OPENING STATEMENT OF
CHAIRMAN PAUL E. KANJORSKI

SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE, AND GOVERNMENT SPONSORED ENTERPRISES

JOINT HEARING ON
H.R. 3355, THE HOMEOWNERS DEFENSE ACT OF 2007

THURSDAY, SEPTEMBER 6, 2007

We meet this afternoon to consider and review a bill introduced by our colleagues, Congressmen Klein and Mahoney of Florida. H.R. 3355 tackles a complex issue: how to address the growing problem of the availability and affordability of homeowner's insurance around the country and especially along our coastlines. I commend my colleagues for taking on such a difficult task. The Financial Services Committee and its predecessors have struggled with this topic for many years.

The costs associated with natural disasters continue to rise. According to the Government Accountability Office, insured losses associated with hurricanes alone have risen from $10 billion in the 1980s to $97 billion for this decade. Some attribute this increase to global warming. Others attribute it to the higher cost of real estate and increased density in high-risk areas. Still others attribute it to a climatic cycle where the frequency and intensity of storms is currently on an upswing that will eventually subside. Whatever the cause, the increase in costs is very real, especially for those who own homes in the areas most affected by natural disasters.

The central question before us today is therefore who should bear these costs. Should it be those who live there, the insurance industry, or the government? The answer could also be some combination of these parties as well as other sources.

My colleagues have carefully considered these matters in crafting their solution to the problem. In brief, their bill would provide States with an opportunity to plan ahead of time for covering the insured losses resulting from natural disasters, via our private markets. Their plan also offers emergency relief in the form of Federal loans for those States that may need access to funds after a major natural disaster.

Specifically, the consortium proposed in Title I of the bill would encourage States to cede risk to the capital markets. I look forward to learning more about the increased role our capital markets can serve in paying for the insured losses of natural disasters. We should, to the extent possible, maximize the risk-bearing capacity of the private sector before calling on the government to assist. Additionally, Title II of the bill creates a Federal loan program that would provide loans to any state facing a significant financial shortfall following a natural disaster if capital is not readily available by any other means.

The bill also aims to avoid the problems that have stalled previous efforts to mitigate the costs of catastrophic disasters for homeowners. States will voluntarily participate in the bill's programs, thereby hopefully avoiding cross subsidization from States that do not bear similar risks. Additionally, the bill aims to mitigate the transfer of risk to the Federal government. These important provisions ought to help the legislative prospects for the bill.

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In sum, I look forward to hearing from our witnesses today on how H.R. 3355 may affect homeowners, businesses, insurers, reinsurers, investors, and all levels of government. I am also very interested in learning about any recommendations that experts may have about how to improve and refine the bill as the Committee continues to consider it.