

December 4, 2008

The Honorable Kevin McCarty
Chair, NAIC Catastrophe Insurance Working Group
Florida Office of Insurance Regulation
Larson Building
200 East Gaines Street, Room 101A
Tallahassee, FL 32399

Re: NAIC White Paper - Natural Catastrophe Risk: Creating a Comprehensive National Plan

Dear Chairman McCarty and Members of the Catastrophe Insurance Working Group:

On behalf of the National Wildlife Federation I am writing to express our major concerns regarding the proposed NAIC White Paper: "Natural Catastrophe Risk: Creating A Comprehensive National Plan," and I would ask that the Working Group and the NAIC delay consideration of passage of the White Paper until substantial revisions are made. For over 20 years the National Wildlife Federation and the environmental community has worked to promote change, particularly in the flood insurance arena, to reduce governmental subsidies and incentives that have promoted increasing development and redevelopment of environmentally-sensitive coastal and floodplain areas and fragile wetlands. We strongly support reforms that promote ecologically-sound governmental management to reduce loss of human life, property, and that protect and restore important natural resources and wildlife habitat.

We applaud members of the Working Group for raising the awareness of the increasing risks associated with coastal storms, which are predicted to become more powerful and of longer duration, due to rising sea levels and warming of the climate. We believe we are experiencing the impacts of global warming now. The April, 2007, Intergovernmental Panel on Climate Change (IPCC) report found that global warming will result in more flooding of coastal and riverine communities through intense hurricanes, reduced snow pack, and sea level rise. The report warned that increasing human-induced development pressures on coastal areas will exacerbate and increase the adverse impacts of global warming. Hurricanes Katrina and Ike show the need for us to address the potential for larger, catastrophic global warming-related storm events to better protect our citizens from their impacts, and where possible, locate new development away from coastal and floodprone areas.

The NAIC White Paper under discussion proposes the creation of a federal reinsurance mechanism that would provide guaranteed lending or reinsurance to state or regional catastrophe funds. **The National Wildlife Federation would oppose the creation of this new federal program and its inclusion in the White Paper as a recommendation.** A new federal program

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that adds taxpayer-subsidized wind insurance or reinsurance will subsidize even more development in hazard-prone and ecologically sensitive coastal areas and floodplains.

Even though the proposed White Paper refers to the federal reinsurance program as “risk based,” one only has to look at the National Flood Insurance Program (NFIP), the Florida Hurricane Catastrophe Fund (Cat Fund), and Florida’s Citizens Property Insurance Corporation (Citizens) to see how public officials inevitably have re-defined the usual meaning of “actuarially sound” and “risk based” when applied to government insurance programs.

The NFIP provides a powerful example that government insurance rarely provides true market rates for high risk insurance, and shows how government backstops can promote and support dangerous development. For instance, nearly 25 percent of the policyholders insured by the NFIP are paying less than half (approximately 40 percent) of what they would pay with private, risk-based premiums. This subsidy, in part, accounts for the nearly \$18 billion deficit the NFIP is currently running, and which deficit is likely to increase when claims from Hurricane Ike are finally received and tabulated. Similarly, it is our understanding that the Florida Hurricane Catastrophe Fund charges artificially low initial premiums for its reinsurance for homeowners’ insurance because it relies on post-event deficit financing to meet its obligations, and would impose the state’s taxing power on many entities that would not otherwise have responsibility for the highest-risk development. In addition, with most of its policies on the coast, Florida Citizens’ rates are frozen at an actuarially unsound rates. If Citizens should have a deficit, it would also tax insurance for businesses, non-profits, and motor vehicles to subsidize its own policyholders.

All three of these government insurance programs dramatically illustrate how the efforts of public officials - with the best of intentions – have resulted in subsidies and incentives for development on the coasts and in floodplains. **Public subsidies and cross-subsidies in insurance lead to inappropriate economic and political decisions by homeowners and public officials. We have seen decisions regarding land use, building codes, disaster preparation, and loss reduction being significantly negatively impacted by these subsidies.**

The proposed NAIC White Paper also contemplates an all-perils homeowners’ insurance policy which combines federal flood insurance with the current coverages of homeowners’ insurance. **The National Wildlife Federation would oppose this provision because the additional coverage will likely result in the subsidization of more risky developments in coastal areas and floodplains, and ultimately cost the taxpayers billions.**

We strongly support the NAIC’s efforts to focus on important mitigation recommendations and we would encourage the NAIC’s Committee to refocus this paper on priority mitigation projects and programs. We would gladly support that effort, but we could not support the paper as currently drafted. The National Wildlife Federation stands ready to work with the NAIC to improve the proposed White Paper, and we sincerely appreciate the opportunity to express our views.

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Most Sincerely,

David R. Conrad
Senior Water Resources Specialist