National Catastrophe Insurance Program

- A Framework for Discussion -

Objectives:

- **To protect consumers by ensuring the affordability and availability of insurance against the financial consequences of catastrophic events;**
- **To spread catastrophic risk broadly among insureds, insurers, reinsurers, the states and the nation, in a public-private partnership;**
- **To reward mitigation of hazards, conserve capital for catastrophes, maximize capacity and provide seamless coverage and service to policyholders.**

Premise: This country needs a rational insurance mechanism for responding to the economic consequences of catastrophic events. While in the short term, the TRIA extension must be passed, ultimately the risk of catastrophes, both natural and man-made, may be best addressed by a public-private partnership involving individuals, private industry, local and state governments, and the federal government. In order to ensure capacity at a reasonable price, a national plan needs to be implemented that expands private market participation at all levels, allows private insurers to service the policies, while at the same time allows access to local, state and federal resources at the highest levels of losses without creating a large bureaucracy.

Framework: The National Catastrophe Insurance Plan is multi-layered, beginning with the individual policyholder and private insurer/reinsurer, through state and regional government mechanisms to a national fund for truly catastrophic losses.

Level One

Consumer/Community

- Strict building codes, demand surge mitigation, hazard area designation, and land use ordinances should be considered.

Individual Private Insurance Policy/Policyholder

- Participating Insurers are required to make catastrophic coverage available for all P & C lines that they write.
- Coverage up to full policy limits for **any catastrophic event**, including flood, should be available.
- Premium based on actuarially sound projected loss costs, including cost of reinsurance
- Defined mitigation must result in premium reduction
- Catastrophe reserves should accumulate on a tax-deferred basis.
- Private insurers continue to service policies in the event of a catastrophe.

Level Two

State/Regional Catastrophe Risk Management

- Structure and Funding is up to the states or regions, but should be based on loss costs + expenses including mitigation loans or grants – no profit load.

- Coverage begins after first layer of catastrophic losses reached (x dollars), as reinsurance in those states participating.
- State/Region has discretion to establish rating methodology, if they offer coverage for those who private insurers will not cover.

Level Three

National Catastrophe Insurance Fund (NCIF)

- Coverage begins after second layer of catastrophic losses reached (x dollars), but could rise as capacity built in first & second layers, lessening federal exposure
- NCIF funds only available to states participating and insurers participating
- Not for profit, tax free, earmarked only for catastrophe-related purposes
- Operates like a private reinsurance facility, not part of the Treasury
- Managed by a board including insurance regulators or their designees, Treasury personnel, insurance industry and consumer representatives