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Insurers Join Governors in Seeking Long-term Solutions for Emergency Preparedness and Catastrophe Insurance

BILOXI, MS. – As the peak of the 2009 hurricane season approaches, the Property Casualty Insurers Association of America (PCI) joins the nation's governors to address emergency preparedness and catastrophe insurance at the 101st Annual Meeting of the National Governors Association (NGA) on the Mississippi Gulf Coast.

"PCI applauds Governor Haley Barbour and the NGA for making emergency preparedness a top priority at this year's annual meeting," said David Sampson, president and chief executive officer for PCI. "Balanced insurance public policy at both the federal and state level is critical for natural disaster preparation and recovery. The insurance industry is financially strong and prepared for hurricane season. But we must together begin preparing and building the capacity of the market to pay for losses the nation will face in the future."

Experts agree that America faces the prospect of more frequent and severe natural disasters in the coming decade. "This increasing exposure to natural disasters is exacerbated by the dramatic increase in population growth and real estate prices in the most disaster-prone areas," said Sampson. Over the past few years, homeowners insurance markets have been tested as never before. Catastrophe losses in 2005 totaled almost \$62 billion, nearly doubling the previous record losses in 2001. The 2008 hurricane season produced an estimated \$11 billion in insured losses.

"Property casualty insurers are ready to help shape solutions that address the needs of consumers, insurers, and government," said Sampson. "We must work together to strengthen homes and businesses, keep families safe and rebuild our communities should a disaster strike." On the eve of the NGA meeting, PCI urges governors and insurers together to address the following fundamental issues as integral components to protecting our nation:

Reduce Exposure to Catastrophe Losses: "State and local governments should enact and enforce responsible building codes and discourage irresponsible development in unsafe areas through better land use regulation," said Sampson. PCI supports stronger building codes as one of the most effective ways to prevent storm damage and urges states to improve outdated and inconsistent requirements for building codes and code enforcement.

"Taking proactive steps to build stronger homes and harden existing homes through mitigation not only protects our loved ones and most valuable assets, it directly helps strengthen our property insurance market on both the state and federal level," said Sampson. "We cannot control the frequency or severity of a storm, but we can control how our homes are built. The storm-proofing of structures is the most effective way to reduce the costs of homeowners insurance and bring long-term stability to the property insurance market."

Lawmakers in South Carolina have taken innovative steps toward reducing exposure to catastrophe loss. In 2007, South Carolina implemented consumer tax credits for retrofitting and mitigation measures taken to strengthen

their homes, tax deductible savings accounts to help consumers pay for hurricane losses, and a grant program to assist homeowners in strengthening their homes to better withstand the devastating effects of a major storm.

Fix the National Flood Insurance Program: Congress can help ensure that the public is prepared for storm damage by reauthorizing the National Flood Insurance Program (NFIP). “We believe that reforms to the National Flood Insurance Program are needed to provide better coverage to consumers, generate more participation from consumers in flood-prone areas, and enhance mitigation efforts to reduce or eliminate repeat losses on the same properties,” said Sampson. “The NFIP is critically important to Americans and the U.S. economy, and we urge Congress to make the necessary reforms to meet the needs of individuals and businesses across the country.”

State and Federal Government Involvement: “Current debate in Congress as well as recent legislative action in Florida, North Carolina and Texas have highlighted the need for government to also be prepared through balanced insurance policy,” said Sampson. “PCI believes there is a role, properly structured, for government and insurers to work together to protect consumers.”

Many states along the Gulf and Atlantic coastlines have residual insurance markets for high risk home and business owners along the coast. These state-run property insurance providers play an important role in these markets. But experience in some states show that there are dangerous and costly results when a state-backed coastal insurer is underfunded and unprepared for a catastrophic risk. Lawmakers and regulators in Mississippi, Louisiana, and South Carolina have implemented responsible strategies that encourage private capital to insure the state through balanced coastal policies and the promotion of stronger homes through mitigation. “PCI supports state policymakers in reducing the size of coastal residual markets to spread financial risk to the private market and better protect homeowners,” said Sampson.

This year, Florida lawmakers took positive steps toward reducing their potential for a massive insolvency of the state-run Citizens Property Insurance Corporation as well as starting to reduce the exposure of the Florida Hurricane Catastrophe Fund. However, while Florida consumers are still significantly at risk if a major hurricane strikes this year, PCI is pleased that state leaders have realized the enormous financial risks that their constituents face and have started to take steps to rectify the situation.

Texas residents and lawmakers have similarly looked at ways to manage the state’s hurricane risks and reduce the unlimited exposure to the industry from the Texas Windstorm Insurance Association (TWIA) as well as the potential tax revenue loss as they pick up the pieces following a painful 2008 hurricane season with Ike and Dolly. This year, the Legislature championed important reforms to TWIA that will reduce the public footprint and encourage more private sector capacity and competition to return.

One of the last states to address an underfunded state coastal insurance system is North Carolina. State lawmakers are currently looking to reform the North Carolina Joint Underwriting Association, known as the Beach Plan before the 2009 Legislative Session adjourns. “PCI supports reform of the Beach Plan as a key step to assuring that the North Carolina insurance market is prepared to respond to a hurricane and to assure market stability for policyholders statewide,” said Sampson. A major hurricane hitting the state could leave a \$6 billion hole and bankrupt the state insurance company and lead to massive assessments (there is currently no cap) for insurers. This is a statewide problem and PCI has led the industry in seeking reforms to protect consumers.

“Insurers remain committed to preparation, protection and recovery as the nation enters the peak of hurricane season and debates catastrophe insurance at the federal and state level,” said Sampson. “Our goal is to clarify and formalize the role of private insurers and the government so that families, homes and businesses are protected and disaster victims obtain relief following a tragic event. We must also ensure a financially sound method of funding catastrophe losses without unfairly burdening insurance policyholders and taxpayers who are less prone to large scale natural disasters.”

PCI is composed of more than 1,000 member companies, representing the broadest cross-section of insurers of any national trade association. PCI members write over \$176 billion in annual premium, 36 percent of the nation’s property/casualty insurance. Member companies write 43.8 percent of the U.S. automobile insurance market, 29.6 percent of the homeowners market, 32.8 percent of the commercial property and liability market, and 38.4 percent of the private workers compensation market.

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