Coastal Hurricane Program – Key Challenges

ü For the Consumer:
- Availability of Coastal Insurance

Coastal Hurricane Program Proposal – Key Aspects

ü A private market program to provide insurance coverage for similar risk exposures
- Coastal zone(s) from Texas to Maine
- Personal Lines homeowners policies
- Hurricane (named storm) wind coverage – does not cover flood

ü Federal oversight of rating & coverage to ensure a stable & uniform environment
- Risk-based rates – ensures adequate pre-funding of CAT risk
  - Incorporates output from certified stochastic models
- Premium adjustment mechanism based on actual long-term wind experience
  - Prospective adjustment incorporating occurrence (or not) of major event
  - Proposed timeframe is 10 year rolling
- Credit or incentive mechanism, based on economic need, to assist transition to risk based rates
- Incentives for loss mitigation to manage premium levels
  - Federal economic incentives for states tied to adoption & enforcement of federal building standards and other mitigation/loss reduction programs
- Risk management and capitalization standards for participating carriers

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Coastal Hurricane Program Proposal – Key Aspects

ü Continued State Regulation for Certain Matters
- Solvency
- Residual market regulation
  - Safety net – market of last resort
  - Rating approach is consistent with Federal Program for pre and post event funding
- Authority on all non-wind coverages now regulated by states

ü Accounting Policy
- Change CAT reserve accounting approach to accrued over time, rather than when incurred
- No change in tax treatment – continue deductibility when incurred

ü Mandatory participation in the National Flood Program in coastal and flood zones

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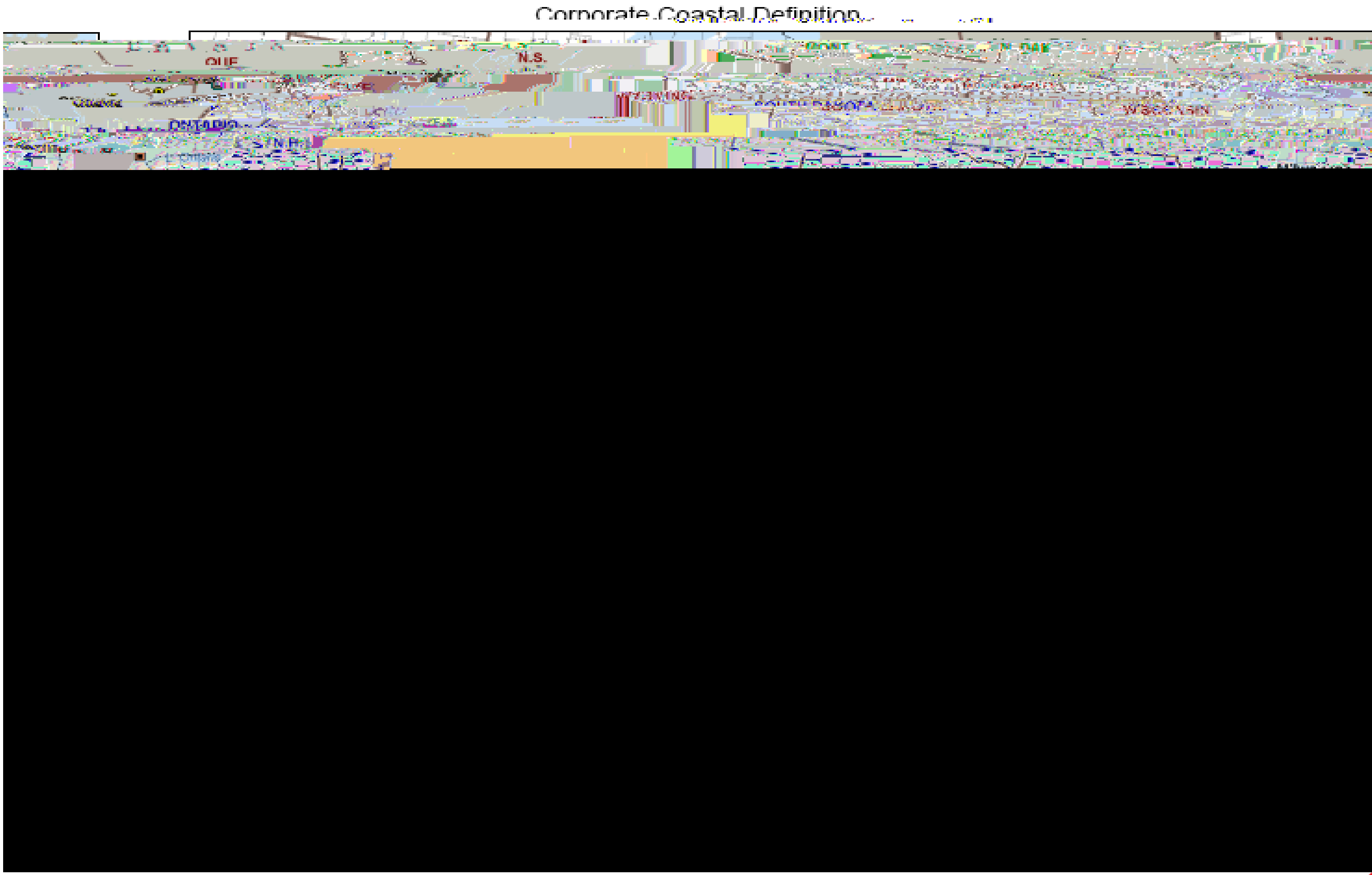
Coastal Zone



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“Before the Next 'Big One' Hits”
Jay S. Fishman
The Wall Street Journal - August 27, 2007

It’s time for all of us to face up to the economic reality of hurricane risks. With more than half of all Americans living within 50 miles of the coast, and the value of coastal properties from Texas to Maine nearing $7 trillion, financial vulnerability to violent storms has increased dramatically. These trends are sure to continue as baby boomers head into retirement with visions of sand between their toes.

Take all that very expensive and congested coastal property and add to it inconsistent building codes and enforcement; aggressive zoning and development policies; warnings that warming ocean temperatures will increase the likelihood of damaging storms; and inconsistent, unpredictable and politically charged local insurance regulations. It’s no wonder that some insurers are heading for higher ground. The availability and affordability of coastal wind insurance has become a serious and growing economic problem, and something’s gotta give.

Unfortunately, most legislative efforts and proposals to address these problems are based on shifting risk away from coastal property owners and on to the government—they’re nothing more than broad-based transfers of risk to taxpayers.

Florida, which arguably faces the greatest challenges, has turned to the state-owned Florida Citizens
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