



Property Casualty Insurers  
Association of America  

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Shaping the Future of American Insurance

**Testimony  
Property Casualty Insurers Association of America (PCI)**

**Approaches to Mitigating and Managing Natural Catastrophe Risk:  
H.R. 2555, the "Homeowners Insurance Defense Act of 2009"**

**The Subcommittee on Housing and Community Opportunity and the Subcommittee on  
Capital Markets, Insurance, and Government Sponsored Enterprises  
Committee on Financial Services  
United States House of Representatives  
March 10, 2010**

The Property Casualty Insurers Association of America (PCI) is pleased to offer testimony on H.R. 2555, the Homeowners Insurance Defense Act of 2009. PCI is the leading property-casualty trade association representing more than 1,000 insurers, the broadest cross-section of insurers of any national trade association. Our members are leading providers of home, auto and business insurance.

Over the years, the Congress and states have considered various solutions to the issue of availability and affordability of natural catastrophe insurance. Most are premised on the idea that natural catastrophe insurance is one monolithic problem that needs a monolithic government solution. PCI invites the sub-committee to look at natural catastrophe insurance issues from a different perspective. There are a number of discrete issues that collectively contribute to availability and affordability issues. By carefully focusing on those specific problems, most of which have more easily achievable targeted solutions, PCI believes that Congress and the states can take a series of positive steps to minimize the economic and market impact of homeowners insurance premiums in high-risk areas and ease burdens on those who can least afford to bear those high risk costs. Our Natural Catastrophe Guidebook, attached to this testimony, discusses these more discrete solutions that would reduce losses, ensure a competitive marketplace and result in limited additional federal exposure. A healthy market where government tools are used effectively to solve problems and create desired behaviors benefits everyone. We would be happy to discuss our suggested tools with you in greater detail as part of our continuing constructive engagement on this important issue.

PCI shares the concerns expressed by taxpayer, environmental, and other groups. The bill would broadly shift taxpayer resources from the entire country to benefit specific catastrophe-prone areas through the proposed federally subsidized bond guarantees and the reinsurance catastrophe fund provisions. That approach is costly to all taxpayers, and threatens to displace the private market. Moreover, by providing government subsidies to artificially suppress costs for coastal properties, the bill fosters significant moral hazards that encourage building and development in

high-risk and environmentally sensitive areas. (The record of the National Flood Insurance Program, which has incurred huge debt and encouraged construction in flood-prone areas, suggests that lawmakers should tread cautiously when considering a new government catastrophe insurance program.)

To achieve a meaningful consensus on natural catastrophe insurance, policymakers must identify approaches that address real world needs while avoiding politically tempting approaches that deny the laws of economics. While there is no magic solution to bring insurance premiums down in catastrophe-prone areas, affordability is a particular concern for some lower-income individuals and fixed-income seniors in primary residences. Government subsidies (e.g., tax credits to offset premium costs) can be narrowly targeted to provide assistance where it is needed most.

Price volatility is another specific concern, but that can be partly tempered through changes in the tax codes. Mitigation can be encouraged through a carrot-and-stick regulatory approach. Responsible land use and construction of stronger homes and businesses are key components of any effort to address natural catastrophes. According to the 2007 Congressional Budget Office report on projects funded through the Pre-Disaster Mitigation program, for every \$1 spent to mitigate loss, \$3 was saved in post-event spending. The differing impacts of recent earthquakes in Haiti and Chile have demonstrated that mitigation not only works, it saves lives. The earthquake in Chile registered an 8.8 magnitude and ranks as the world's fifth largest earthquake on record. While 720 people lost their lives, countless others were saved due to strong building codes. The Haiti earthquake, by comparison, registered 7.0 but claimed more than 200,000 lives.

Our Guidebook includes specific targeted solutions for particular types of risk (earthquake, hurricane, wildfire, etc.) and locations (along the coast, inland, near a fault, etc.). Specifically, the Guidebook provides suggestions on how policymakers can encourage mitigation, by: limiting development in risky areas, providing Federal grants to assist state mitigation programs, or considering sales tax relief on the purchase of mitigation supplies. These are just some of the many positive steps that government can take at the federal, state and local levels.

Risk has a cost! There is no getting around it. That's why properties in catastrophe-prone areas are costly to insure. But there are responsible ways to mitigate those costs, especially for those who can least afford them. We believe that practical solutions like those we have suggested would minimize the economic and market impact on high-risk areas and ease the burden without further government intrusion into the private sector. Those practical solutions are much preferable

to the approach taken in H.R. 2555, which would unfairly shift the risk costs in catastrophe-prone areas to all taxpayers and create potential moral hazards that encourage over-building in risky and environmentally sensitive areas. We commend our Guidebook to you, and invite you to consider catastrophe insurance in a new and different way, focusing on discrete needs and targeted solutions rather than overarching federal government subsidies. We welcome the opportunity to discuss our proposals in greater detail and we look forward to working constructively with the subcommittee as it considers the critical need for a well functioning private natural catastrophe insurance market for consumers.