Consumer Federation of America

FOR IMMEDIATE RELEASE:
November 15, 2005

CONTACT:
J. Robert Hunter, 703-528-0062

PRESSURE BUILDING ON CONGRESS TO ESTABLISH TAXPAYER-FUNDED CATASTROPHE INSURANCE PROGRAM

--CFA Offers Key Principles to Protect Consumers and Taxpayers --

Washington, D.C. -- As pressure increases on Congress to establish federal back up for insurance losses due to large natural disasters, the Consumer Federation of America (CFA) today released several standards it has developed to protect taxpayers and consumers. (These standards can be found at http://www.consumerfed.org/pdfs/Disaster_Insurance_Principles_111505.pdf).

In the wake of a second heavy hurricane season in a row, state officials, federal lawmakers and prominent insurers are calling on Congress to set up a disaster insurance program. State insurance commissioners today opened a "national summit" on catastrophe insurance in San Francisco. Disaster insurance legislation has already been introduced in the U.S. House of Representatives. Allstate Insurance Company began running national advertisements last week calling for the creation of federally supported catastrophe insurance funds.

"The federal government does not have a good record of setting up insurance programs that are well-run, so Congress needs to be very cautious when considering another plan to back up the insurance industry," said J. Robert Hunter, CFA's Director of Insurance and a former Texas Insurance Commissioner and Federal Insurance Administrator. "The risk to taxpayers under such a program is that it will unjustifiably subsidize the insurance industry or encourage faulty construction in areas at high risk for natural disasters," he said.

Hunter pointed out that Congress has held hearings examining the failures of the National Flood Insurance Program in the wake of Hurricane Katrina and is considering scaling back the Terrorism Risk Insurance Act (TRIA) or allowing it to expire at the end of the year.

"Congress should determine why the National Flood Insurance Program has failed to cover most properties in flood zones and has subsidized unwise construction before it sets up another program," said Hunter. "TRIA is also under the Congressional microscope right now because it has provided rich insurance companies with almost $3 billion in free reinsurance," he said.

If Congress does consider a federal role in paying for losses for other catastrophes, such as earthquakes and hurricanes, CFA offered several principles that should be used to measure whether such proposals are worthwhile.

-MORE-

- **Loss of life and property must be reduced** by prohibiting construction in ultra-high-risk zones and limiting it in high-risk zones.

- **Insurance rates for new construction must not be subsidized**. Insurers must charge full actuarial rates for insurance for new construction. Builders must be required to secure insurance on newly built properties for the first five years and include the insurance cost in the selling price of the property.

- **Insurance rates for ongoing construction must not be subsidized**. Insurers must charge full actuarial rates for insurance for ongoing construction. These rates should be disclosed at the time of the sale so that people buying buildings in high-risk zones have fair warning.

- **Insurers must offer homeowners and small businesses coverage** if those they are insuring meet national "mitigation" standards to reduce future losses.

- **Insurers must adjust rates to fully reflect any government payments they receive**.

- **Private sector participation must be maximized**. In the initial year, the insurance industry should be responsible for the first $100 billion of damage from disasters. This deductible shall be indexed to property values nationally.

- **Federal, state and local governments should assume some financial risk**. Local governments should pay for 5 percent of losses above the $100 billion insurance industry deductible. States should cover 10 percent of losses, and the federal government should pay for all additional claims.

- **Government at all levels should carefully regulate the program.** Local governments must rigorously enforce federally developed building standards, subject to state audit and review by the General Accounting Office (GAO). State officials must grant prior approval to insurance rates to assure policyholders that rates are not excessive. This will also assure the insurance industry, taxpayers and mitigation experts that rates are not too low, which would create an incentive for unwise construction. California's excellent regulatory standards adopted under "Proposition 103" should be used for this purpose. GAO should monitor state regulatory efforts to ensure that rates are neither excessive nor inadequate.

"Tough standards like these will require all interested parties to give up something, including consumers, property owners, insurers, developers and governments," said Hunter. "It will also be important to protect low and moderate income consumers, perhaps by phasing in requirements to purchase insurance or by providing short term subsidies for insurance costs," he said.

CFA is a non-profit association of 300 organizations that, since 1968, has sought to advance the consumer interest through research, advocacy and education.

-30-