



**REINSURANCE ASSOCIATION OF AMERICA**

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March 8, 2010

Honorable Barney Frank  
Chairman  
Honorable Spencer Bachus  
Ranking Minority Member  
Committee on Financial Services  
U.S. House of Representatives  
Washington, DC 20515

Dear Chairman Frank and Ranking Member Bachus:

We understand that the House Financial Services Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises and the Subcommittee on Housing and Community Opportunity will soon be considering the Homeowners' Protection Act of 2009 (HR 2555). We believe the proposed legislation is ill advised and unwarranted.

Although this Committee approved natural catastrophe funding legislation sponsored in the last Congress, it is important to note that H.R. 2555 is a very different bill. Under the terms of the proposed legislation, the Federal government would guarantee municipal obligations of state sponsored and quasi-state sponsored municipal bonds and, for the first time, create a federal reinsurance program which would engage directly in offering reinsurance for insured properties.

The legislation is primarily designed to address the underfunded state insurance facilities in Florida. Additionally, it encourages other states to change from pre-funding their insured property catastrophe exposure through insurance premiums and assessments on insurers (such as the California Earthquake Authority) to a reliance on post-event funding with federal guarantees of debt issuances. This is certain to add billions of dollars to the federal deficit. For example, the Florida Hurricane Catastrophe Fund has approximately \$4.5 billion in cash, \$3 billion in outstanding loans and total statutory obligations of \$26 billion. Florida Citizens, the state insurer, has \$4 billion in surplus, \$17 billion in claims paying capacity (including \$10 billion recoveries from the Florida Catastrophe Fund) and \$410 billion in insured exposures. The California Earthquake Authority has approximately \$10 billion in claims paying capacity and \$277 billion in insured exposures.

The private reinsurance market has demonstrated that it can serve property catastrophe insurance markets under the most extreme scenarios. In 2005, Hurricanes Katrina, Wilma and Rita caused \$72.7 billion of insured losses of which 61 % were ultimately

paid by the global reinsurance market. In 2001, the events of 9/11 caused \$32 billion in insured losses of which the reinsurance market paid two thirds. In addition to its dependability in paying its claims, the added value of relying on the private market is that, unlike public insurance programs, it prices for catastrophe risk. This ensures that recovery by homeowners and businesses from extreme events are pre-funded and that resources are set aside to meet obligations when they occur. As with Florida, where both the state's insurance program, Citizens, and the state reinsurance facility are underfunded, intentionally underpriced and dependent already on debt, the Federal government has seen what happens with government programs that unrealistically price risk. The National Flood Insurance Program is \$20 billion in debt as a result of the same extreme weather events where the insurance industry paid \$72 billion of losses without notable insurer failures.

HR 2555 marks an extraordinary departure in Federal policy. By providing special interest federal guarantees to a small number of underfunded state insurance programs, the legislation would provide a preference over the municipal obligations of all other entities for which the Federal government provides no current bond guarantees: cities, states, quasi- governmental entities such as water districts and highways, and private institutions such as hospitals and universities.

No valid Federal policy goal is achieved by giving a few state insurance funds this priority. In fact, the states most likely to rely on these federal guarantees (California and Florida) do not themselves guarantee, backup with state full faith and credit or provide funding for their own state insurance programs. Yet, they would offload the insured risk of their state sponsored entities on to Federal taxpayers through the proposed reinsurance program and bond guarantees.

Proponents routinely argue that the Federal government is already committed to support citizens after a natural catastrophe. Indeed, the federal government has been generous in these moments. However, the proposed legislation would do little, if anything, to relieve the government of its post disaster role. HR 2555 would only provide financial support for insured losses through state sponsored insurance programs. It would not address the vast bulk of federal spending post-event for emergency relief, such as temporary housing, evacuations, and Defense Department support. That obligation would continue without diminution as a result of HR 2555 which would only add to emergency federal spending when such natural catastrophes occur.

HR 2555 provides a reward for state sponsored insurance programs which have failed to adequately collect premiums for their insured property risk for natural catastrophes. It incentivizes other states to replicate this approach. By doing so it would expose the Federal government to financially support states which would "game" the system to transfer the cost of natural disaster insurance to Federal taxpayers instead of funding catastrophe risk by those living in risk prone areas.

The private reinsurance market continues to offer robust capacity for property catastrophe risk. HR 2555 would shift the risk of loss from the private sector to the federal

government, thus exposing federal taxpayers to the parochial prerogatives of state insurance programs. We urge you to reject the proposed legislation.

Sincerely,

Cc: Members of the House Financial Services Committee