

**Statement of Robert Detlefsen
on behalf of the
National Association of Mutual Insurance Companies**

Property and Casualty Insurance (C) Committee
Catastrophe Modeling Public Hearing
September 28, 2007

A pair of letters written by J. Robert Hunter and Birny Birnbaum in the course of the last 18 months to two successive NAIC presidents suggests that the purpose of today's hearing is to provide a forum for these two self-anointed "consumer representatives" to publicly express their grievances against catastrophe modeling firms. They are particularly angry that one cat modeler—Risk Management Solutions (RMS)—has in recent years begun using models based on near-term projections to forecast

given theory or model must not only be wrong but illegitimate simply because it attracts criticism is itself an attempt to politicize science.

Do insurers and modelers collude to fix prices? According to Hunter and Birnbaum, “RMS seems clearly to be engaged in collusive pricing activity” and “RMS has become the vehicle for collusive pricing.” Yet they offer no evidence to support this charge, which, if true, would be actionable under the laws of every state. They write that “AIR also seems to confirm the possibility of collusion between modelers and insurers, stating that, ‘...many in the industry challenged catastrophe models and called for a change.’” They fail to explain why someone’s criticism of models should be understood as confirmation of collusion by others.

What should the NAIC do? The wisest course would be to ignore Hunter-Birnbaum’s scientifically illiterate tirade against catastrophe models. Models are tools that provide plausible projections of catastrophe losses. No catastrophe model should be considered an unerring prediction, and we should acknowledge their flaws and imperfections. But it would be a mistake for regulators to assume that they can somehow determine whether a particular model is valid or useful. They cannot.

Just as we are fortunate to have competitive property insurance markets in the United States, so too are we fortunate to have a competitive market for catastrophe models. To the extent that different catastrophe modeling firms develop different approaches to constructing their models, they provide their clients and prospective clients with a