

**Admiral James M. Loy, National Co-Chair**  
Former Deputy Secretary, Department of Homeland Security  
Commandant, U.S. Coast Guard (Retired)

**James Lee Witt, National Co-Chair**  
Former Director, Federal Emergency Management Agency  
Chief Executive Officer, International Code Council

January 25, 2006

## **Help America do a better job preparing for catastrophe... Join ProtectingAmerica.org**

Hurricanes Katrina, Rita and Wilma are tragic reminders of how catastrophes threaten the lives, property and economic security of our nation. Catastrophe will strike again. Policymakers must act now to make sure America is better prepared.

The system in place to prepare for and recover from the economic impact of catastrophic events falls short of what we expect from our government and the private sector. At the same time we teach our children the importance of saving for a rainy day, our nation does the opposite: We pay for disaster recovery after the fact. Too many people and businesses are inadequately protected. Too many tax dollars are wasted. Insurance premiums go up, and some people have difficulty obtaining insurance at any price.

ProtectingAmerica.org was formed to educate the public about the need for a comprehensive, integrated solution that will prepare America to respond to major catastrophes in a sensible, cost-effective fashion. Some elements of our agenda include:

- Strengthening financial protection for consumers by establishing catastrophe funds at the state and national level. Catastrophe funds would help pay claims from disasters exceeding a certain level, providing a backstop to the insurance protection consumers buy from private companies.
- Strengthening prevention and mitigation programs through stronger building codes and better enforcement to require new construction to better meet the challenges of catastrophic events. Prevention and mitigation programs save lives and protect property.
- Improving preparedness, response, relief, recovery and rebuilding by providing additional resources from the national and state catastrophe funds to first responders, local governments, state agencies, public and private educational institutions, nonprofit organizations and charities.
- Improving consumer education and consumer protections to make sure people are better prepared for catastrophes before they strike and to empower them to guard against scam artists who take advantage of families when they are at their most vulnerable.
- Creating a rigorous process of continuous improvement by establishing a commission of local, state and federal officials along with the private sector to review and assess recovery efforts after every disaster to identify ways to continually improve our ability to recover from catastrophes.

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This comprehensive approach is essential. A stronger, coordinated partnership will help victims recover and reduce the human, as well as financial, toll of a major catastrophe. And most importantly, it will ensure that America is better prepared for the consequences of catastrophes and resources are available to help recover from catastrophes without causing irreparable damage to our nation's economy.

Please join us and learn more about helping America prepare for and protect our citizens from catastrophic loss by visiting our Web site, [www.ProtectingAmerica.org](http://www.ProtectingAmerica.org). By completing and returning the attached form, we will send you updated information that will help you and your organization play an important role in this debate.

Thank you.

Sincerely,



James Lee Witt  
National Co-chair



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Admiral, USCG (Ret)  
National Co-chair

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## **An Agenda to Prepare for and Protect America from Catastrophe**

America can do a better job preparing and protecting her citizens from natural catastrophes. ProtectingAmerica.org supports a comprehensive, integrated approach that will provide more protection at lower cost to consumers, improve preparedness, mitigate the impact of a catastrophe on our economy and reduce the financial burden on consumers and taxpayers. The solution should include five key elements:

### **Financial Protection for Consumers**

- ◆ Strengthen financial protection for consumers by establishing catastrophe funds (CAT Funds) at the state and national level. CAT Funds would provide a backstop to the insurance protection provided by private insurers and help pay claims arising from major disasters once a threshold is exceeded.
- ◆ At the state level, create CAT Funds based on the model bill adopted by the National Conference of Insurance Legislators (NCOIL). The NCOIL bill is based on the Florida CAT Fund. State CAT Funds would sell reinsurance to all property and casualty insurers doing business in the state. The money paid by insurers into the Fund stays in the state and grows tax-free. Once an insurance company has paid a specified amount in claims, the Fund pays a percentage of the claims above that amount.
- ◆ At the federal level, Congress should pass H.R. 4366, which provides a backstop for state catastrophe funds through a national catastrophe fund. The national backstop would be administered by the Treasury Department to provide an added layer of protection for state catastrophe funds in the event a major catastrophe exhausts the state fund's financial capacity. State CAT Funds could not tap into the national catastrophe fund until both private insurers and the state CAT Fund meet their financial obligations.

### **Recovery and Rebuilding**

- ◆ Improve the process of relief, recovery and rebuilding by developing new processes to stage and deploy essential relief materials and to make sure there are adequate building materials, supplies and licensed contractors available in the aftermath of a catastrophe.
- ◆ The federal and state catastrophe funds would establish new programs and processes that aid in the relief, recovery and rebuilding process.
- ◆ These efforts could include:
  - Better and more coordination among FEMA, state and local governments.
  - Better and more coordination among private relief agencies, insurance companies and policyholders.
  - Creation of staging areas so that adjustors, contractors, suppliers, FEMA, law enforcement, charities can all be centrally located so consumers can "one stop shop" for all their recovery needs.

- FEMA waiver of rules or guidelines that hinder the expedited processing of claims.
- State waiver of or temporary suspension of licensing requirements to allow out-of-state contractors into the state.
- FEMA creation of a national contractor license to facilitate contractor access to damaged areas.
- Better coordination among insurers, local officials and FEMA to facilitate quicker access to damaged areas.
- Consider development of Alternative Dispute Resolutions programs to promptly settle disputes that may arise.

### **Prevention and Mitigation**

- ◆ Strengthen prevention and mitigation programs through stronger building codes and better enforcement to require new construction to better meet the challenges of catastrophic events. Prevention and mitigation programs save lives and protect property.
- ◆ Under the state CAT Fund laws the Legislature would:
  - Appropriate from the investment income of the fund an amount to be determined by the state (e.g., 10 percent of the investment income earned by the fund) for the purpose of providing funding for first responders, local governments, state agencies, public and private educational institutions, and nonprofit organizations and charities to develop and/or support programs intended to:
    - Improve catastrophe preparedness.
    - Prevent and reduce potential losses from a covered loss.
    - Provide research into means to prevent and reduce such losses.
    - Educate or inform the public as to means to reduce losses from covered events.
    - Assist the public in determining the appropriateness of particular upgrades to structures or in the financing of such upgrades.
    - Providing funding for the enforcement of catastrophe appropriate building codes.
    - Protect local infrastructure from potential damage from a covered loss.
- ◆ State and federal legislation should include the following provisions for prevention and mitigation:
  - Creation of an advisory council specifically charged with the creation, implementation and enforcement of prevention and mitigation programs and guidelines. These include:
    - The development and implementation of modern state building codes appropriate for the risk with no allowance for weaker codes to be adopted by local communities.
    - Adequate enforcement of risk appropriate building codes.
    - Building materials that prevent or significantly reduce potential damage.
    - Focus on prevention and mitigation for any substantially damaged structure.
    - Innovation to retrofit existing homes.

### **Consumer Protecting and Education**

- ◆ Improve consumer education and consumer protections to make sure people are better prepared for catastrophes before they strike and to empower them to guard against scam artists who take advantage of families at their deepest time of need.
- ◆ The federal bill conditions participation by the states on the state enacting and enforcing tough anti-gouging laws so that consumers are protected against predators.
- ◆ Both the federal and state bills stress the need for consumer education. The Advisory Council shall develop and implement consumer education standards.

### **Continuous Improvement**

- ◆ Create a rigorous process of continuous improvement by establishing a commission of local, state and federal officials along with the private sector to review and assess recovery efforts after every disaster to identify ways to continually improve our ability to recover from catastrophes.
- ◆ Both the federal and state bills contain continuous improvement provisions. The federal bill creates a high level Commission to deal with this issue and gives the Secretary of the Treasury the authority to promulgate regulations. Furthermore, the bill states:
  - The Commission shall meet for the purposes of advising the Secretary regarding the estimated loss costs associated with the contracts for reinsurance coverage and developing and implementing prevention, mitigation, recovery and rebuilding standards. The Commission will be charged with continuous analysis of the effectiveness of the Act and recommending improvements to Congress.
  - The Secretary of the Treasury shall conduct an annual study on the cost and availability of homeowners' insurance for losses resulting from catastrophic natural disasters covered by the reinsurance program as well as reporting on the efforts of the participating states in enacting prevention, mitigation, recovery and rebuilding standards.
  - State Advisory Councils should report their findings to their legislatures on an annual basis.

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## Frequently Asked Questions About H.R. 4366 and the Consumer Hurricane and Earthquake Loss Protection (HELP) Fund

### ***Why do we need the Consumer Hurricane Earthquake Loss Protection (HELP) Fund?***

H.R. 4366, which would create the Consumer HELP Fund, is a comprehensive, integrated approach to help better prepare and protect America from natural catastrophes. The current system leaves many people and businesses at risk of being unable to replace what they lost, wastes tax dollars, raises insurance premiums and leads to shortages of insurance needed to sustain our economy. The Consumer HELP Fund will provide more protection at lower cost to consumers. It will provide the backstop necessary for insurance companies to insure against catastrophes such as hurricanes and earthquakes in a financially responsible manner that doesn't threaten their solvency or their ability to protect their customers from other potential losses. It will help stabilize insurance markets following a catastrophe and help steady insurance costs for consumers while making it possible for private insurers to offer more insurance protection in catastrophe prone areas. H.R. 4366 will protect taxpayers by establishing a process of financing catastrophe response and recovery through insurance companies and will facilitate a better system of preparedness, prevention, mitigation, consumer education and continuous improvement.

### ***How else can the Consumer HELP Fund help reduce the toll of major catastrophes?***

H.R. 4366 would require states and the federal government to promote programs that will mitigate and prevent injuries and property damage from future catastrophes. A portion of state catastrophe fund revenues must go to programs that educate consumers about how to protect their families and homes from catastrophes and from those who prey on victims after catastrophe strikes. H.R. 4366 also supports a rigorous process of continuous improvement so that America becomes better prepared and protected over time.

### ***How would the Consumer HELP Fund work?***

A portion of the premiums collected by insurance companies would be deposited into the Consumer HELP Fund, which would be administered by the U.S. Treasury and grow tax-free. The Fund would only be accessed when private insurers and state catastrophe funds have paid losses in excess of a defined threshold. No tax dollars would be used to subsidize the Consumer HELP Fund, and insurance companies would not have access to the Fund for any purpose other than to pay claims from catastrophes that meet certain conditions specified in the law. Utilizing the capacity of the federal government would help smooth out fluctuations consumers currently experience in insurance prices and availability because of exposure to large catastrophic losses and will provide better protection at a lower price.

***Will consumers save money if Congress creates the Consumer HELP Fund?***

Yes, the Consumer HELP Fund will help contain the cost of homeowners insurance. The money paid into the Consumer HELP Fund stays in the U.S. Treasury where it will be available to help consumers recover from catastrophes. The same cannot be said of money paid to reinsurers, much of which flows to Bermuda, London, Tokyo or Paris, where, after a year with no catastrophes, it becomes profit. The Consumer HELP Fund saves money to help catastrophe victims, where it grows tax-free to pay future catastrophe losses. Money not paid out in one year remains in the Fund to pay for losses in subsequent years. This is a far more efficient way to prepare for the economic devastation of major catastrophes.

***What other benefits can we expect if the Consumer HELP Fund is established?***

The Consumer HELP Fund would make it more likely that homeowners insurance will continue to be available before and after a major catastrophe. This is critical in catastrophe prone areas, where insurance is necessary for rebuilding, as well as every other state where growth and development depend on a healthy insurance market. Insurance is the oxygen of free enterprise – without it our economy cannot prosper and grow. Florida is a perfect example: There has been unprecedented growth in Florida since Andrew devastated that state, which would not have been possible without a strong insurance market. The Florida Hurricane Catastrophe Fund kept insurers in the state, which made rebuilding, growth and continued prosperity possible.

***How does the Florida Hurricane Catastrophe Fund work?***

Although improvements are needed, the Florida Hurricane Catastrophe Fund (FHCF) serves as a model for other states and the nation. The FHCF provides hurricane reinsurance to insurance companies at rates that are less than half those charged in the private reinsurance market and in amounts that are difficult to obtain from private reinsurers. Lower rates are made possible by the FHCF's non-profit, tax-exempt status, and consumers realize the benefits of lower reinsurance costs when they pay their homeowners' insurance premiums. The FHCF helped make it possible for insurers to continue providing homeowners insurance after Hurricane Andrew and the four major hurricanes that struck Florida last year.

***Why should states that are less vulnerable to catastrophes support the Consumer HELP Fund?***

When there is a gap between the insurance protection consumers buy and the damage caused by a major catastrophe, taxpayers across the country pay much of the difference. Congress has appropriated billions of dollars for disaster relief in the aftermath of Hurricane Katrina. H.R. 4366 requires the rates paid by state catastrophe funds to the Consumer HELP Fund must be based on the risk. States that don't have catastrophe funds don't financially support the Consumer HELP Fund, but they will benefit because the impact from catastrophes on taxpayers and insurance consumers across the country will be less with the Consumer HELP Fund in place.