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February 5, 2009

To the Members of the Joint Committee on Insurance and Real Estate:

RE: Senate Bill 530 Creating a State Catastrophe Fund

The Reinsurance Association of America (RAA) is opposed to the creation of a state catastrophe fund which would remove risk from the traditional private market and place it directly on the state taxpayers via assessments.

Reinsurance provides the mechanism to spread risk globally. If Connecticut enacts a state reinsurance catastrophe fund, most of the catastrophic risk will no longer be spread across the world market, but instead will be concentrated in Connecticut.

A classic example of the importance of a diversified insurance/reinsurance market occurred after the unprecedented 2005 hurricane season (Hurricanes Katrina, Wilma and Rita) when U.S. insurers paid 38.9% of the losses, while reinsurers paid 61% of the $72.7 billion in losses – Bermuda reinsurers 24%, US reinsurers 11.5%, European reinsurers 12.6%, Lloyds 12.3% and all others .7%.

The proposal to create a Connecticut catastrophe fund is similar to the reinsurance catastrophe fund created by the state of Florida, the only state with such a fund. When a hurricane occurs that requires the Florida Hurricane Catastrophe Fund (FHCF) to pay losses in excess of its cash balance (as in 2004 and 2005), the fund issues bonds. The bond debt is not paid by the insurance companies; it's paid by taxing Florida policyholders of other lines of insurance such as automobile insurance, and commercial insurance such as municipalities, day care centers, charities, school districts and small businesses regardless of their coastal exposure.

The Florida fund is seriously in debt and it continues to assess policyholders for the 2004-2005 hurricane seasons. According to a reported presented by the FHCF to the Senate Banking and Insurance Committee on December 9, 2008, the fund "has a nearly $19 billion maximum potential shortfall for 2009" as illustrated by the following points.

Florida Hurricane Catastrophe Fund (2009)

Loss History:

1995 $13 million
2004 $5.2 billion
2005 $3.95 billion ($1.975 billion financed through long term debt)

Total Premium Collected: $9.9 billion (1995-2009)

Pre-Event Bonding: FHCF has placed $3.5 billion of pre-event bonding that provides liquidity following a catastrophe (but must be paid back)

Post-Event Bonding Potential: FHCF estimates that it could borrow $3 billion in the current credit environment during the 12 months following a catastrophe

Claims-Paying Ability Shortfall: FHCF estimates that it may only be able to reimburse insurers a total of $10.6 billion against its 2009 commitment of $29.3 billion (an $18.7 billion shortfall)

Sources: Preliminary Official Statement Series 2008 A Bonds (7/9/08); 2007 Annual Statement and FHCF

Additionally, in 2008, financial analyst Fitch Ratings said "in spite of reform efforts enacted by the state of Florida in 2007 (increasing the size of the cat fund) to improve the availability and affordability of homeowners insurance in the state, the Florida homeowners market continues to be unstable" and added if a major storm were to hit the state this year, the fragile market could effectively "collapse."

The RAA urges Connecticut not to follow "Florida's Unnatural Disaster" policy as highlighted in the attached February 4, 2009 editorial published by *The Wall Street Journal.*

Sincerely,

T. L. Stanton

Tamara L. Stanton
Co-Director, State Relations

Attachment

The Reinsurance Association of America (RAA) is a national trade association representing property and casualty companies that specialize in reinsurance. The RAA membership is diverse, including large and small direct writers and brokers in the U.S. and subsidiaries of foreign companies.

THE WALL STREET JOURNAL.
WSJ.com FEBRUARY 4, 2009

Florida's Unnatural Disaster
Charlie Crist, taxpayers and the next hurricane.

Who needs Mother Nature to cause a catastrophe? Florida's politicians are busy creating an unnatural disaster in their state insurance market that will blow away taxpayers when the next big hurricane hits. And we mean taxpayers across America.

Last month State Farm pulled the plug on its 1.2 million homeowner policies in Florida, citing the state's punishing price controls. The state's largest insurer joins a raft of competitors that have already reduced or dumped their property and casualty business in the Sunshine State, including Prudential, Allstate, Nationwide and USAA. This is the inevitable result of Governor Charlie Crist's drive to control property-insurance premiums. The Republican also lobbied his GOP legislature to make the state government a giant competitor in the market, undercutting private insurers.

State Farm's local subsidiary recently requested an increase of 47%, but state regulators refused. State Farm says that since 2000 it has paid $1.21 in claims and expenses for every $1 of premium income received. Since January 2008 alone, the company's surplus has fallen to $621 million from $820 million. Every month in Florida, State Farm loses $20 million. So it finally said, No mas.

Meanwhile, Floridians have been signing up with Citizens Property Insurance Corp., the state-run insurer that Mr. Crist unleashed in 2007. Because it has an implicit taxpayer guarantee, and because its actuarial assumptions are, well, loose, Citizens can offer lower premiums than private competitors can. Citizens has become the largest insurer in the state, with 1.1 million policies.

Mr. Crist has thus guaranteed that Floridians, rather than the global insurance industry, will be on the hook for property damage when the next Katrina hits. Citizens is facing more than $400 billion in potential exposure, yet Citizens Chief Financial Officer Sharon Binnun was recently cited in the South Florida Sun Sentinel as saying it had only $3.4 billion in net assets. Anxious to keep voters happy, legislators have frozen Citizens premiums the past three years.

Some 25% of the coastal property in U.S. hurricane zones is located in Florida, and another storm is inevitable. To pay for those claims when they come, Mr. Crist will either have to raise taxes on Floridians, or beg Congress for a rescue. Mr. Crist tried the latter in 2007 when he pushed federal legislation to distribute below-market loans to state insurance programs and create a federal reinsurance body to backstop undercapitalized states.

Even the Governor may be catching onto his folly. While dismissing State Farm's exit -- "Floridians will be much better off without them" -- he is pushing for a law barring the company from dropping more than 2% of its customers in a single year. So, having publicly brutalized State Farm, undercut its business and set its prices, Mr. Crist now wants to require it to keep losing money.

Mr. Crist's behavior stands in contrast to that of Louisiana, of all places. Baton Rouge also established a Citizens insurer after Katrina but only as a "last resort." Louisiana has a thriving private insurance market, in part because regulators have let companies adjust their rates. By law, Louisiana Citizens cannot offer competitive prices, save in a few high-risk coastal areas. From a peak of about 170,000 policies in 2007, it now holds about 130,000 (about what it had before Katrina) and is aiming to get below 100,000.

It's scary to imagine the bill taxpayers will get when the next big hurricane hits Florida. It's even scarier to think Mr. Crist is being touted as a potential GOP candidate for the White House.