



April 21, 2010

The Honorable Barney Frank
Chairman
Financial Services Committee
U.S. House of Representatives
Washington, DC 20515

The Honorable Spencer Bachus
Ranking Member
Financial Services Committee
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Frank and Representative Bachus:

On behalf of the undersigned associations, we are writing to express our opposition to “The Multiple Peril Insurance Act” (H.R.1246), offered by Rep. Gene Taylor (D-MS), that would add the peril of windstorm to the National Flood Insurance Program (NFIP).

H.R. 1246 has the potential to dramatically increase the exposure of the NFIP and the federal government to catastrophic losses. The states along the Gulf coast and eastern seaboard contain more than \$19 trillion in insured property values. The majority of these risks are currently insured in the private marketplace or in state residual market programs where the private insurance industry shares in any losses. Moving significant numbers of these properties from the private insurance marketplace to the NFIP could markedly increase the exposure of loss to the federal government and, despite the provision that calls for “actuarially sound” rates for the windstorm portion of this coverage, the potential for a significant tax-payer subsidy. A GAO study of the proposal concluded that although the bill “requires premium rates be determined on an actuarial basis—that is, adequate to cover expected costs—estimating future losses is challenging and the potential exists for losses to exceed expectations by a large amount even if the rates are actuarially based.” The report goes on to say that “[i]f losses for a combined flood and wind program did exceed the premiums collected by the program, FEMA would be forced to borrow from the Treasury to pay those losses, potentially adding to FEMA’s total debt.”

The policyholders most likely to buy this new federal coverage would be those living in areas that are highly exposed to wind damage, creating adverse selection. The amount of “multiple-peril” insurance that the NFIP would sell cannot accurately be determined at this time; thus, determining the un-subsidized premium for such coverage would be, even using the best actuarial science, a guess. Nonetheless, significantly increasing the potential losses of the NFIP under such legislation comes at a time when the NFIP is already more than \$18 billion in debt.

In summary, passage of H.R. 1246 would create a massive and unnecessary new federal program that would likely incur enormous deficits following a hurricane of any

significance. Nationalizing wind coverage under the NFIP, as this bill proposes, will not resolve “wind versus water” disputes following a hurricane, and would do little to facilitate the resolution of these claims. It also would subject the federal government to a huge and potentially under-funded liability for hurricane wind damage.

We urge you to oppose H.R. 1246 and also oppose it being added to any other piece of legislation.

Respectfully,

American Insurance Association
The Financial Services Roundtable
National Association of Mutual Insurance Companies
Property Casualty Insurers Association of America
Reinsurance Association of America

cc:

Members of the House Financial Services Committee

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