

**2006 Amended Resolution in Support of a Comprehensive
Legislative Solution To The Problems Presented by
Natural Catastrophic Exposures
For the Benefit of All Americans
May 30, 2006**

WHEREAS, the National Association of Insurance Commissioners, by Resolution passed in 1995 and reaffirmed in December 2005, recognized the importance of developing additional insurance capacity to insure the viability of coverage for catastrophic natural perils by endorsing the concept of a national disaster plan; and

WHEREAS, the National Association of Insurance Commissioners has recognized the implementation of a national natural disaster plan in response to catastrophic natural disasters by continuing the charge of the Catastrophe Insurance Working Group of the Property and Casualty Insurance (C) Committee, and consistent with guiding principles previously established and endorsed by the NAIC, and

WHEREAS, the United States continues to experience growth and development in catastrophe-prone areas, particularly along America's coasts and near known earthquake faults; and

WHEREAS, meteorologists predict more frequent and more powerful hurricanes in the future, and geoscientists are discovering the existence of dangerous "blind" thrust faults in populated regions; and

WHEREAS, the growing threat of extreme losses caused by natural disasters is causing a shortage in private homeowners insurance coverage and a serious increase in insurance premiums in areas exposed to natural catastrophes; and

WHEREAS, the lack of private insurance coverage and higher insurance premiums deprive Americans of adequate protection for their most valued and prized possession – their homes; and

WHEREAS, the lack of catastrophic insurance coverage in many federally guaranteed residential mortgages represents a potential systemic risk to the financial system;

WHEREAS, the lack of adequate and sufficient insurance protection places greater pressure on both the state and federal governments to assist the victims of natural catastrophes; and

WHEREAS, in the intervening years no comprehensive national natural disaster plan has yet been implemented and if nothing is done, society as a whole, and the taxpayer in particular, faces potentially much larger burdens for future disaster relief and payments under federal mortgage loan guaranty programs;

NOW THEREFORE IT IS RESOLVED, in order to better protect America's homes in an economical and efficient manner and to reduce the demands for financial assistance from the state and federal governments that depend on general revenue sources for extreme losses caused by natural catastrophes, the National Association of Insurance Commissioners (NAIC) hereby urges Congress to create a Federal Natural Catastrophe Preparedness Commission to hold in-depth

hearings. The hearings should consider the feasibility of adopting measures that, among other things, would:

- (1) Create strong incentives for states to adopt internationally recognized, risk-based building codes that will save lives and reduce potential losses for new homes and buildings;
- (2) Create incentives for affordable and effective catastrophe loss mitigation efforts, including retro-fitting of existing properties, to make existing housing stock stronger and safer. Consideration should be given for the federal government to work with state insurance regulatory leaders, consumers and other related or interested industries including, but not limited to; mortgage lenders, contractors, real estate developers, taxing authorities and federal, state and local emergency or catastrophe relief programs;
- (3) Encourage states – *but not mandate them* - to establish privately funded, tax-exempt entities, called “catastrophe funds,” through which private insurance companies can have money set aside for covered losses, tax-free and before a natural disaster occurs;
- (4) Allow individual insurance companies the ability to accumulate reserves on a tax-deferred basis to respond to natural disasters;
- (5) Allow the state catastrophe funds *to purchase* high levels of protection from the federal government for *extreme events*, with the price for such protection being actuarially sound and reflective of the difference of risk among the participating state funds;
- (6) Create a framework that builds upon and enhances the best practices and expertise of the system of state based regulation and encourages (i) greater preparedness before catastrophes strike, including recommendations for limitations on development in areas where the risk of loss is heightened due to natural catastrophes, (ii) prompt community redevelopment after a catastrophe to ensure the recovery of the local economy and continued payment of mortgages; and (iii) continuous oversight, evaluation and improvement in the operation, administration and integration of local, state and national systems of preparedness and protection;
- (7) Establish a Federal Reinsurance Program under the direction of the newly established Federal Natural Catastrophe Commission that will determine eligibility for the program, pricing the reinsurance contracts and supporting mitigation efforts;
- (8) Evaluate the ability of the insurance industry to provide coverage for the various types of catastrophic events and ways in which state and possible federal catastrophic programs may impact the utilization of insurance industry capacity;
- (9) Evaluate whether a national backstop for mega-catastrophes might attract more insurance capital, thus increasing competition and resulting in a more affordable cost of property coverage in catastrophe prone areas in the United States;

FURTHER RESOLVED, the NAIC pledges its resources and expertise to assist Congress in the drafting of legislation that will help Americans find private insurance protection from natural

catastrophes for their homes while reducing the demands on governmental resources to assist victims after an event occurs.