

# CAT Fund Backers Clash With AIA

BY MATT BRADY

NU Online News Service, Jan. 18, 3:15 p.m. EST

*Washington* —An organization campaigning for a federal catastrophe fund is firing back at insurance trade groups that have attacked the concept arguing that the private sector remains capable of covering such risks.

David A. Smith, director of ProtectingAmerica.org, singled out the American Insurance Association in particular, calling its criticisms “shortsighted and misinformed.”

The state and federal catastrophe fund proposal would be established under federal legislation, known as HR 4366, introduced in the House by Rep. Ginny Browne-Waite, R-Fla., and Rep. Clay Shaw, R- Fla.

Allstate Insurance has provided generous funding for the catastrophe fund effort and Allstate Chief Executive Edward Liddy has delivered talks in which he champions the idea of a federal catastrophe fund backed up by individual state funds.

The American Insurance Association criticized the proposal for effectively creating a coverage subsidy for those living on the coast that would be borne by consumers living further inland, adding that it would increase prices by forcing insurers to participate even if they already pay for private reinsurance.

Mr. Smith in response said, "To in any way contend that a privately funded backstop is somehow a 'subsidy,' is flat out wrong. We are supporting a privately funded federal backstop with money coming from the revenues of participating insurance companies," he said. "A simple reading of HR 4366 would have shown the AIA that our proposal in no way provides a subsidy to anyone," he said.

Julie Rochman, a spokesperson for the AIA, argued the bill would indeed involve a subsidy, but added that the group’s opposition was more based on the notion that HR 4366 would impose a government solution on a risk the private market is capable of covering.

“The private market has worked and can continue to work as long as insurers have the tools” to adequately assess the risks, such as modeling, she said.

Additionally, Ms. Rochman noted, a government-administered pool would increase the risk of taxpayers being forced to cover for losses. “In the private market, a reinsurer is supposed to determine how much to charge for a risk. If they are wrong, then the reinsurer is responsible for the loss,” she said. “If a federal program guesses too low, then the taxpayers bear those losses.”

A perfect example of this, she said, can be seen in the National Flood Insurance Program, which has been forced to borrow money over the past few years to cover losses from a series of major hurricanes.

Although the NFIP is required by law to repay what it borrows, Ms. Rochman noted that “nobody expects” it will do so for the \$20 billion it has needed to cover losses stemming from Hurricanes Katrina and Rita.

ProtectingAmerica.org also said it was questioning the motives behind the AIA’s criticisms, drawing a contrast between the proposal and the recently extended Terrorism Risk Insurance Act, which provides federal support when insurers’ terrorism losses pass a certain point.

"It is interesting that on the one hand, the AIA is in full support of a taxpayer subsidy for terrorism coverage for the commercial insurance market, yet it opposes a privately funded backstop for the homeowners market," said Mr. Smith. "We think homeowners need protection."

Ms. Rochman countered that the two are entirely different, in that insurers have tools for gauging catastrophe risk, such as models and loss data, while terrorism remains inherently unpredictable.

"After 9/11, the reinsurance market for terrorism risk collapsed," she said. "After the hurricanes, \$21 billion in capital was added to the market."

The catastrophe fund concept has also come under criticism by the National Association of Mutual Insurance Companies and the Property Casualty Insurers Association of America