

Guiding Principles for Consideration of Federal Catastrophe Insurance.

Adopted by  
Catastrophe Insurance Working Group  
of the Property and Casualty Insurance (C) Committee  
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1. Legislation should recognize the important role played by the states in insurance regulation with respect to such areas as licensing insurers, solvency surveillance, approving rates and forms, licensing agents, assisting consumers during the claim settlement process and performing market conduct examinations.
2. There should be a reasonable coordination and structuring of state and federal regulatory responsibilities with respect to a federal disaster insurance program that achieves the objectives of the program without unnecessarily compromising or preempting state regulatory authority and consumer protection. Necessary preemption of or limits on state regulatory authority should be compensated by requisite federal oversight. There also should be an appropriate balance of different private and public interests in the governance of and regulatory oversight over the program.
3. Legislation should recognize that many catastrophe exposures subject insurers to potential adverse selection as persons with less catastrophe risk are less likely to voluntarily purchase coverage, while those persons with greater risk are more likely to purchase coverage. If legislation were to create a government primary program, the program should encourage the inclusion of both low-risk and high-risk insureds to promote greater risk spreading in a way that does not subject individual risk-bearing entities to adverse selection.
4. Legislation should promote or encourage that coverage is available to any property that meets reasonable standards of insurability.
5. Legislation should supplement but not replace other private and public insurance mechanisms where those mechanisms can provide coverage more efficiently.
6. Rates for the catastrophe peril should be actuarially sound and should consider all reasonable factors that can be feasibly measured and supported by theoretical and empirical analysis.
7. State residual market mechanisms and other pooling mechanisms for property insurance should be allowed to participate in the entity established by legislation to provide catastrophe insurance, in such a way as to not create incentives for business to be placed in the residual market.
8. If a program includes provision of primary property insurance for catastrophe perils, voluntary market insurers should exclude coverage for the catastrophe perils from standard property policies and provide all catastrophe coverage through the program mechanism.
9. Legislation should encourage individuals to participate in the program or run the risk of losing access to federal disaster insurance.
10. If legislation designates certain states as “disaster prone” and makes provisions for those states, it should also address what happens if a disaster strikes in states not specified as “disaster prone.”
11. For disasters that are seasonal in nature, any legislation creating primary coverage should encourage policyholders to maintain coverage throughout the year to stabilize premium flows and avoid adverse selection in terms of consumer decisions with respect to starting and ending coverage.
12. Jurisdiction over claim settlement practices should remain with the states.
13. Tax law changes should be encouraged to avoid penalties on and encourage the accumulation of reserves for catastrophe losses.
14. Legislation should encourage loss reduction and hazard mitigation efforts.
15. Legislation should encourage the strengthening and enforcement of building codes to reduce loss.

16. Legislation should not burden states with additional responsibilities without funding the mandated activities.
17. There should be coverage protection within reasonable limits for personal property policyholders in the event of the insolvency of the program or its participants.
18. Federal legislation should encourage the geographic spreading of risk.

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