AMERICAN ACADEMY of ACTUARIES

May 23, 2008

Sen. Steve Geller, FL, Co-Chair
Sen. Dean Kirby, MS, Co-Chair
c/o Candace Thorson, Deputy Executive Director
National Conference of Insurance Legislatures
385 Jordan Road
Troy, N.Y. 12180

Re: Proposed Resolution

Dear Sens. Geller and Kirby:

The Extreme Events Committee's Natural Catastrophe Subcommittee of the American Academy of Actuaries (the Academy) welcomes the opportunity to provide input on the Proposed Resolution Regarding a New Approach to State Catastrophe Funds and Federal Mega-Disaster Assistance.

The Subcommittee has reviewed the proposed resolution and suggests the changes detailed below. For your convenience, the proposed changes are underlined. Additionally, following each suggested recommendation is a brief discussion of the reasoning behind the proposed change.

- after <u>any series of</u> natural disaster<u>s</u> <u>within a specified time period</u> in which insured losses exceed a designated threshold, the federal government would provide such state fund the amount of money necessary to cover insured losses above the threshold through funding options that allow the states to further benefit consumers;

This change is suggested in recognition of the possibility of multiple natural disasters or a series of significant events occurring within a specified time period, aggregating to create the same adverse financial results as a single mega-catastrophe.

- under the loan program, the federal government would provide the state fund the amount of money necessary to pay all insured losses above the designated threshold; and a state subsequently would repay the Treasury <u>with interest —at the then-current rate for 20-year Treasury bills</u> over the course of 20 years—the amount of money that the federal government had loaned the state for payments above the designated threshold.

The proposed resolution would provide an interest-free loan, creating a subsidy for states that are more catastrophe-prone (and thus more likely to access the federal loan program) from those that are less prone to natural disasters. We also note that the National Flood Insurance Program borrows money from the Treasury at a rate of 4 percent.

- <u>The designated threshold for each state catastrophe fund will be set at a level high enough such that the fund does not duplicate capacity that is available in the private reinsurance market.</u>

The state catastrophe fund and federal catastrophe reinsurance backstop would be most effective if it does not supplant the private market's available capacity. The threshold for public involvement must be at a level below that which would exhaust private market capacity and yet not compete with the private market.

- <u>The funding shall be established at an actuarially sound level.</u>

The initial funding should be at a level that is reasonably expected to cover the state's exposure in the long term so that the need for a federal backstop arises only when an event occurs too early for the fund to build capacity.

- BE IT ALSO RESOLVED that NCOIL believes such a state-federal system would result in ~~dramatically~~ lower property-casualty insurance rates and would substantially strengthen the solvency of the private sector insurance industry, to the benefit of citizens nationwide;

The resolution as written creates an expectation that the system will dramatically lower rates well before the assessment of the rates' impact can be measured. If this expectation is not met, the perceived success of the system may be compromised.

We hope that you will find these comments helpful. The Subcommittee would be pleased to assist NCOIL in the finalization of its proposed resolution. If you have any questions, please feel free to contact me or Lauren Pachman, the Academy's casualty policy analyst at pachman@actuary.org.

Sincerely,

Shawna Ackerman, chair
Natural Catastrophe Subcommittee
American Academy of Actuaries