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PREPARING FOR AND PROTECTING AMERICA FROM CATASTROPHE

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## **STATEMENT OF**

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**NATIONAL CO-CHAIRMAN  
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**Before the  
House of Representatives Committee on Financial Services  
Subcommittee on Oversight and Investigations**

**July 2, 2009**

## **Statement for the Record**

Thank you to the members of the committee present and to Congressman Klein for your leadership on this very important issue. I appreciate the opportunity to appear before you today in my capacity as co-chairman of ProtectingAmerica.Org, an organization committed to finding better ways to prepare and protect American families from the devastation caused by natural catastrophes.

My fellow co-chairman is James Lee Witt, the former director of the Federal Emergency Management Agency. Our coalition's over 300 organizational members include first responder groups, including the American Red Cross, the International Association of Fire Fighters, emergency management officials, insurers like State Farm and Allstate, municipalities, small businesses, Fortune 100 companies and more than 20,000 individual members. The membership is broad and diverse and represents virtually every state in the nation.

ProtectingAmerica.org was formed in 2005 to raise the national awareness about the important responsibility we all have to prepare and protect consumers, families, businesses and communities from natural catastrophes. We have built a campaign to create a comprehensive, catastrophe management solution that protects homes and property at a lower cost, improves preparedness, and reduces the financial burden on consumers and taxpayers – all in an effort to speed recovery, protect property, save money and save lives.

Though we come from all walks of life, we share a common belief that the current system of “destroy, rebuild and hope” in the aftermath of extraordinary natural catastrophes is fatally flawed. Even more importantly in these difficult economic times, we cannot afford to face the threat of another large shock to our weakened housing and lending sectors.

A catastrophic event, be it an earthquake under one of our American great cities, or a massive hurricane making landfall near any of the metropolitan areas from New York to Houston, would cause such enormous damages that our economy would be rocked, private resources would be quickly depleted and a federal bailout of potentially hundreds of billions of dollars would be required. The American taxpayers have lost their appetite for bailouts. They would be far better served by a program that uses private insurance dollars to pre-fund coverage for the eventuality of a catastrophic natural catastrophe.

To that end, we believe that a comprehensive, integrated plan linking a national catastrophe fund with support to first responders and strong provisions for education and mitigation would best address the threat of the next mega-catastrophe. A national catastrophe fund will create a privately financed and federally-administered layer of reinsurance to complement and stabilize private market reinsurance alternatives and ensure greater availability and affordability for consumers of residential property insurance. It will do so by acting as a backstop for state catastrophe funds, which will protect the private market from collapse and ensure that resources are available to rebuild after a major catastrophe. Specifically, it will save constituents additional money on their homeowners' insurance and help states better manage the risk

associated with mega-catastrophes, which are essentially uninsurable in the private market due to the timing risk.

Qualified state funds would be able to purchase re-insurance from the national program. Rates for this coverage would be actuarially based and would only be available to state programs that have established the prevention and mitigation funding. In the event that a catastrophe strikes, private insurers would be required to meet all of their obligations to their policyholders. Should catastrophic losses exceed those obligations, the state catastrophe fund would be utilized. In the event of an extraordinary catastrophe, the national backstop program would provide benefits to the state and help pay remaining claims.

Because this is a state-by-state program based entirely on risk, the likelihood of a taxpayer subsidy is virtually eliminated. This approach requires pre-event funding and relies on private dollars from insurance companies in the areas that are most exposed to catastrophe. As this program relies on the traditional private market for paying claims, the inherent inefficiencies and bureaucracy in a government-run program are eliminated.

This approach is far preferable to the de facto bailout we have witnessed with natural disasters in recent memory. Studies in the aftermath of Hurricane Katrina suggest that after-the-fact recovery funding for catastrophes results in an enormous taxpayer subsidy for uninsured and underinsured properties. In fact, a Brookings Institution study on the Katrina cost found that of the first \$85 billion in taxpayer dollars spent on Katrina recovery efforts, more than \$10 billion covered losses for uninsured or underinsured properties.

We believe a national catastrophe fund would actually buffer the already fragile housing and lending markets during this time of economic downturn. The proposed approach would reduce the threat of insurer insolvency and enhance the industry's capacity to pay claims. This in turn creates an important measure of stability to the catastrophic insurance industry and mitigates the shock to the US economy that a major natural disaster might otherwise produce.

ProtectingAmerica.org strongly believes in complementary readiness, preparedness and mitigation provisions. Ideally, the plan would require the national and state catastrophe funds to dedicate a significant portion of their investment income to local communities and non-profits to support mitigation efforts like building code development/enforcement; preparedness initiatives, such as those offered by the American Red Cross to improve education and training to ensure that citizens and organizations in their community are better prepared for natural catastrophes, and the equipment and personnel needs of first responder agencies, such as local fire departments.

When catastrophe strikes, our after-the-fact response programs and protocols do a remarkable job in getting victims into shelters and in mobilizing emergency supplies and personnel so that the situation does not worsen. All Americans, regardless of whether or not they have been victimized by catastrophe, owe our first responders an enormous debt of gratitude. Their service is invaluable.

Clearly, programs that would improve preparedness, increase public education, enhance prevention and mitigation programs, and augment support for first responder programs would improve our national capability to prepare and protect those of us who live in harm's way.

Public education programs would help homeowners to make necessary plans and be prepared in advance of an emergency. Mitigation programs such as strong, enforceable building codes and effective retrofitting programs would improve the integrity of catastrophe-prone structures so that damage would be minimized if catastrophe strikes. An increase in first responder funding would help finance these critical programs that too often get shortchanged in the give-and-take of local budgeting.

ProtectingAmerica.Org believes that in addition to minimizing the extent of catastrophic losses through prevention and mitigation programs, we must also reduce the taxpayer subsidy of recovery efforts, ensure the adequacy of recovery dollars, and improve the delivery of those critical funds to homeowners. To that end, we strongly advocate that the consumer savings provisions of the proposed legislation are maximized and receive every consideration.

Congressman Klein, thank you for your leadership on this important issue. Your continued persistence on behalf of all homeowners has given this issue the attention it deserves in Congress. Your current legislation, HR 2555, takes significant steps towards a comprehensive disaster preparedness policy for the federal government. As we have discussed, there are three key points that are critical to any comprehensive solution to the homeowners' insurance crisis and we welcome the opportunity to work with you going forward.

**The National Reinsurance Program:** Our goals are to generate additional capacity, bring more stability to the market, make high-quality insurance more available and ensure that consumers realize significant cost-savings on their homeowners insurance. The best way to accomplish this is to enable and encourage more states to create well-structured, actuarially-sound catastrophe funds and to supplement the reinsurance protection for the current state catastrophe programs in Florida and California.

To deliver meaningful premium savings for consumers and to allow for the maximum use of the reinsurance by differing programs in multiple states, reinsurance provisions should allow more flexibility on the attachment point (e.g. the Florida Hurricane Catastrophe Fund caps out at a lower point, approximately a 1-70 year event). In addition, it may be worthwhile to consider alternative means to fund the reinsurance program other than upfront appropriations of the entire potential liability since the odds of incurring this liability are very small. We believe a lower attachment point provides a seamless level of protection for policy holders.

**Stabilization Provisions:** We fully support provisions from HR 3355 to provide for liquidity loans as an additional option for states that qualify. We believe this is a key element to be included in a comprehensive program.

**Prevention and Mitigation:** We applaud you for making sure that better prevention and mitigation needs to be part of a comprehensive program. Our team of experts, on behalf of the

American Red Cross and other first responders, can serve as a useful resource to consider ways in which to enhance these provisions.

I would also like to address a common argument that making homeowners' insurance more affordable and available in high risk states would only encourage people to own homes in those areas. Under scrutiny and under present circumstances, I think you will reject those arguments as we have. The fact is that 57 percent of the American people already live-in areas prone to natural disasters. If we never built another stick of housing on the East or Gulf Coasts, anywhere in California or anywhere across the heartland, almost 6-in-10 families would still be at risk. This approach is instead a reasonable and actuarially sound approach that recognizes the reality of the threat and sets aside the money to deal with it. Moreover, we also advocate effective land use policies be adopted and enforced to protect undeveloped areas going forward.

I would also like to address another frequent criticism that is misplaced. Opponents of this legislation to include reinsurers suggest that homeowners or taxpayers in non-exposed areas will have to pay for the risks assumed by residents of exposed areas. The fact is under this approach, each state is left to assess the magnitude of catastrophic risk confronted by its residential property owners. States not susceptible to mega-catastrophes can opt-out of participation. As a result, taxpayers in those states would no longer be required to subsidize certain federal disaster relief efforts.

I am optimistic that now is the time to affect significant change in the way we address the threat of natural catastrophes. In fact, the political environment has never been more favorable. While campaigning in Florida last fall, then-Senator Obama made a full and public commitment to enacting the Homeowners' Defense Act of 2007. Florida Governor Charlie Crist has made the creation of a national catastrophe backstop a top priority and has worked with federal officials from both parties to make it a reality. Texas Governor Rick Perry and Louisiana Governor Bobby Jindal are both strong advocates of this approach. Senator Bill Nelson, who has brought a deep understanding of insurance issues to the Senate, has been a leader on this issue as well.

This needs to continue to be a top national priority. It reflects strong leadership to act before the next crisis. We believe it is time for the federal government to take action on this important issue and that with your assistance, and with the support of the Obama Administration, together we can get this critical legislation passed into law.

Congressmen Klein and Moore, I want to thank you again for taking the time to consider and discuss this important subject. I would be happy to answer any questions that you may have.