insurance Commissioners (NAIC) regarding the availability and affordability of property and casualty insurance in coastal regions.

My name is Walter Bell, and I am the Insurance Commissioner for the State of Alabama. I also serve as the president of the National Association of Insurance Commissioners. As an insurance official from the Gulf Coast, I commend you for holding today's hearing on this crucial, national issue.

When I became president of the NAIC, I pledged that examining the role of insurance in managing natural catastrophes would be our top priority. And indeed, in January of this year, we held a natural catastrophe symposium to bring together not only the insurance industry, but many of the stakeholders who have a role and a voice in this debate. We brought together representatives from the insurance and reinsurance community, agents, adjusters, realtors, NOAA, FEMA, and risk modelers for a significant discussion of the range of issues that must be contemplated. The symposium was a significant event, but that effort and my pledge is merely the continuation of an ongoing commitment that insurance commissioners, individually, and collectively through the NAIC, have made to examine how our nation manages this national threat.

Insurance regulators and the NAIC have been actively engaged in research and analysis on the impact of natural disasters on our society for a number of years. Insurance Commissioners across the country are working to find solutions to manage the catastrophic risk exposure in their respective states – exposure that grows with increased real estate development, rising property values, and expanding commercial operations in catastrophe prone areas. The NAIC currently is engaged in developing a comprehensive national plan for managing the economy wide risk of catastrophic natural disasters. In addition, the NAIC has adopted resolutions, both in December of 2005 and most recently in June of 2006, supporting a national disaster plan and calling for a Commission of experts to further study the issues, weigh the alternatives, and focus the debate.

1. Insurance Affordability and Availability in Coastal Areas

The ability of individuals, businesses, and regional economies to withstand and recover from the next natural catastrophe depends critically on the availability and affordability of insurance. From the perspective of insurance regulators, the key component is affordability, because if consumers in our states can't afford to buy the coverage, its availability becomes irrelevant. However, it's worth noting that in some cases, insurance has become less available regardless of the price. For example, surplus lines companies (a largely unregulated segment of the market with no rate regulation) in hard hit areas of Florida have dropped commercial policies, requiring the state to activate a commercial pool to provide coverage.

In coastal areas where catastrophic risk is perceived to be higher, we typically see greater fluctuations in availability and affordability than in other areas. The problem with this perception is that it focuses on what happened last, rather than on what could happen next. We must not overlook the possibility of a large-scale natural disaster that has little to do with coastlines. The threat of natural disasters on a massive scale exists in virtually all states. Inland flooding and earthquakes are capable of widespread devastation that can span multiple states, and wild fires and winter storms can cripple states with no coastline to speak of. The problems and solutions we discuss today are in the context of the coast because of the last catastrophe, but they are every bit as relevant for the next catastrophe, regardless of what it is or where it occurs.

Factors Affecting Availability and Affordability

The availability of insurance is impacted by the perceived risk and historical experience of the region. Simply put, insurers have an expectation based on modeling, actuarial judgment, and past experience of the type, scope, and likelihood of risks they will face in a given area. They use that information to help price their products. When an event comes along that falls outside of those expectations, or at least at the far end of that spectrum, whether for severity (such as Hurricane Katrina) or frequency (such as the four consecutive hurricanes that hit Florida in 2004), insurers must reexamine the risk profile for their book of business, and typically respond by scaling back where they write new policies, introducing coverage limitations, and/or by raising prices. Anticipating future losses is the main factor that adds volatility and subjectivity to insurance pricing.

Another major factor in affordability of insurance is the rising cost of reinsurance. Reinsurance is a largely unregulated market where insurance companies purchase insurance to better spread the risk they've assumed. Affordable reinsurance options allow private insurers to limit their own exposure by diversifying risk, which in turn, allows private insurers to write more business at a more inexpensive rate. Following the catastrophic 2004 and 2005 hurricane seasons, reinsurers began to scale back the coverage they are willing to offer in coastal areas and what coverage they are willing to provide is coming at significantly higher rates. A recent report by Guy Carpenter and Company indicates that in 2006 reinsurance rates across the United States rose 76 percent on average, and this while insurers and reinsurers scaled back coverage and exposure. However, as is the case with direct insurance, the numbers are much more dramatic in coastal regions where insurers cite reinsurance rates doubling, tripling and, in at least one case, going up ten fold. The state of Florida estimates that the cost of reinsurance accounts for nearly 45% of the consumer's premium in that state. Affordable reinsurance is a crucial risk transfer tool that insurers use to spread risk, particularly in catastrophe prone areas. As those rates go up exponentially, direct insurers have no choice but to raise rates and pass those costs on directly to policyholders. Compounding this problem are rating agencies *(e.g. Standard & Poor's, Moody's and Fitch)* that have begun requiring higher capital retention for insurers and reinsurers to maintain their bond ratings. All of these developments have caused capital to "dry up," following hurricane Katrina, meaning higher prices and less availability. However, as we move farther from that event, in the last six months or so there has been a moderate softening of the reinsurance market as more capital has been raised, and it is becoming somewhat more available. This improvement has not had a significant impact on rates at this point.

<u>Current State of the Insurance Market in Coastal Areas</u>

Nationwide, the property and casualty insurance market for individuals and businesses is healthy and competitive. It has been well recorded that despite record catastrophic losses, the industry is also enjoying record profits. However, there are some coastal regions of the country where the insurance market is in crisis, but it is important to note the distinction between coastal states, and coastal regions within those states. Most coastal states, perhaps with the exception of Florida, have a relatively healthy property and casualty market in the vast majority of the state. In Alabama, only 2 of the 67 counties are having insurance issues, and even within those counties, the problems are limited largely to within just a few miles of the coast. In Mississippi, 6 of its 82 counties are directly experiencing problems. Louisiana, which took the brunt of hurricane Katrina, only has experienced trouble in the 24 coastal parishes of its 62 total parishes. These trouble spots are somewhat limited, but they comprise the bulk of the cases we've all heard about on the news, where insurance costs are skyrocketing, building has come to a standstill, and mortgage defaults are on the rise.

A Sampling of the States

Insurance companies are often global enterprises, but in terms of the property insurance market, the policies they sell, how they are underwritten, and how they are priced makes them an acutely local product. It is important to illustrate how the problem of affordability and availability has manifested in various regions of coastal states.

In Connecticut, there is a tightening in the coastal market (which is edging toward nearly a half trillion dollars of exposure) particularly with 1000 feet of the shore. In this area, there are some home owners who can only find coverage through the surplus lines market. Some insurers are also requiring hurricane deductibles and encouraging mitigation efforts, such as storm shutters and roof-strapping. No companies appear to be leaving the coast entirely, though Allstate has announced that they will not write new policies. However, they are maintaining the business they currently have. Smaller mutual companies appear to be more adversely impacted by financial rating agency actions in light of coastal exposure. These smaller mutual companies also tended to react more slowly to changing market conditions following hurricane Andrew in 1992 and appear to have become slightly over-concentrated along the CT shore. In general, rates along the Connecticut coast have increased from 30% to 100%. Connecticut's residual market, the state-run FAIR plan, only allows limited dwelling coverage for fire, but the Department of Insurance has asked that the plan develop a Coastal Market Assistance Program (CMAP), similar to the program in New York, to provide wind coverage as well.

South Carolina has been at the forefront of regulatory modernization and is considered a model regulatory environment by many insurers. The state also adopted the 2003 International Building Codes, and has not had a direct hit from a major hurricane (e.g., Category 3 or better) in nearly two decades. Yet, South Carolina is experiencing many of the same problems that the gulf coast states are experiencing. Shortly after hurricane Katrina, admitted carriers were seeking to increase rates by 100 to 200 percent, decreasing coverage by requiring 5 to 10 percent deductibles, non-renewing long-term policyholders and discontinuing writing new business in certain areas. Surplus lines carriers were increasing rates even more, by as much as 300-400 percent. Condominiums were particularly hard hit as insurers recognized the risk concentration they presented. One development saw its premium increased from $126,000 to $879,000 and it took 5 different insurers to piece together the coverage. Many condominium owners in South Carolina are retirees and senior citizens on fixed incomes so, again, this problem is having a disparate impact on a large segment of the population who don't have many options. South Carolina has implemented many of the measures the insurance industry says need to be in place to create the kind of free-market environment that would enable the private sector to handle this problem, and yet, the state is seeing only scattered relief from the lack of available and affordable property insurance. In South Carolina's coastal counties, the number of policies written by admitted insurers has only increased 3%, while population has grown 9%, building permit activity has increased 27%, and property values have increased 28% since 2000. Like other coastal states, South Carolina also has a wind pool to pick up policies that the private market won't cover. From 2001 through the third quarter of 2006, the written premiums for the Wind Pool increased 88% for residential lines and 448% for commercial lines. In the past several months, however, there are indications that the coastal property insurance market may be improving. Insurers are not reporting the same problems acquiring reinsurance as they did in 2006. Other insurers and producers have indicated that capacity within the reinsurance market has increased and that reinsurers are looking at deploying that increased capacity in the coastal property insurance market in South Carolina and other southeastern states. Additionally, the Wind Pool has reported that it is losing some of the condominiums that it insured in 2006. These condominiums are canceling coverage with the Wind Pool because they are finding better coverage and/or better rates elsewhere. Recently, the Wind Pool indicated that it has had some days with negative written premium. All are indications that there is more capacity within the market.

In Florida, while the number of policies in force actually declined by 0.75%, the amount of insured exposure rose by 17.66% and the aggregate premium paid in the Florida residential market rose by 38.1%. Florida's unique geography is such that the entire state is considered coastal exposure using traditional definitions; the entire state is subject to the risk of hurricane. Over the last year, Florida policyholders have not only seen remarkable rate increases, increases of 200% to 400% are not infrequent, but have also faced growing uncertainty regarding the availability of property insurance at any price. A number of firms, large and small, are retreating from the Florida marketplace. For example, at year end 2005, 122 companies were writing homeowners insurance (with or exclusive of wind coverage). By year end 2006, that number had dropped to 111 companies, a 9.0% decline in the number of carriers. In 2005, the largest 20 insurers wrote 72% of the residential market, by 2006 that concentration had risen to 78%. Reports to date show that trend continuing.

In Massachusetts, rates in the southern coastal communities have risen significantly over the past three years as the companies in that market react to new hurricane models that project substantially higher probable maximum losses in these areas. As such, several companies are requiring wind or hurricane deductibles of up to 5% of insured value. Companies offering coverage in these southern coastal communities have had to buy more reinsurance and more expensive reinsurance in order to maintain their financial ratings. Of the 43,000 policyholders who were non-renewed over the last three year in the Cape Cod and Islands area, the vast majority of those policyholders obtained replacement coverage in the Massachusetts FAIR Plan (the residual market mechanism). The FAIR Plan now represents well over 40% of the homeowners insurance market in the Cape and Islands area at this time.

In Maryland, the property insurance market remains healthy and there is not a lack of insurance availability. However, Allstate announced that it would no longer be writing new homeowners insurance policies in various areas located near water, though this is an improvement compared to states like South Carolina, North Carolina, Texas and New York where Allstate is neither writing new business nor renewing existing accounts. Nationwide is only picking up policies as others accounts do not renew, and State Farm has changed its underwriting guidelines to not write within 2500 feet of the ocean. Two backstops for property insurance availability remain in place should a problem arise: the surplus lines market and the Joint Insurance Association, Maryland's FAIR Plan. Lloyds of London has lowered rates on surplus lines policies and is seeking to attract new business across the shore. No insurance agent has reported consumer or business alarm from the underwriting changes described above. They generally see this as a normal market correction, relative to the problems in other states.

In North Carolina, the coastal market is doing well. Some of this may be due to geography that puts the major urban areas of Charlotte and the research triangle, and therefore the greatest risk concentrations, farther inland than in other coastal states which tend to have the greatest amount of development near the coast. However, the immediate coastal area is still somewhat difficult to insure, and is predominately served by the residual market mechanism called the North Carolina Insurance Underwriting Association (Beach Plan). While not as dramatic as in other regions, recent homeowner's rate increased 15% in 2003, 15% for beach areas and 10% for coastal areas in 2005, and 25% for both beach and coastal areas in 2007.

In Mississippi, the coastal market is having significant problems, particularly right on the beach, where surplus lines companies are virtually the only option for consumers. Rates in the admitted market are increasing about 14% through the whole state, but in some near-coastal areas, particularly south of interstate 10, the rates have gone up roughly anywhere from 20% to 90%. Similarly, the state-run insurer of last resort, or “wind pool”, has seen rates increase nearly 90%, with an initial rate increase request of nearly 400% (a recent infusion of Federal funds has helped to keep the program’s rates from going higher). As larger companies are buying up what little reinsurance capacity there is, the wind pool is finding its reinsurance costs escalating nearly 500%. Since hurricane Katrina, the wind pool has also seen its total insured value climb dramatically from $1.8 billion to roughly $6 billion today. While many insurers have stepped up to serve their customers quickly and fairly (over 90% of claims are settled), a few companies have had serious complaints filed against them, and the state is conducting market conduct exams to look into their business operations. Overall, from September of 2005 through December 2006, the Department’s Consumer Services Division processed over 17,000 complaints and recovered a record amount of $11,536,970 for consumers.

2. Key Affordability/Availability Issues for Consideration

Discrepancy between economic losses and insured losses

There is a growing discrepancy between total economic losses following a catastrophic event, and total insured losses. For example, insurers paid out a record amount for Hurricane Katrina of roughly $40 billion. And yet, the federal government authorized well over $100 billion in additional aid, and roughly $20 billion in additional funding for the flood program. Private insurance covered only one third of the total economic response, with taxpayers covering the remaining seventy percent. When Hurricane Andrew hit, those percentages were effectively reversed, with the majority of losses covered by insurance. Taxpayers across the country are paying for the natural catastrophes that hit this country, and this illustrates the need for a national response to close the gap between insured losses and economic losses.

Wind vs. Water: A Call for All-Perils Coverage

There are many lessons to be learned from hurricane Katrina, but perhaps the greatest insurance lesson we can take from that tragic event is that many consumers are confused about what their property insurance policy covers, and what it does not. Consumers have made it clear that they have an expectation that if they are paying a premium, they want their property to be covered and they don't care what the cause of loss is or what the mechanics of covering that loss is. They simply want to be made whole and begin rebuilding their lives as quickly as possible. As Congress considers its role in our nation's evolving approach to managing natural catastrophes, we think serious consideration should be given to offering consumers what many wrongly expected they already have: an all-perils insurance policy. The offer of a single policy for a single risk-based premium, where the only natural catastrophe-related exclusions are dictated by the consumer, is in the best interest of consumers, maximizes personal responsibility, and eliminates confusion over what is and is not covered.

Anti-Concurrent Cause

Much has been made of the anti-concurrent cause language in a standard property insurance policy. This provision is a direct result of the bifurcated insurance system we have, and was developed by the insurance industry to protect insurance companies from having to pay for losses (in this case, flood losses) which are excluded from coverage and for which they did not collect a premium. It is a provision that frankly had not been tested at the magnitude of a storm like Hurricane Katrina where wind and water losses were so wide spread. Some have suggested that this provision allows companies to avoid paying their obligations of coverage when flood damage is present. This is not the intent of that language, and the vast majority of companies do not distort the provision to shirk their obligations. In Mississippi, for example, where this issue has become the subject of much debate, Commissioner Dale put out a bulletin (attached to this testimony) immediately following hurricane Katrina to all property and casualty insurers instructing them that the burden of proof for determining the cause of loss is on the insurers, not the policyholders. Furthermore, Commissioner Dale advised companies that when there was doubt as to whether damage was caused directly by flood or wind, the insurers were to ere in favor of covering the insured.

Despite this, there have been serious allegations that some companies or adjusters have wrongly denied claims while misconstruing this provision, and they are now being forced to defend that contention to their insurance department or in the courts. The fact that insurers feel compelled to structure their policies to create legal barriers to segregate various perils (with the cost to defend these legal barriers often factored into rates), and those barriers add confusion and uncertainty for policyholder who are now challenging those barriers in courts, begs the question: **Why shouldn't we offer**

consumers an all-perils policy that covers wind and water and eliminates the need for this provision along with any possible distortion or manipulation of its intent?

3. Our Current Insurance System for Natural Catastrophes

As we meet today, the ability of housing markets and local and regional economies to withstand and recover from the next natural catastrophe depends critically on what type of peril creates the disaster, where the disaster occurs, and the severity of the disaster event. The varying types of catastrophic natural disasters are managed very differently within our current insurance framework. This, in turn, can lead to highly different outcomes.

Wind events, including tornados and hurricanes, are considered a basic covered peril in the vast majority of homeowner's insurance policies. Flood, on the other hand, is written only rarely by the private insurance industry for residential property; since 1968 the National Flood Insurance Program (NFIP) has been the public solution to managing this risk. Finally, seismic events, particularly earthquakes, are not considered a standard covered peril, and aside from the California Earthquake Authority (CEA), there is no public mechanism to underwrite the risk; therefore, coverage is restricted to being an optional coverage, where available, in the private insurance market. It also is worth noting that the coverage provided by the CEA is somewhat limited (the standard policy carries a 15 percent deductible and offers $5,000 for contents coverage and $1,500 for additional living expenses due to loss of use).

If the next natural catastrophe is a significant flood event, the ability of the affected areas to recover is going to depend critically on the degree to which affected properties were insured with the NFIP. Unfortunately, recent evidence from 2004 and 2005 suggests that far too many properties damaged by flood were uninsured; either they were outside of the mandatory flood plains as dictated by antiquated maps, or they were in the mandated flood zones but were uninsured anyway. A recent study by the Rand Corporation provides evidence that suggests that the rate of take-up (that is how often the coverage is purchased) outside of the mandated zones is around 5 percent, and the take-up rate in mandated zones is only about 75 percent.

If the next natural catastrophe is an earthquake, the ability of the affected regional economy to recover will depend on the degree of disaster relief that comes from the federal government. The reason is really quite simple: the majority of residential property in earthquake prone areas is not insured for this very real risk. In California, for example, it is estimated that the take-up rate for optional earthquake insurance has fallen to about 12 percent or less. The same take-up rate is frequently suggested to be true in the earthquake prone areas in the Midwest's New Madrid area and along the eastern seaboard's seismically active areas.

As you can see, our current system lacks a comprehensive approach to managing the devastating effects of catastrophic natural disasters. Our current policy is inefficient and discourages personal responsibility and risk avoidance by relying too heavily on the Federal government. For example, the federal government so far has allocated $110 billion to facilitate recovery and rebuilding following hurricane Katrina. As generous and compassionate as the American people are, this current system needs improvement. Although our current reliance on federal payments for large-scale disaster spreads the cost of these events across a broad pool – the American taxpaying public – it does so without the efficiency and risk-based structure of the insurance market.

<u>A Problem Paid for by the Nation is a "National" Problem</u>

One of the arguments against a comprehensive national approach to manage this nation's natural disasters is that people in areas with lower perceived levels of risk do not want their money paying for events in other areas. This argument ignores the reality that, in the context of a major catastrophe, those areas already pay for risk in other areas – in the most ineffective way and with little tangible benefit going forward. Attached to this testimony, you will find some estimates prepared by the Florida Office of Insurance Regulation on the federal tax burden, by state, of the Katrina allocation of $110 billion. This analysis highlights one important truth about the consequences of large-scale natural disasters: they are a national issue rather than local or regional problems. As the estimates show, the Great Lakes and Plains states will contribute, based on their proportionate percentage of individual federal tax filers, approximately $26 billion to Katrina initiatives. These tax dollars are not risk-based, and they leave little legacy that guarantees relief for the next natural catastrophe, regardless of where it strikes. Precious little of the money that we spend collectively on catastrophes is invested in lasting solutions or efforts to limit losses. Our current system is based largely on a post-event reaction. The NAIC believes that a more proactive system, which prepares the public and mitigates the potential for catastrophic damage following such an event, is more practical and less expensive in the long run to both affected individuals and the public at large.

4. Improving Our Natural Catastrophe Approach

Although I believe this Committee should consider all reasonable options, it is important to stress that the solution to handling natural catastrophes, and ensuring a stable insurance market, does not begin or end necessarily with a massive federal program. In its Constitutional powers of taxation and interstate commerce, Congress' powers directly and indirectly affect state insurance markets. The loan conditions put on federal mortgages, the tax treatment of insurance company's reserves, economic incentives for individuals to retrofit their homes, improved building codes, and even upgrading our nation's infrastructure are all areas Congress can address to positively impact the insurance marketplace. In addition to the development of all-perils insurance coverage, the following ideas should also be considered:

<u>Improve Disaster Preparedness and Disaster Response</u>

Disaster planning and disaster response are the very first steps to saving lives and protecting communities. The sad evidence from Hurricane Katrina bears solemn testament to this fact. The recently released study of community disaster preparedness by the Department of Homeland Security (DHS) suggests that there is still much to be done around the country. The report states that the "current catastrophic planning is unsystematic and not linked within a national planning system." It continues that, "this is incompatible with 21st century homeland security challenges," and suggests the need for a "fundamental modernization of our Nation's planning processes." The NAIC has endorsed disaster planning as a top priority and maintains a disaster-preparedness manual for use by all states.

<u>Build Better Homes</u>

Although we cannot stop natural disasters, there are measures that we can take to mitigate damage. The first component of any comprehensive national strategy must be mitigation – meaning preemptive measures taken to reduce or eliminate risk to property from hazards and their effects. In practical terms, this involves toughening building codes for new structures by making them more resistant to hazards such as wind, flood, and earthquakes. It also means stricter state and local guidelines to limit construction in highly hazardous areas.

Mitigate by Improving Infrastructure

Another element of improving the homeowners market is to improve our nation's infrastructure. This includes dikes, levees, tunnels, bridges, solid waste facilities, transportation facilities, and roads. During the Hurricane Katrina tragedy in New Orleans, many structures withstood the initial damage of the storm, only to be destroyed due to the failed levee system. The American Society of Civil Engineers' March 2005 Report Card showed deteriorating conditions in 13 of the 15 infrastructure areas surveyed. In California, low lying areas around the Sacramento and San Joaquin rivers are protected by thousands of miles of earthen levees, many that date to the Gold Rush era. These levees protect a delta that provides freshwater to nearly 25 million Californians. If those levees break, either from disrepair or seismic activity, the consequences could be devastating.

Insurers are factoring in these aspects of infrastructure, and they are becoming reluctant to insure structures in areas with outdated or outmoded infrastructure risks. A commitment to improving our infrastructure, especially as it relates to structures that place homes in greater risk during a catastrophic event, will help prevent or mitigate damages to homes.

Expand and Encourage Insurance Coverage

One of the unfortunate truths revealed after every large-scale natural disaster is that a number of affected citizens did not have insurance in place to protect themselves. As Congress considers the challenges of insuring natural catastrophes, care must be given to ensure that any solution has the ability to encourage participation. Part of this is accomplished through affordability of any insurance solution, but this must be weighed against providing a subsidy that encourages building in risk prone areas or offers post-event assistance that encourages people not to buy insurance to manage their risk.

Natural Catastrophe Reserves

In order to expand the capacity base, both the quantity available and the terms at which coverage is offered, several things can be done. One concept being discussed is to develop a catastrophe reserve for individuals. This has also been articulated as a Catastrophe Savings Account (CSAs). Modeled after the success of the Health Savings Accounts (HSAs), this would allow individuals to set aside money on a yearly basis that would accumulate tax free and that only could be withdrawn for specific purposes, such as paying their hurricane deductible or, perhaps, to take mitigation measures to the homes to lessen hurricane damage. Although originally envisioned for hurricane risk, it is a concept that could be expanded to include all catastrophe risk for homeowners.

Another concept is to amend the IRS tax code to provide incentives for individual insurance companies to set aside reserves for catastrophic losses on a tax-deferred basis. Current tax laws discourage property & casualty insurers from accumulating assets to pay for future catastrophe losses. Payments for catastrophe losses are made from unrestricted policyholder surplus after losses have incurred. Current tax law and accompanying accounting standards require insurers to limit the recording of loss reserves to events which already have occurred, and require the recognition of catastrophe premiums during the periods in which they are written.

Currently, if a company obtains higher than average profits and creates an excess reserve, these reserves would be taxed at an ordinary tax rate, as well as negatively affect future rate requests. These limitations are not necessarily true for alien (overseas) insurers. Some non-U.S. insurers are able to deduct reserves for future catastrophe losses tax-free, which potentially gives them a competitive advantage over their U.S. counterparts. The inability to build catastrophe reserves forces insurers to prepare financially as if they were going to have a major storm in multiple locations every year. This necessitates annual reinsurance purchases with no credit or residual benefit toward next year if no losses occur. Allowing U.S. companies to join those in most other industrialized nations by setting aside tax-deferred reserves specifically for catastrophes, when structured appropriately as not shelter income, could provide additional capacity for the market. Tax-free catastrophe reserves also could help mitigate some of the "boom or bust" cycle in the property insurance market to everyone's benefit.

<u>A National Catastrophe Backstop</u>

For the creation of a federal backstop, a number of innovative ideas have been proposed. One concept is to have the federal government, through the U.S. Treasury Department, implement a reinsurance program to offer reinsurance contracts sold at regional auctions. A variation of this proposal would be to allow private insurers to obtain reinsurance contracts directly from a national backstop. Other proposals would restrict these reinsurance funds to authorized state catastrophe funds, similar to our Florida Catastrophe Fund, or the California Earthquake Authority. More recently, there has been discussion of limiting the role of the federal government to providing "credit lines" to state or regional funds, which would be repaid over an intermediate term after a qualifying event.

Currently, the United States is one of the only industrialized nations in the world not to have a comprehensive catastrophe plan. A multi-layered approach, with the federal government's commitment to reinsure state entities against a mega-catastrophe as its capstone, will proactively help in any catastrophe recovery effort, as well as provide stability in the housing insurance market by allowing state agencies to diversify their risk. Accomplishing this goal likely will lure additional private capital to the insurance market, thereby stimulating more availability, more competition, and ultimately lower premiums.

<u>A Commission Can Focus The Debate</u>

Given the variety and complexity of concepts under consideration, the NAIC strongly endorses the concept of a National Commission on Catastrophe Preparation to weigh the merits of each and develop the best mix of solutions. Clearly, there are a number of forward thinking ideas that require further consideration, but they should be framed to answer the question, "Will this make insurance for individuals and businesses more available and affordable?" State insurance commissioners look forward to working with this Committee to find the right answers to this question.

Thank you for holding this hearing, for inviting the NAIC here today to participate, and for your continued interest and leadership on this crucial issue. I am pleased to answer any questions that you may have.

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Mississippi Insurance Department
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This Office has been working with Mississippi consumers and the insurance industry to ensure that Mississippians impacted by Hurricane Katrina are treated fairly and receive compensation in a timely manner. While a lack of housing, communications and fuel has made it difficult in many cases for adjusters to get with insureds, this situation is improving daily and the claims adjustment process is moving forward.

My Office has been contacted by Mississippians who advise that their adjusters allegedly denied their homeowners' claims without inspecting the damaged property. While there was significant water damage on the Mississippi Gulf Coast, and homeowners' policies offered throughout the United States generally contain a water damage exclusion, an adjuster cannot summarily determine the cause of damage without inspecting the damaged property. Consequently, I am instructing all companies to be aware of these issues and to fully inspect any damaged property before a coverage decision is made.

In some situations, there is either very little or nothing left of the insured structure and it will be a fact issue whether the loss was caused by wind or water. In these situations, the insurance company must be able to clearly demonstrate the cause of the loss. I expect and believe that where there is any doubt, that doubt will be resolved in favor of finding coverage on behalf of the insured. In instances where the insurance company believes the damage was caused by water, I expect the insurance company to be able to prove to this office and the insured that the damage was caused by water and not by wind.

These are very difficult times for our State and region, and I ask that the insurance industry construe coverage issues in a manner that will afford coverage to as many of our citizens as possible. We will continue to work with Mississippi consumers and the insurance industry to ensure that all claims are fairly and promptly processed.

This the 7th day of September, 2005.

Sincerely,

George Dale

GEORGE DALE

Allocating the Federal Cost of Katrina

United States	# of Individual Returns	% of Individual Tax Returns	Tax Burden For Individual Return*	% Share of Total Tax Burden	Gross State Product (GSP)	Tax Burden/ GSP
New England	**6,785,928**	**5.17%**	**$5,684,164,730**	**5.17%**	**$690,689,000,000**	**0.82%**
Connecticut	1,663,080	1.27%	$1,393,062,331		$194,469,000,000	0.72%
Maine	618,210	0.47%	$517,837,424		$45,070,000,000	1.15%
Massachusetts	3,057,144	2.33%	$2,560,786,100		$328,535,000,000	0.78%
New Hampshire	642,173	0.49%	$537,909,792		$55,690,000,000	0.97%
Rhode Island	499,781	0.38%	$418,636,557		$43,791,000,000	0.96%
Vermont	305,540	0.23%	$255,932,526		$23,134,000,000	1.11%
Mideast	**21,820,285**	**16.62%**	**$18,277,543,527**	**16.62%**	**$2,263,452,000,000**	**0.81%**
Delaware	394,909	0.30%	$330,791,575		$54,354,000,000	0.61%
District of Columbia	276,974	0.21%	$232,004,501		$82,777,000,000	0.28%
Maryland	2,630,345	2.00%	$2,203,282,186		$244,899,000,000	0.90%
New Jersey	4,099,869	3.12%	$3,434,214,269		$430,787,000,000	0.80%
New York	8,613,865	6.56%	$7,215,317,879		$963,466,000,000	0.75%
Pennsylvania	5,804,323	4.42%	$4,861,933,118		$487,169,000,000	1.00%
Great Lakes	**21,224,096**	**16.16%**	**$17,778,151,773**	**16.16%**	**$1,836,746,000,000**	**0.97%**
Illinois	5,756,784	4.38%	$4,822,112,550		$560,236,000,000	0.86%
Indiana	2,848,276	2.17%	$2,385,829,909		$238,638,000,000	1.00%
Michigan	4,560,071	3.47%	$3,819,697,872		$377,895,000,000	1.01%
Ohio	5,439,800	4.14%	$4,556,594,072		$442,440,000,000	1.03%
Wisconsin	2,619,165	1.99%	$2,193,917,371		$217,537,000,000	1.01%
Plains	**9,027,463**	**6.87%**	**$7,561,764,107**	**6.87%**	**$794,607,000,000**	**0.95%**
Iowa	1,333,959	1.02%	$1,117,377,417		$114,291,000,000	0.98%
Kansas	1,228,885	0.94%	$1,029,363,231		$105,448,000,000	0.98%
Minnesota	2,405,900	1.83%	$2,015,278,076		$233,292,000,000	0.86%
Missouri	2,583,130	1.97%	$2,163,733,013		$216,069,000,000	1.00%
Nebraska	808,565	0.62%	$677,286,387		$70,263,000,000	0.96%
North Dakota	304,992	0.23%	$255,473,499		$24,178,000,000	1.06%
South Dakota	362,032	0.28%	$303,252,484		$31,066,000,000	0.98%
Southeast	**32,187,001**	**24.51%**	**$26,961,119,518**	**24.51%**	**$2,779,264,000,000**	**0.97%**
Alabama	1,906,296	1.45%	$1,596,789,781		$149,796,000,000	1.07%
Arkansas	1,134,378	0.86%	$950,200,388		$86,802,000,000	1.09%
Florida	8,115,915	6.18%	$6,798,215,041		$674,049,000,000	1.01%
Georgia	3,775,196	2.87%	$3,162,255,177		$364,310,000,000	0.87%
Kentucky	1,755,511	1.34%	$1,470,486,234		$140,359,000,000	1.05%
Louisiana	1,886,871	1.44%	$1,580,518,624		$166,310,000,000	0.95%
Mississippi	1,174,560	0.89%	$983,858,438		$80,197,000,000	1.23%
North Carolina	3,762,836	2.87%	$3,151,901,947		$344,641,000,000	0.91%
South Carolina	1,839,987	1.40%	$1,541,246,711		$139,771,000,000	1.10%

Tennessee	2,603,548	1.98%	$2,180,835,947		$226,502,000,000	0.96%
Virginia	3,484,282	2.65%	$2,918,573,974		$352,745,000,000	0.83%
West Virginia	747,621	0.57%	$626,237,254		$53,782,000,000	1.16%
Southwest	**14,095,441**	**10.73%**	**$11,806,905,199**	**10.73%**	**$1,388,035,000,000**	**0.85%**
Arizona	2,365,284	1.80%	$1,981,256,490		$215,759,000,000	0.92%
New Mexico	824,600	0.63%	$690,717,944		$69,324,000,000	1.00%
Oklahoma	1,474,272	1.12%	$1,234,909,198		$120,549,000,000	1.02%
Texas	9,431,285	7.18%	$7,900,021,567		$982,403,000,000	0.80%
Rocky Mountain	**4,376,074**	**3.33%**	**$3,665,574,625**	**3.33%**	**$410,351,000,000**	**0.89%**
Colorado	2,106,319	1.60%	$1,764,337,047		$216,064,000,000	0.82%
Idaho	592,912	0.45%	$496,646,808		$47,178,000,000	1.05%
Montana	439,213	0.33%	$367,902,377		$29,851,000,000	1.23%
Utah	994,387	0.76%	$832,938,327		$89,836,000,000	0.93%
Wyoming	243,243	0.19%	$203,750,067		$27,422,000,000	0.74%
Far West	**21,805,660**	**16.60%**	**$18,265,293,042**	**16.60%**	**$2,239,824,000,000**	**0.82%**
Alaska	344,971	0.26%	$288,961,508		$39,872,000,000	0.72%
California	15,311,402	11.66%	$12,825,442,771		$1,621,843,000,000	0.79%
Hawaii	604,667	0.46%	$506,493,266		$53,710,000,000	0.94%
Nevada	1,088,156	0.83%	$911,482,992		$110,546,000,000	0.82%
Oregon	1,602,105	1.22%	$1,341,987,232		$145,351,000,000	0.92%
Washington	2,854,359	2.17%	$2,390,925,273		$268,502,000,000	0.89%
	131,321,948	1	$110,000,516,523	100.00 %	12,402,968,000,000	0

Region	# of Individual Returns	% of Individual Tax Returns	Tax Burden	% share of total Tax Burden	GSP	Tx Burden/ GSP
Southeast	**32,187,001**	**24.51%**	**$26,961,119,518**	**24.51%**	**$2,779,264,000,000**	**0.97%**
Plains	**9,027,463**	**6.87%**	**$7,561,764,107**	**6.87%**	**$794,607,000,000**	**0.95%**
New England	**6,785,928**	**5.17%**	**$5,684,164,730**	**5.17%**	**$690,689,000,000**	**0.82%**
Far West	**21,805,660**	**16.60%**	**$18,265,293,042**	**16.60%**	**$2,239,824,000,000**	**0.82%**
Great Lakes	**21,224,096**	**16.16%**	**$17,778,151,773**	**16.16%**	**$1,836,746,000,000**	**0.97%**
Rocky Mountain	**4,376,074**	**3.33%**	**$3,665,574,625**	**3.33%**	**$410,351,000,000**	**0.89%**
Mideast	**21,820,285**	**16.62%**	**$18,277,543,527**	**16.62%**	**$2,263,452,000,000**	**0.81%**
Southwest	**14,095,441**	**10.73%**	**$11,806,905,199**	**10.73%**	**$1,388,035,000,000**	**0.85%**

* - Individual Tax Return burden = $110,000,000 authorized divided by 131,321,948 tax returns filed in 2005

Data: Bureau of Economic Analysis, Internal Revenue Service, 2005 (latest data available)