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Chronological: Natural Disaster Protection and Insurance Act of 1999, 2000-04-1

Senator Daniel K. Inouye Papers
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DANIEL K. INOUE
HAWAII

APPROPRIATIONS
Subcommittee on Defense

COMMERCE, SCIENCE, AND TRANSPORTATION
Subcommittee on Surface Transportation
and Merchant Marine

COMMITTEE ON INDIAN AFFAIRS

DEMOCRATIC STEERING COMMITTEE

COMMITTEE ON RULES AND ADMINISTRATION

JOINT COMMITTEE ON PRINTING

F/P/SPEECH/
disaster *file* *statement*

United States Senate

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STATEMENT BY SENATOR DANIEL K. INOUE

Hearing before the Senate Committee on Commerce, Science, and Transportation on S. 1361, the Natural Disaster Protection and Insurance Act of 1999

April 13, 2000

Mr. Chairman and Members of the Committee:

I deeply regret a scheduling conflict will not allow me to attend today's hearing. As many of you know, my interest in providing a federal program for hazard mitigation and insurance against the risk of catastrophic natural disasters stems from the hurricane disaster which struck the Island of Kauai in 1992. Both Senator Stevens and I have examined various disaster insurance measures for the last several Congresses. I wish to commend Senator Stevens for his continued efforts on this issue. I remain committed to working with Senator Stevens and the Chairman to see a bill favorably reported by the Commerce Committee.

Although S. 1361 will not completely eliminate the federal burden of disaster relief or the availability problems of disaster insurance, I believe the measure is a needed first step on which to build future efforts to provide affordable disaster relief coverage. S. 1361 will help to reduce the cost of natural disasters to federal taxpayers by promoting private funding of mitigation efforts at the state level and by promoting greater availability of private homeowner's insurance in areas prone to natural disasters.

There are several differences of opinion with respect to the \$2 billion threshold established under S. 1361. For example, the \$2 billion threshold is too high for smaller states such as Hawaii. As this measure moves through the legislative process, I hope we will examine possible alternatives for a lower threshold for smaller states either by region or by state population size. In this regard, I am pleased to share with you a copy of a letter from Mr. Amori R. Ogata, Executive Director of the Hawaii Hurricane Relief Fund.

I wish to extend a warm welcome to the witnesses and look forward to reading your testimony.

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**STATE OF HAWAII
HAWAII HURRICANE RELIEF FUND**

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BENJAMIN J. CAYETANO
governor

March 20, 2000

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GERALD H. TAKEUCHI

The Honorable Daniel K. Inouye
United States Senator
722 Hart Senate Office Bldg.
Washington, D.C. 20510-2201

AMORI R. OGATA
executive director

Dear Senator Inouye:

Thank you for the opportunity to comment on S. 1361, titled "Natural Disaster Protection and Insurance Act of 1999".

The Hawaii Hurricane Relief Fund (HHRF) is a State entity started in 1993 for the purpose of providing hurricane property insurance in Hawaii. This was necessary following a scarcity in property insurance following Hurricane Iniki in 1992. The HHRF was intended as a short term solution that would terminate when the insurance industry became strong enough to once again provide sufficient residential insurance including coverage for hurricanes. If the HHRF were to continue its operations, S. 1361 provides a framework for loss coverage above the level of coverage provided by the HHRF.

S. 1361 provides State operated insurance or reinsurance programs with reinsurance contracts above minimum retention limits of \$2 billion.

Although the HHRF supports any legislation benefiting State-operated catastrophe insurers or reinsurers, the minimum retention limits proposed in the Act would make Hawaii's or any other smaller State program's participation precarious. For only one of the past seven years was the HHRF able to afford \$2 billion in retention. Today, with the number of policyholders rapidly declining, the HHRF is unable to achieve a \$2 billion retention. Additionally, modeling may not dictate that \$2 billion is needed for the most likely loss scenarios. A possible solution to ensure that all States may participate is to have minimum retention limits actuarially determined. An actuarial report indicating retention levels could be submitted with the request to purchase reinsurance.

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Technical Comments To S.1361

1. Section 4. Definitions. Number (22)(A): It's not clear whether the state insurance pool must provide coverage for all listed perils or whether it can provide for one or more listed perils. That is, the "and" should be an "or".
2. Section 303. Program Authority. 303(c)(1): How can the reinsurance coverage avoid competing with the private insurance or reinsurance markets or capital markets? Perhaps this requirement should be deleted.
3. Section 305. Covered Perils: (1)(D). The "and" should be an "or", unless each reinsurance contract is to cover all listed perils.
4. Section 306(a)(6)(B): Depending on the way the regulations are worded, items (ii), (iii) and (iv) could change the way existing State programs are functioning. For example, State operated insurance entities may not be charging the optimum rates, or providing the optimum coverage, suggested by an actuary.
5. Section 306(b)(7): are reinsurance premiums applied to loans or does the state entity have to repay loans and purchase reinsurance? We suggest a clarification on that point to the effect that premiums are applied against the loan amount.
6. Section 306(b)(8) INFORMATION: Should there be a requirement that the Corporation hold confidential certain types of information that may be in the possession of the State program (e.g. relating to private insurers book of business)?
7. Section 306(c) PRICE GOUGING PROTECTIONS: line 4: Can any laws or regulations be "sufficient to prohibit price gouging"? Maybe it should read "laws or regulations that prohibit price gouging" or "laws or regulations sufficient to deter price gouging".
8. Section 308(b)(3) ANNUAL ADJUSTMENT, last two lines: How can the reinsurance coverage avoid competing with the private insurance or reinsurance markets or capital markets? Perhaps this requirement should be deleted.

The Honorable Daniel K. Inouye
March 20, 2000
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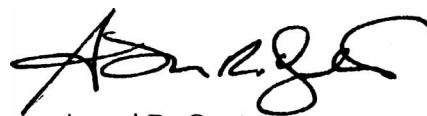
Another possible solution would be to make reinsurance from the Natural Disaster Insurance Corporation available to several distinct groups of States, with the entire group subject to a group retention. A geographical solution may not be appropriate since, for example, Hawaii would likely be linked to California, lumping together Hawaii's more limited hurricane risk with California's earthquake risk. An alternative might be to group States by actuarially determined risk levels pursuant to actuarial reports submitted by all States. This might allow for a lower retention for groups of States actuarially determined to have lower risks. Another alternative might be to group States so that each group contained roughly equal populations.

Also, to require these reinsurance contracts to be repaid if drawn upon moves this Act more towards a line of credit as opposed to traditional reinsurance. Given the size of the draw and limited finances of a State fund, the potential for a State to be perpetually in debt seems very possible. The HHRF would prefer to have these contracts maintain the characteristics of traditional reinsurance (full risk transfer). Alternatively, since the "Risk Load" component of the cost of these contracts appears to provide for profit, once the reserves built with in the program reach certain limits, the repayment requirement of drawn amounts could be terminated. Relative to the requirement to continue to purchase reinsurance contracts following a drawing, the HHRF is unsure whether the premiums paid for the reinsurance contracts would be used to pay down any loans borrowed. If not, the requirement to continue to purchase reinsurance contracts would decrease the available cash to pay on any loans outstanding.

Finally, the HHRF is concerned that they would have been surcharged on the reinsurance contract should the payout on claims be prorated. Therefore, would there be any refund of premiums?

Attached, please find additional technical comments.

Very truly yours,



Amori R. Ogata
Executive Director

Attachment

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