

Good Morning. I'm Senator Steve Geller. Until I retired from the Florida Senate in November, because of Term Limits, I was the Minority (Democratic) Leader of the Florida Senate. I'm past National President of the National Conference of Insurance Legislators (NCOIL) and chaired their Natural Disaster Subcommittee. I served on the Insurance committees in the Florida House and Senate for 17 years. I was Chairman of the Property and Casualty Insurance Subcommittee of the House of Representatives when Hurricane Andrew struck. During my tenure as NCOIL President, one of my top two priorities was the issue of Natural Disaster insurance. I was the first State Legislator to push this issue at meetings of the National Association of Insurance Commissioners (NAIC). I've worked with the insurance industry on Natural Disaster insurance, although the industry remains deeply divided. I've spoken across the Country on the issue of Natural Disaster insurance.

I'm not here today to speak specifically on Congressman Klein's bill, although I think that it's a good bill. I leave the specifics up to Congress. What I can tell you is that a National Natural Disaster program of some type is absolutely critical. Some type of Federal Backstop, such as TRIA (Terrorism Risk Insurance Act) is necessary for natural disasters. Expanding the National Flood Insurance Program (NFIP) to cover all Natural Disasters would also work.

NCOIL supported the formation of TRIA. I served as Vice-Chair of the newly created Terrorism Insurance Select Committee of NCOIL in the days following 9/11. The feeling in NOIL and Washington was that it was impossible to charge an adequate premium for an unknown risk, and that without insurance coverage, many of our major buildings would be unable to operate. I believe that the same principle applies to Natural Disasters, that is, an inability to charge an adequate premium for an unknown risk. Many people, including Members of Congress, suggested that TRIA be extended to cover Natural Disasters.

One of the main arguments against including Natural Disaster coverage with TRIA was the argument that Natural Disasters could be adequately priced based on historical losses, while insured damages due to terrorism could not be adequately predicted. Mr. Chair, since TRIA was enacted in 2002, this argument has proven to be false. The insurance industry in general no longer looks at historical data to price Natural Disaster insurance; it now uses modeling to set

rates. I would submit that the damage from a one in one hundred fifty year earthquake or hurricane is as unquantifiable and unpredictable as the damage from a terrorist attack.

Some people, including Members of Congress, have suggested that the NFIP be expanded to include all Natural Disasters. I certainly feel that this would also be an appropriate method of spreading the risk, which is the purpose of insurance. There are issues which would need to be considered here. First, NFIP is primary insurance, not reinsurance, which would lead to greater involvement by the Federal Government, and also mean that people that purchased homeowners insurance but not a Natural Disaster policy would not have any Natural Disaster coverage. Also, most flooding from lakes or rivers is predictable based on historical data, while other types of rare Natural Disasters may not be. The NFIP has required certain mitigation to be eligible for coverage. This mandatory mitigation could help reduce the costs in the event of certain natural disasters.

I know from my days at NCOIL that many of my legislative colleagues, especially those from the center of the country, have asked why their constituents should pay so that a few wealthy people can live on the coast and have their homes repeatedly destroyed. They're confusing windstorm with flood insurance. Unlike areas near major rivers, which flood repeatedly, or coastal communities, where homes on the beach were destroyed and rebuilt more than once, that simply doesn't happen in Florida with any frequency. Although there is a good chance of a hurricane striking somewhere in Florida, the chances of a hurricane hitting any particular area or home are quite small. We simply don't have the problem of homes being repeatedly destroyed by hurricanes and being rebuilt again and again.

It's also not an issue of a few wealthy people living on the Beach. Many of my former constituents in Century Village Pembroke Pines, a senior community located much closer to the Everglades than the Ocean, will tell you that they can't make ends meet with the high cost of windstorm insurance. They'll tell you the same thing in Hollybrook, another senior community, and throughout South Florida. I don't think that anyone is seriously suggesting that we should abandon Miami Beach or Fort Lauderdale, Hallandale Beach or Hollywood. They're all coastal

cities. Close to 80% of the population of the state of Florida lives in our 35 coastal counties, and no part of the state is more than 80 miles from the coast. And it's not just a Florida issue.

Mr. Chair, I have a DVD that I believe will be fascinating viewing, and that I'd like to enter as a supplement to my remarks. Although its 15 minutes long, if time permits at the end of my remarks, I request permission to play about 2 minutes of it. With the permission of the Weather Channel, it's the introductions to 20 episodes of their television series *It Could Happen Tomorrow*. Each of the 20 episodes deal with natural disasters that could occur tomorrow, causing anywhere from hundreds of deaths to hundreds of thousands of deaths, from billions of dollars in damage, to hundreds of billions of damage. This list includes wildfires in Austin, San Diego, and Los Angeles, Flooding in Boulder and Sacramento, Earthquakes causing tsunamis in Hawaii and the Pacific Northwest, Hurricanes in New York City, Savannah, and Houston, Earthquakes in San Francisco, New Madrid Missouri, Seattle and Las Vegas, a Volcano in Washington State and F4 or F5 Tornadoes in Washington, DC, Dallas and St. Louis. Mr. Chair, it's a National issue. The most expensive hurricane wouldn't hit Florida, it would hit New Jersey on its way to New York City. The most expensive natural disaster wouldn't be a hurricane; it would be a volcano, or an earthquake, probably an earthquake hitting the center of the country at the New Madrid fault.

I will add that of those 20 natural disasters, the only ones that would be covered by the Federal Government are the ones involving flood, which would be covered, to the extent that people purchase insurance, by the NFIP. This committee knows that the Flood program operates at a deficit. What you may not know, while the rest of the country says that Florida should deal with its own issues, is that almost every state runs a deficit, while one state pays far more into the flood program than it receives. That state is Florida, which subsidizes the natural disasters in the rest of the country.

If any of the natural disasters I mentioned occurs, Congress will have to step in, or else face a collapse of the financial system. If a natural disaster costing \$100 billion occurs, and Congress does nothing, the insurance industry will become insolvent. If the insurance industry can't pay off homeowners policies on homes that have been destroyed, the banks that loaned money on the

homes without insurance will fail. Even if the insurance companies stay afloat, many banks won't. In California and many other states, banks don't require insurance coverage for earthquakes. Because of the high cost of earthquake insurance, it's estimated that less than 12% of California homeowners have purchased earthquake insurance. Does this sound familiar? I've been predicting it for years.

The insurance industry is trying to protect itself from potentially devastating claims by charging enough to cover 1 in 100 year or more claims. By definition, those claims are not likely to occur in the lifetime of anyone in this room, or anyone paying insurance. The insurance industry is dealing with both actuarial risk and time risk. If there's a 1 in \$100 year event that would cost \$100 million dollars, on an actuarial basis, and ignoring taxes or earnings, the industry could charge \$1 million a year for 100 years for reserves, and that number would be actuarially sound. However, because of time risk, the insurance industry is trying to raise that \$100 million as soon as possible, or else buy re-insurance to cover it. That raises rates to an impossible amount. Only the Federal Government can absorb the time risk, while charging actuarially sound rates.

Let me give you some concrete examples of how great these savings could be if Congress steps in and eliminates the time risk. In Florida, the state catastrophe CAT fund charges approximately \$6.50 per hundred dollars of insurance coverage up to about \$16 billion dollars of total coverage, which is about a 1 in 33 year event. The private sector charges about \$30.00 per hundred, or about 4 ½ times as much. In the layer of reinsurance over \$16 billion dollars, the CAT fund charges approximately \$2.50 per hundred dollars of insured coverage, while the private sector charges about \$25.00 per hundred. This is about ten times as much. The public sector (CAT) numbers work out to percentage savings of 77.7% to 90%.

In Florida today, as far as we can tell on a statewide average, over 50% of all windstorm dollars go directly to pay for reinsurance. In South Florida and other coastal areas, this number is much higher, up to 80% or 90%. Using simple math, if 80% of the windstorm premium in South Florida goes to reinsurance, and if the blended rate charged by the private sector is only an 80% savings, than total windstorm rates in South Florida could be reduced by 60-65%. Mr. Chair,

we're talking about cutting windstorm rates by over 60% here in South Florida with an appropriate Federal program.

It is also very difficult for the Insurance industry to build the reserves that they would need to pay claims. As the Members of the Financial Services Committee know, the United States is one of the very few countries in the world to charge a tax on the income generated from natural disaster reserves. Because of the negative impact that changing this would have on the U.S. Treasury, I do not expect this change to be made in the foreseeable future.

I believe that the high cost of windstorm insurance is the single biggest issue in the State of Florida today. Many people pay more in homeowners insurance than they do on their mortgage or property taxes. Businesses have to raise their prices to pay for the high cost of windstorm insurance. And Florida is the Canary in the coal mine here. The same problems are starting in New York and New England, and the Gulf states.

There is no prediction on how much homeowners and businesses would save Nationwide with a Federal program. There are many, many variables. Would the Federal program be primary, like NFIP, or be reinsurance? If reinsurance, what would be the attachment points, limits, and co-pays? Reinsurance rates vary by region and type of disaster. The rates vary every year. For example, in Florida, reinsurance rates are scheduled to increase this year by about 15%. They vary by company, and who they purchase reinsurance from. In Florida, for example, State Farm buys reinsurance from the State Farm parent company, purportedly at lower rates than they could from other companies. They vary based on what level companies begin to reinsure at, and up to what levels. Some companies choose to reinsure to a one in one hundred year event, while others may reinsure to a one in two hundred fifty year event. There are many other variables as well. What we do know is that a Federal program of either reinsurance or direct insurance would generate major savings on Natural Disaster insurance, probably in the range of 25% to 50%. The savings can be calculated reasonably well once the parameters of the plan are established. I gave you examples earlier that were South Florida specific, and assumed a program similar to our state CAT fund.

Although this issue has been important for years, it's particularly important now. President Obama campaigned in Florida on a promise to enact a Natural Disaster program. And the current fiscal crisis raises the stakes even more.

The root of our current financial mess is the housing crisis. Congress has been working on ways to keep people in their homes. When people are paying as much for homeowners insurance as they are for their mortgage, a 25%-50% reduction in their insurance rates helps far more than a 20% cut in their mortgage payments. Let me repeat this. In many areas of the country, the single best thing that Congress can do to keep people in their homes is to pass a Natural Disaster insurance bill. The best stimulus package we can pass is not sending everybody \$200 dollars; it's reducing their insurance premiums by hundreds or thousands of dollars a year. Let the consumers spend those savings in restaurants and stores, and we'll have a much greater economic stimulus than Congress passed. And let's improve our balance of trade. The majority of the reinsurers are in Foreign countries. Swiss Re. Hanover Re. Munich Re. Bermuda. Lloyds. Let's keep our dollars in the American economy instead of sending them overseas.

About two and a half years ago, I was primarily responsible for drafting that portion of major insurance legislation that increased the amount of reinsurance that the Florida CAT fund would issue. We passed this despite concerns that we were overextending our risk because we knew that our constituents simply could not continue to pay ever increasing premiums. As a result of this legislation, Florida companies reduced the amount of reinsurance purchased from foreign reinsurers. A friend of mine that was in Bermuda when this occurred advised me that there was rending of clothes and gnashing of teeth in Bermuda, because we were keeping more of our money here.

No state can handle these massive natural disasters alone. In Florida, we've done our part, with out CAT fund, and stronger building codes. We know that the Federal Government will step in after a major catastrophe occurs in this nation. By passing legislation in advance, Congress can act and prepare for the worst, instead of having to react. This preparation will also dramatically reduce insurance premiums, and benefit taxpayers all across the nation. I will leave up to the wisdom of this committee what type of program would work best, whether that be a TRIA type

program, a NFIP type program, or simply having the Federal Reserve guarantee low cost loans to pay off Natural Disaster claims, thus dealing with the time risk issue. I like Congressman Klein's bill. We're not asking for a handout, just a hand. Mr. Chair, we need your help.

Thank you.