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STATEMENT OF

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**Before the
Subcommittee on Housing and Community Opportunity
Committee on Financial Services
U.S. House of Representatives**

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Thank you Mr. Chairman and members of the subcommittee. My name is James M. Loy. I appreciate the opportunity to appear before you today in my capacity as co-chairman of ProtectingAmerica.Org, an organization committed to finding better ways to prepare and protect American families from the devastation caused by natural catastrophes.

My fellow co-chairman is James Lee Witt, the former director of the Federal Emergency Management Agency. Our coalition members include first responders, emergency management officials, insurers, municipalities, small businesses, Fortune 100 companies and private citizens. The membership is broad and diverse and includes members from virtually every state in the nation.

ProtectingAmerica.org was formed to raise the national awareness about the important responsibility we all have to prepare and protect consumers, families, businesses and communities. We hope to build a campaign to create a comprehensive, national catastrophe management solution that protects homes and property at a lower cost, improves preparedness, and reduces the financial burden on consumers and taxpayers – all in an effort to speed recovery, protect property, save money and save lives.

Though we come from all walks of life, we share a common belief that the current system of destroy – rebuild and hope in the aftermath of extraordinary natural disasters is fatally flawed in two significant and dangerous ways.

First, we simply do not prepare well enough in advance for natural catastrophes.

Fundamental to the current system is the vain belief that “it won’t happen here.” This denial, which is pervasive from homeowners to officeholders, has provided us all with the false comfort that, while we would like to prepare for the possibility of catastrophe,

the likelihood of an event actually happening “here” is so remote that we should spend our time and resources on other more immediate and pressing problems.

This denial undermines efforts to prepare in advance of catastrophe which, naturally, leads to the other sweeping shortcoming which is that the current system is a patchwork of after-the-fact responses with all of the inefficiencies that are inherent in a system dominated by crisis and confusion.

The simple fact is that catastrophe can and does occur virtually anywhere in this country.

Let me give you some quick facts that should crystallize the urgent threat posed by natural catastrophe in America:

- The bulk – in fact 57% -- of the American public lives in an area prone to catastrophes like major hurricanes, earthquakes or other natural disasters, and more move toward those areas every day.
- Seven of the 10 most costly hurricanes in US history occurred in the last 5 years.
- Some of the most valuable real estate in this country is squarely in catastrophe’s path – on the Atlantic, Gulf and Pacific coasts and on top of the New Madrid fault in the greater Mississippi Valley.

Catastrophe preparedness, prevention and recovery are not a challenge limited only to Florida and the Gulf Coast, nor to the earthquake zone of northern California.

- In the past 100 years, 11 hurricanes have made direct hits on New England; 6 have made direct hits on Long Island.

The most famous of those hurricanes hit in 1938 and is known as the Long Island Express. It hit Long Island and ripped up into New England. 700 people were killed; 63,000 were left homeless.

- Although the Great San Francisco Earthquake of 1906 is the best known earthquake in America, in fact, the New Madrid series of earthquakes in the early 1800s covered a far greater area with a force every bit as strong as San Francisco's earthquake.

The New Madrid Earthquakes emanated from New Madrid, Missouri and struck over a three-month period in 1811 and 1812. They changed the course of the Mississippi River, shook the ground from Mississippi to Michigan and from Pennsylvania to Nebraska. Structures were damaged throughout the Mississippi Valley, landslides occurred from Memphis to St. Louis. These earthquakes are largely unknown today because they struck at a time when the earthquake zone was largely wilderness. What was essentially the bulk of the Louisiana Purchase now encompasses major population centers across the Mid-West.

Climatologists are united in their observation that surface water temperatures are up and that we are in a weather cycle that is likely to last for many years, possibly several decades, and will include hurricanes with greater force and frequency than even those we have experienced in recent years.

Seismologists are similarly united in their observation that we are overdue for a major earthquake along many of the fault lines that run along our Pacific Coast or, as in the case of the New Madrid Fault, transect the very heartland of this nation.

There should be no comfort in the notion that the great earthquakes and hurricanes that previously ravaged our country seem to have occurred in such a vastly different age and time that they are not likely to repeat.

Is our modern society so sophisticated and our cutting-edge technology so advanced that Mother Nature will choose to strike in some remote and distant land?

To wager our families' futures on that sort of conceit is a fool's bet.

Simply put, catastrophe can happen here, it has happened here and there is no doubt that it will happen again. It is a question not of "if" but "when" and "how bad."

The costs of any of those catastrophes repeating themselves would be enormous.

- Disaster experts project that a replay of the San Francisco earthquake – same force at the same location – could result in more than \$400 billion in replacement and rebuilding costs.
- Were we to experience a replay of the 1938 "Long Island Express" hurricane, the damages could exceed \$100 billion. If that hurricane made landfall a mere 20 miles to the west, smack in the middle of Manhattan, the damages would be even more staggering.

The effect of such tremendous losses would be felt through our entire national economy.

When catastrophe strikes, our after-the-fact response programs and protocols do a remarkable job in getting victims into shelters and in mobilizing emergency supplies and personnel so that the situation does not worsen.

All Americans, regardless of whether or not they have been victimized by catastrophe, owe our first responders an enormous debt of gratitude and thanks. We are equally indebted to the people behind the scenes – the government employees who work around-the-clock to see that logistics are worked out, that supplies are ordered and that funding is delivered. These men and women are too often overlooked. Their service is invaluable.

The first responders in harm's way and the government workers in makeshift outposts perform exceptionally well in this crisis mode. But, as we all know, the crisis mode is hyper-stressful both on a human level and on a system-wide level. It requires split-second triage and prioritization that can lead to inefficiencies and unfairness.

While little can be done to completely eliminate the crisis mode, ProtectingAmerica.Org believes that it can, and must, be mitigated. Clearly, programs that would improve preparedness, increase public education, enhance prevention and mitigation programs, and augment support for first responder programs would improve our national capability to prepare and protect those of us who live in harm's way.

Public education programs would help homeowners to make necessary plans and be prepared in advance of an emergency. Mitigation programs such as strong building codes and effective retrofitting programs would improve the integrity of catastrophe-prone structures so that damage would be minimized if catastrophe strikes. An increase in first responder funding would help finance these critical programs that too often get shortchanged in the give-and-take of local budgeting.

To provide an example of the positive impact of these kinds of programs, consider the extensive study by FEMA following the 1993 flood of the Mississippi River, which affected nine states. Using money from the Stafford Act and Community Development Block Grant dollars, FEMA worked with the governors in each state and undertook a relocation program for residents of frequently flooded properties. FEMA bought out 4,000 pieces of property in Missouri alone, turned that space back into open green space and deed-restricted it.

In 1995 another flood struck the same area and not one taxpayer dollar was spent on responding to the disaster. Experts found that for every dollar spent on mitigation, we saved \$5 to \$7 in future losses.

Studies in the aftermath of Hurricane Katrina suggest that the current after-the-fact recovery funding for catastrophes results in an enormous taxpayer subsidy for uninsured and underinsured properties. In fact, a Brookings Institution study published in March of this year found that of the first \$85 billion in taxpayer dollars spent on Katrina recovery efforts, more than \$10 billion went to cover losses for uninsured or underinsured properties.

ProtectingAmerica.Org believes that in addition to minimizing the extent of catastrophic losses through prevention and mitigation programs, we should also reduce the taxpayer subsidy of recovery efforts, ensure the adequacy of recovery dollars, and improve the delivery of those critical funds to homeowners.

ProtectingAmerica.Org has been advocating the establishment of a stronger public-private partnership as part of a comprehensive, integrated solution at the local, state and national levels. The solution would include privately funded catastrophe funds in catastrophe-prone states that provide more protection at lower cost to consumers. These CAT funds would serve as a backstop to the private insurance market and would generate investment earnings that, in addition to helping to pay claims in the aftermath of a mega-catastrophe, would be used for mitigation, prevention, preparation and first responder programs.

We have also been advocating the creation of a national catastrophe fund that would serve as a backstop to participating state catastrophe funds in the event of a mega-catastrophe.

Those state catastrophe funds would be financed through mandatory contributions by insurance companies in each of those states in an amount that reflects the catastrophe risk of the policies that they write in each state.

The state funds would be required to set aside a minimum of \$10 million up to a maximum of 35% of investment income for prevention and mitigation programs.

Qualified state funds would be able to purchase re-insurance from the national program. Rates for this coverage would be actuarially based and self-sufficient and would only be available to state programs that have established the prevention and mitigation funding as described above.

In the event that a catastrophe strikes, private insurers would be required to meet all of their obligations to their policyholders. Should catastrophic losses exceed those obligations, the state catastrophe fund would be utilized. In the event of an extraordinary catastrophe, the national backstop program would provide benefits to the state and help pay remaining claims.

Because this is a state-by-state program based entirely on risk, the likelihood of a taxpayer subsidy is virtually eliminated. This approach requires pre-event funding and relies on private dollars from insurance companies in the areas that are most exposed to catastrophe.

Because this program relies on the traditional private market for paying claims, the inherent inefficiencies and bureaucracy in a government-run program are eliminated.

Because this program requires states to fund meaningful prevention and mitigation programs, catastrophe planning, protection and preparation will take place before the onslaught of catastrophe and will be in a state of continuous and rigorous improvement.

All of these elements are contained in HR 4366 and in companion legislation in the US Senate. We commend Rep. Brown-Waite and Senator Nelson and the growing number of co-sponsors for their foresight on this very important issue.

This needs to be a top national priority. It reflects strong leadership to act before the next crisis. There is urgency and opportunity to act.

Mr. Chairman, I want to thank you, again, for taking the time to consider and discuss this important subject. I would be happy to answer any questions that you may have.