PCI Property Casualty Insurers Association of America
Shaping the Future of American Insurance
2600 South River Road, Des Plaines, IL 60018-3286

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STATEMENT

PROPERTY CASUALTY INSURERS ASSOCIATION OF AMERICA (PCI)

SB 530 – AN ACT ESTABLISHING A STATE NATURAL CATASTROPHE FUND.

COMMITTEE ON INSURANCE AND REAL ESTATE

February 5, 2009

PCI is a national property and casualty insurance company trade association that represents over 1000 member companies. PCI member companies provide 46.5 percent of Connecticut's total homeowners' insurance coverage.

PCI strongly opposes SB 530, which would establish a state fund to offer reinsurance to the private market for natural catastrophe risk. While the bill does not include details on the scope or structure of such a plan, we presume that the plan would be intended to provide reinsurance for hurricane losses, and is intended to provide additional capacity to the private market.

Currently only one state, Florida, has a state catastrophe reinsurance fund to provide reinsurance for hurricane losses. That fund was established following multiple severe storms years, to assure that insurers could obtain a layer of reinsurance and to obtain it at a lower price than available from private reinsurers. The fund was created to assure that the voluntary market would have the capacity to write new business and in an effort to control rising premiums. Today, however, that fund is significantly underfunded –ultimately exposing state taxpayers to the possibility of covering enormous fund deficits following a catastrophe.

PCI does not support creation of a state catastrophe reinsurance fund in Connecticut. Specifically, our member companies do not believe that a catastrophe fund is needed in Connecticut; believe that such a fund could ultimately suppress private market pricing signals; and are concerned that the state, insurers, and taxpayers could be exposed to unfunded liabilities following a catastrophe.

The Connecticut voluntary insurance market is actually functioning as it should and private reinsurance is available. Despite the availability of reinsurance, however, insurance companies must be able to maintain an adequate rate and to spread their risk in order to assure that they are able to pay their claims. It is well established that some companies have taken publicly reported steps to reduce their exposure in high risk areas. However coverage for coastal risks remains readily available in both the admitted private market and in the surplus lines market. Unfortunately, that coverage is priced higher than it has been in the past – in some cases significantly so. The costs of insurance reflect that the risk of catastrophic loss along the coast has risen along with insured values and increased coastal development.