

Capitol Hill Briefing on Catastrophe Issues Sponsored by the American Academy of Actuaries

***Steven Lehmann, Vice President, American Academy of Actuaries;
Principal, Miller Herbers Lehmann & Associates**

***Frederick Kist, Chief Actuary, Kemper Insurance Companies**

***Warren Tryon, Legislative Assistant, Rep. Spencer Bachus (R-AL)**

***Rade Musulin, Vice President, Florida Farm Bureau Insurance Companies**

Role of the Academy

- The American Academy of Actuaries is the nonpartisan public policy and professional organization of the U.S. actuarial profession. The Academy provides independent analysis to elected officials and regulators, maintains professional standards for all actuaries, and communicates the value of actuarial work to the media and public.

Role of Actuaries

- Actuaries evaluate the financial impact of current economic, legal, and social (such as demographic) trends on future events.
- Actuaries are experts who use statistical analysis to calculate the cost of future risks such as insurance loss costs.
- Actuaries evaluate the risk of catastrophe losses to determine how much to include in insurance rates to pay for future catastrophes and to help structure programs to manage catastrophe risk.

How the Academy is involved

- Analysis of federal reinsurance bills and catastrophe reserve bills
- Educational role with the Federal Reserve on catastrophe management
- Work with the state insurance regulators on statutory catastrophe reserve design and regulation of index-based derivative securitizations

Briefing focus: cat management and comparison of HR 21 and HR 2749

HR 21

- creates reinsurance program covering state programs and private insurers
- reinsurance contracts are auctioned in at least six regions
- coverage trigger equals greater of: X in Y year event, claims paying capacity of state program, or \$2-\$5 B
- 50% of losses in excess of trigger covered
- mitigation programs funded through contract sales

HR 2749

- insurers can set aside part of countrywide net written premiums (NWP) in tax deferred catastrophe reserve
- size of fund is a percentage of countrywide NWP with factors by line of business
- fund is phased in over 20 years
- investment income on fund balance is taxed in year earned
- insurers draw down funds (as taxable income) if thresholds are met

But is there a problem. . .?

Is there already enough capacity in the private market? Is any federal action needed?