



*Independent Insurance Agents
& Brokers of America, Inc.*

**STATEMENT OF ALEX SOTO
ON BEHALF OF THE
INDEPENDENT INSURANCE AGENTS & BROKERS OF AMERICA**

BEFORE THE

SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

COMMITTEE ON FINANCIAL SERVICES

UNITED STATES HOUSE OF REPRESENTATIVES

June 28, 2006

Good afternoon Chairman Ney, Ranking Member Waters, and Members of the Committee. My name is Alex Soto, and I am pleased to be here today on behalf of the Independent Insurance Agents & Brokers of America (IIABA) to provide my association's perspective on efforts to reform how our nation insures against natural disasters. I am currently the President-elect of IIABA and have served on our national association's Executive Committee for several years. I am also President of InSource, Inc., an independent agency based in Miami, FL which offers a broad array of insurance products to consumers and commercial clients in South Florida and beyond.

IIABA is the nation's oldest and largest trade association of independent insurance agents and brokers, and we represent a nationwide network of more than 300,000 agents, brokers, and employees. IIABA represents independent insurance agents and brokers who present consumers with a choice of policy options from a variety of different insurance companies. These small, medium, and large businesses offer all lines of insurance – property, casualty, life, health, employee benefit plans, and retirement products. It is from this unique vantage point that we understand the capabilities and challenges of the insurance market when it comes to insuring against catastrophic risks.

Background

In 2005, our country faced several devastating and record-setting natural disasters, including 27 named hurricanes, which left the lives of many Americans in ruins. These disasters also roiled the insurance marketplace and our overall economy. Estimates for 2005 hurricane losses are approximately \$50 billion, greatly exceeding the previous record set in 2004 when 22 events caused \$27.5 billion in insured losses. Six of the top 10 most costly catastrophes on record in the United States occurred in the 2004-05 hurricane seasons.

The high costs of recent natural disasters (hurricanes Katrina, Wilma, etc.), combined with the fear of future catastrophes (particularly with another difficult hurricane season being forecast for 2006), have restricted homeowners' insurance availability in many markets. These multibillion-dollar events have created exposure and solvency issues for companies that write homeowners insurance in disaster-prone areas. As a result, many insurance companies have stopped writing new business in or withdrawn from at-risk markets, making it difficult for residents to find homeowners' coverage.

While our members and their consumers have experienced varying types of natural disasters across the country, this problem has been compounded by the fact that an ever-increasing number of people reside in areas where they are exposed to natural disasters. For example, in coastal areas alone we have seen tremendous growth in population. In fact, according to AIR Worldwide, in 2004 the value of insured coastal properties in the 18 East Coast and Gulf states exposed to hurricanes totaled \$6.9 trillion, or 16 percent of insurers' total exposure to loss in the United States. Not unlike other disaster-prone areas, AIR also estimates that property values in coastal areas of the United States have doubled over the last decade.

IIABA Perspective

The IIABA is grateful for the opportunity to share its views with the Committee on what we feel is a matter of critical importance. We approach the issue of natural disaster insurance from a very simple perspective: we are here to serve consumers' needs, whether it is helping them secure coverage to protect their families and their homes prior to an event, or assisting consumers after an event to ensure that claims are paid quickly and fully. As the intermediaries between consumers and their insurers, our members cannot and will not walk away from consumer needs as long as they demand coverage for these risks. We strongly believe our industry must come together with policymakers to find a common solution that will encourage participation in at-risk markets. For this reason, the IIABA is grateful to you, Mr. Chairman, for calling this important hearing to explore these issues, and we look forward to working with you in the future on this issue.

In short, we are for any and all reasonable ideas and plans that lead us to a healthy and competitive insurance marketplace in which consumers have choices and companies are vying for their business.

When natural disasters strike, independent insurance agents and brokers are on the front lines with devastated policyholders who need to rebuild their lives. In fact, our members live in the communities that they serve, and they and their families are also impacted by many of the same issues facing other consumers. As such, independent insurance agents and brokers understand the challenges that consumers face and their concerns about the availability of affordable coverage for losses from natural disasters.

Over the last several years, our members have witnessed how substantial insured losses from severe hurricane seasons have diminished the insurance industry's capacity, and more importantly their appetite for catastrophic losses in general. Meanwhile, the cost of coverage has increased. Insurers are currently under pressure from rating agencies to limit exposure, and they are reevaluating their exposure to all types of catastrophic losses. As underwriters continue to focus on the aggregation of losses, there is a definite strain on the insurance industry's willingness to cover catastrophic losses—whether they result from natural disasters, such as hurricanes and earthquakes, or man-made threats, such as acts of terrorism.

Any discussion concerning the solution to insuring against future natural disasters starts with admitting there is a problem. The IIABA believes it is no longer enough to say that the private market can handle catastrophic risks, when coverage is not sufficiently available at affordable rates. In fact, it is our experience that private market coverage is scarcely available at any rate in some areas – this is fast becoming an availability problem rather than an availability AND affordability problem. The reality is that many insurers have either stopped writing new homeowners' business in or withdrawn completely from at-risk markets. With the prospect of another difficult hurricane season upon us, something needs to be done to ensure that residents of these areas can find adequate homeowners' coverage.

National Issue

With these experiences in mind, I would like to stress that this issue is not simply a Gulf Coast problem – it is a national problem. Our members live across the country, serving and living in a wide variety of communities – large and small – and so many of them have been impacted by natural disasters. Certainly, the most devastating natural disasters in recent years have resulted from hurricanes, which have had the greatest impact on the homeowner's insurance market. However, hurricanes are only one of the many catastrophic risks our nation faces. Whether it is tornadoes in the Midwest, earthquakes in California, or ice storms in the Northeast, we all face some risk of natural disaster, and it often takes only one or two events in a particular area for the homeowners' insurance market to be dramatically affected.

In some cases, of course, states have set up entities in an effort to prevent insurance availability crises, such as the California Earthquake Authority and the Florida Hurricane Catastrophe Fund. These programs are certainly useful, but ultimately, even if they are carefully constructed and managed they may not be enough to handle the particularly severe events. In my home state of Florida, for example, our fund is in trouble for several reasons. First, as a state entity it is not immune to political pressure to keep the rates low. The second factor, of course, has been the severity of recent hurricanes that have hit our state during the past two years. The plain truth is that some natural disasters will exceed the financial capacity of state catastrophe funds – only a program that is national in scope will be able to generate enough capacity to cover the most devastating events.

Put simply, insuring against natural disasters is a national problem that requires a national solution. Despite our longstanding position that the insurance market is best served by limited federal involvement, we believe that a federal solution is necessary to help provide capacity and fill a void that the private market cannot and will not service. However, it is important that the day-to-day regulation of insurance remain at the state level, where state insurance departments are best equipped to serve the special needs of local consumers in local markets. As such, given the

absence of affordable coverage and the exposure to consumers and taxpayers, we believe that there is a very limited and appropriate role for the federal government, and we are open to supporting proposals that increase insurance availability and affordability in catastrophe-prone areas.

Federal Solutions

There are those who continue to question whether federal involvement is necessary. We would encourage these critics to conduct a simple cost-benefit analysis. We would ask the following: is it better to address this issue in advance of a natural disaster in a way that maximizes private sector capacity, or to wait for the federal government to provide post-disaster relief on an ad-hoc basis? That is the choice we are currently facing. I am sure the Members of the Committee are well aware of the recent GAO revelations regarding misuse of FEMA disaster funds disbursed following Katrina, and while I do not suggest that this would be a common occurrence, it does highlight some of the problems with ad-hoc relief efforts. The Big "I" believes the best solution is for a federal role to be in place before the events happen – to have a clear, well-structured mechanism that encourages the private sector to handle as much of the risk as possible, and only trigger federal involvement as a last resort upon private marketplace failure. We believe that such a structure will protect both consumers and taxpayers living in all areas across the country – especially when history has proven that more tax dollars are going to be spent on disaster assistance without a structure to encourage the private sector to take on additional risk.

It is with these sentiments that we approach the legislative proposals pending in Congress. Specifically, we support H.R. 846, the Homeowners' Insurance Availability Act, which was introduced by Congresswoman Ginny Brown-Waite last year. The legislation would allow private insurers to purchase, at auction, reinsurance contracts directly from the U.S. Treasury to cover natural disasters that are equal to or greater than a one-in-100-year event. We believe this is a strong proposal because it will encourage more companies to enter at-risk markets, thus increasing availability and market stability, while limiting federal involvement to only the most devastating catastrophes.

In addition to H.R. 846, the IIABA is examining other proposals that would create a federal catastrophe reinsurance program, such as H.R. 4366, the Homeowners Insurance Protection Act of 2005, introduced by Reps. Ginny Brown-Waite (R-Fla.) and Clay Shaw (R-Fla.), and H.R. 4507, the Natural Catastrophe Insurance Act of 2005, offered by Rep. Carolyn Maloney (D-N.Y.). Under these proposals, states that have their own catastrophe funds could be eligible to purchase reinsurance from the federal government. Both bills seek to encourage states to establish catastrophic funds to protect against natural disasters and reduce costs to homeowners. Our association has not, however, taken a position on these bills at the present time.

IIABA is also looking beyond federal reinsurance proposals to other possible solutions, and in that vein we are encouraged by the introduction of H.R. 2668, the Policyholder Disaster Protection Act, introduced by Congressman Mark Foley. This bill would permit insurers to create tax-free reserve funds for natural disaster claims. We support the goal of this legislation, which is to build up insurance capacity in at-risk markets, although we are somewhat concerned that doing so through the tax code may take a significant amount of time.

We also have noted with interest the introduction of legislation that would create tax-free personal "Catastrophic Savings Accounts" similar the Health Savings Accounts that have been successful in

the health care market. H.R. 4836, introduced by Congressman Tom Feeney, enjoys bipartisan support from members of the Florida Congressional delegation as well as from Florida Insurance Commissioner Kevin McCarty.

In addition to the above proposals, our members support exploring ways to reduce the costs of disasters, such as mitigation efforts. For instance, enhancing building codes and using financial incentives to mitigate risk are among proposals worth exploring in order to protect both consumers and taxpayers across the country.

There are exciting and important research projects underway that merit aggressive support from both the private and public sector. The International Hurricane Research Center at Florida International University (www.ihrc.fiu.edu) is conducting groundbreaking research and hope to build a “Wall of Wind” simulator to definitively identify the failure level of each element of a home and commercial building. These efforts will lead to precise improvement of building codes and retrofitting techniques that all consumers can use to safeguard their properties. We should do all that we can to fast track the development of this project in order to reap the benefits of the research as soon as possible.

Other nonprofit organizations, such as FLASH, Inc., the Federal Alliance for Safe Homes (www.FLASH.org), and the Institute for Business and Home Safety (www.ibhs.org), deserve our help and attention as well. These two organizations also conduct research to provide home and business owners with existing and proven methods of improving the capacity of buildings to withstand earthquakes and windstorms, among other perils.

Congressional Attention Is Needed

Unfortunately, Congress has not yet acted on any of the bills that I just mentioned. Part of the reason for this is the lack of consensus within the insurance industry for a solution to this growing problem, which has complicated public and private efforts to address this issue. However, as many insurers and reinsurers express concern with some of the above proposals, consumers still need and demand coverage to protect their homes, their families and their communities. What will it take to bring together all interested parties to focus on a solution? Tremendous dislocation? Another major catastrophe?

It is simply not enough to say that the private sector can handle this risk, when it does not and in reality consumers face severe availability and affordability issues. Turning our back on policyholders who need coverage is never a recipe for a stable economy and unacceptable to our members.

We would strongly urge Congress to step forward and drive the debate over these proposed solutions. We encourage Congress to be realistic, but also ask tough questions and demand responses. Stakeholders need to answer these questions, such as: if not these proposed solutions, then what are the alternatives that could most likely be implemented successfully in a timely manner? Are the public and private sectors doing everything possible to protect consumers, or can more be done? We believe that this type of Congressional attention will spur greater insurance marketplace involvement in debating potential solutions, perhaps leading to even more innovative proposals.

The Big “I” does not pretend to have the answers to these questions, but we are committed to an open dialogue with all interested parties in the public and private sector to begin to address these important issues that consumers face.

Conclusion

In conclusion, we commend you, Mr. Chairman, for convening today's hearing, and we hope that it will mark the beginning of a thorough examination of legislative solutions for the catastrophe insurance availability crisis.

The Big “I” supports legislation, such as H.R. 846, that will encourage more insurance companies to enter natural disaster markets and increase availability and affordability of homeowners’ insurance coverage. We are open to working with interested parties to discuss potential solutions with limited federal involvement, including federal catastrophe funds, insurer tax-free reserving, consumer-driven catastrophe savings accounts, etc.

We stand ready to assist your efforts in any way we can, and we urge you to see this fight through to the finish.