



AMERICAN ACADEMY *of* ACTUARIES

October 14, 2008

Kevin McCarty, Chair
Catastrophe Insurance (C) Working Group
c/o Eric Nordman, Director of Research
National Association of Insurance Commissioners
2301 McGee Street
Suite 800
Kansas City, MO 64108

Re: Natural Catastrophe Risk: Creating a Comprehensive National Plan

Dear Commissioner McCarty:

The Natural Catastrophe Subcommittee (“Subcommittee”) of the American Academy of Actuaries (“Academy”) appreciates the opportunity to provide input on the September 3, 2008 draft of the Natural Catastrophe Risk Plan (hereafter referred to as “the Proposal”).

The Subcommittee has reviewed the Proposal and offers the comments that follow:

The Subcommittee supports the advocacy in the Proposal for the development of a comprehensive mitigation program. As the Proposal notes, a comprehensive mitigation program cannot be a “one-size-fits-all” endeavor and will vary by jurisdiction. In addition to the requirements that are itemized in the Proposal in the section entitled, “Mandatory Requirements for States,” the Working Group may wish to consider including requirements for storm shutters and roof tie-downs in some areas, by a date certain, and rebuilding limitations in specific areas.

On page 7 of the Proposal, an “all-perils” insurance policy plan is presented. The discussion of the new policy option centers on adding coverage for flood losses, which will be reinsured on a first-dollar basis by the National Flood Insurance Plan (NFIP). In this situation, the all-perils policy has the potential to better coordinate two existing insurance mechanisms, provided the premiums for the flood insurance coverage are allowed to be risk-based without artificial caps or subsidies, as the Proposal suggests. In paragraph 3 of the section “Enhancing the Insurance Contract,” the Subcommittee suggests that “actuarially sound” replace “risk-based,” or that “actuarially sound” be used in addition to “risk-based” to clarify the intent of the Proposal.

It is also suggested on Page 7 that the policyholder be given a mandatory offer of an all-perils policy. The potential for an increase in the take-up rate for flood insurance brought on by a mandatory offer will put increased pressure on the NFIP to have adequate and readily-available funding following an event. Timely Congressional approval of Treasury loans will be needed, even more so if the program is larger than it is today as a

result of a mandatory offer of an all-perils policy. With potentially more policyholders, there will be even greater need for the NFIP to have actuarially-based rates. After nearly 40 years of the flood program's existence, there are still a large number of subsidized rates.

In discussing the all-perils policy, the Proposal does not address the peril of earthquake or other land movement events or the need for actuarially sound premiums for these perils. A mandatory offer of earthquake insurance will likely reduce the availability of homeowners' insurance in certain states or areas. California, which has a mandatory offer law, suffered a severe constriction in the availability of the homeowners' insurance market following the 1994 Northridge earthquake, wherein over 90% of the California homeowners' insurance writers ceased writing new policies. The crisis ultimately led to the creation of the California Earthquake Authority. Should earthquake or other land movement events be included in an all-perils policy, the potential for occurrences similar to those experienced in California needs to be considered and addressed.

On page 10 of the Proposal, in the discussion of the federal reinsurance premium, the term "risk-based" is used. Again, the Subcommittee supports the concept that the premiums for private insurers, state funds, and the federal program be actuarially sound and suggests that the term "actuarially sound" replace or be used in addition to the term "risk-based."

The Subcommittee hopes that you will find these comments helpful. If you have any questions regarding these comments, please feel free to contact Lauren Pachman, Casualty Policy Analyst, at pachman@actuary.org.

Sincerely,

Shawna Ackerman, Chair
Natural Catastrophe Subcommittee
American Academy of Actuaries