

HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: HM 11A National Catastrophe Solutions
SPONSOR(S): Hasner and others
TIED BILLS: **IDEN./SIM. BILLS:**

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
1) <u>Government Efficiency & Accountability Council</u>	<u></u>	<u>Levin</u>	<u>Cooper</u>
2) <u></u>	<u></u>	<u></u>	<u></u>
3) <u></u>	<u></u>	<u></u>	<u></u>
4) <u></u>	<u></u>	<u></u>	<u></u>
5) <u></u>	<u></u>	<u></u>	<u></u>

SUMMARY ANALYSIS

In the span of 15 months, Florida suffered damage from four tropical storms and eight hurricanes. Of the eight hurricanes hitting Florida, seven are considered among the twelve costliest insured catastrophes in United States history. In total, Florida lost over \$25 billion in 2004 and over \$10.8 billion in 2005.

In response to these catastrophes, House Memorial 11A urges the United States Congress to create a National Catastrophe Insurance Program. The resolution calls for a program that provides consumers with all-perils protection; promotes personal responsibility to mitigate the effect of natural catastrophes through various tax incentives; modifies the tax treatment of certain segregated insurance company reserves; enhances local and state government's role in catastrophic events; and creates a national catastrophic financing mechanism.

A number of federal bills have been filed which address elements of a national catastrophe program. Most recently Congresswoman Brown-Waite has proposed H.R. 91, the Homeowners Protection Act of 2007, which seeks to establish reinsurance for state natural catastrophe insurance programs. In 2006, Congressman Feeney and Senator Nelson both filed bills to create tax-exempt Catastrophe Savings Accounts.¹ Senator Nelson proposed a "Policyholder Disaster Protection Act of 2006."² The bill allows insurance companies to make tax-deductible contributions to a tax-exempt policyholder disaster protection fund. Also in 2006, Senator Martinez filed S. 4005, "The National Hurricane Research Initiative Act of 2006."

¹ H.R. 4836 and S. 3115

² H.R. 2668 and S. 3116

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. HOUSE PRINCIPLES ANALYSIS:

Promote Personal Responsibility: This memorial promotes the retrofitting of existing housing stock in order to mitigate hurricane damage.

Empower Families: This memorial provides families with the ability to manage their own disaster savings account which accumulate on a tax-advantaged basis for the purpose of paying for mitigation enhancements and catastrophic losses.

B. EFFECT OF PROPOSED CHANGES:

Background:

In the span of 15 months, eight hurricanes and four tropical storms impacted the State of Florida.³ Hurricanes Charley, Frances, Ivan, and Jeanne were “the Big Four in 04”, and Hurricanes Dennis, Katrina, Rita and Wilma hit the state during the 2005 hurricane season.⁴ Of these hurricanes, Katrina, Charley, Wilma, Ivan, Frances, Jeanne and Rita are among the twelve costliest insured catastrophes in U.S. history.⁵

According to the Office of Insurance Regulation (OIR), the estimated gross probable losses of each hurricane in Florida in 2005 were as follows:⁶

- Hurricane Dennis: \$297,399,182
- Hurricane Katrina: \$853,000,053
- Hurricane Rita: \$25,242,545
- Hurricane Wilma: \$9,659,383,823

The estimated loss of each hurricane in Florida in 2004 was as follows:⁷

- Hurricane Charley: \$10,158,404,847
- Hurricane Frances: \$7,952,635,936
- Hurricane Ivan: \$3,314,847,829
- Hurricane Jeanne: \$3,634,646,243

Until Hurricane Katrina hit the gulf states in 2005, causing an estimated \$45 billion in insured losses, Hurricane Andrew, in 1992, had been the costliest catastrophe in U.S. history, costing the State of Florida an insured loss of \$21 billion.⁸

³ *Late Breaking Insurance News: Key Facts from Florida's 2004 and 2005 Hurricane Seasons; Eight Hurricanes & Four Tropical Storms in 15 Months*, Florida Insurance Council, February 2, 2006, available at <http://www.flains.org/public/05hurricanecentral113.html-ssi>, viewed on March 13, 2006.

⁴ *Late Breaking Insurance News: Key Facts from Florida's 2004 and 2005 Hurricane Seasons; Eight Hurricanes & Four Tropical Storms in 15 Months*, Florida Insurance Council, February 2, 2006, available at <http://www.flains.org/public/05hurricanecentral113.html-ssi>, viewed on March 13, 2006.

⁵ Robert E. Litan, *Preparing for Future "Katrinas"*, The Brookings Institution: Policy Brief #150, (March 2006), on file with Insurance Committee.

⁶ Office of Insurance Regulation, 2005 Hurricane Season and 2004 Hurricane Season Information, dated August 2006.

⁷ Office of Insurance Regulation, 2005 Hurricane Season and 2004 Hurricane Season information, dated August 2006.

⁸ See Robert E. Litan, *Preparing for Future "Katrinas"*, The Brookings Institution: Policy Brief #150, (March 2006), on file with Insurance Committee.

In addition to insurance related losses, hurricanes also cause problems and disruptions in the lives of affected parties. For instance, hurricanes displace people from their homes, result in loss of personal belongings, close businesses and institutions, cause temporary loss of employment, and create numerous health and safety issues in communities.

Catastrophes

The Insurance Services Office (ISO) defines a catastrophe as an event that causes \$25 million or more in insured property losses and affects a significant number of property/casualty policyholders and insurers.⁹

Natural disasters are one type of catastrophe. Natural disasters continually threaten the United States, and extreme weather conditions pose an immediate danger to the lives, property, security of all residents. This includes cyclones, tornadoes, terrorism, winter storms, earthquakes, wind/hail/flood, and fire.¹⁰ Other catastrophes include terrorism and civil disorders.¹¹ The five most costly U.S. catastrophes include Hurricane Katrina, Hurricane Andrew, the September 11 terrorist attacks in 2001, the Northridge California earthquake, and Hurricane Wilma.¹²

State and National reports concerning hurricanes and related insurance issues:

In June 2006, Governor Jeb Bush issued Executive Order 06-150 creating the Property and Casualty Insurance Reform Committee to examine Florida catastrophe insurance issues and make recommendations to the Governor, the President of the Senate, and the Speaker of the House. The Committee issued its final report in November 2006.

The National Science Board¹³ issued a report on September 29, 2006, which called for an increase of \$300 million per year in hurricane research funding. The primary recommendation of the report is the formation of a National Hurricane Research Initiative, which will provide urgently needed hurricane science and engineering research and education.

Federal Catastrophe Insurance Program Proposals:

Congresswoman Brown-Waite's H.R. creates a Homeowners Protection Act. The purpose of the bill is to create a Consumer Hurricane and Earthquake Protection Fund to provide reinsurance to insurance companies at lower rates than they can get on the private market. The fund would also cover tornados, volcanic eruptions, and other disasters.¹⁴ Under this catastrophe fund legislation, private insurers would be responsible for losses up to amounts determined on a state-to-state or regional basis.¹⁵ State catastrophe funds would pay additional losses up to their limits before the national fund would kick in.

⁹ *Catastrophes: The Ten Most Costly World Insurance Losses*, available at <http://www.iii.org/media/facts/statsbyissue/catastrophes>, on file with Insurance Committee.

¹⁰ *Catastrophes: The Ten Most Costly World Insurance Losses*, available at <http://www.iii.org/media/facts/statsbyissue/catastrophes>, on file with Insurance Committee.

¹¹ *Catastrophes: The Ten Most Costly World Insurance Losses*, available at <http://www.iii.org/media/facts/statsbyissue/catastrophes>, on file with Insurance Committee.

¹² *Catastrophes: The Ten Most Costly World Insurance Losses*, available at <http://www.iii.org/media/facts/statsbyissue/catastrophes>, on file with Insurance Committee.

¹³ The 24 members of the National Science Board are appointed by the President of the United States, and make budget recommendations for the National Science Foundation (NSF). The NSF has an annual budget of about \$5.6 billion (fiscal year 2006), and funds approximately 20 percent of all federally supported basic research conducted by America's colleges and universities.

¹⁴ *Allstate Promotes Catastrophe Fund*, January 14, 2004, Associate Press, available on <http://www.allstate.com>; originally appearing on News-Journal Online at <http://www.news-journalonline.com/NewsJournalOnline/Business/Headlines/bizBIZ05011406.htm>, on file with Insurance Committee.

¹⁵ *Allstate Promotes Catastrophe Fund*, January 14, 2004, Associate Press, available on <http://www.allstate.com>; originally appearing on News-Journal Online at <http://www.news-journalonline.com/NewsJournalOnline/Business/Headlines/bizBIZ05011406.htm>, on file with Insurance Committee.

The national fund would sell reinsurance to the state funds.¹⁶ Reinsurance is backup insurance sold by some insurance companies to other insurers, spreading the risk so that huge losses can be covered.¹⁷

In 2006, Congressman Feeney proposed H.R. 4836, creating the “Catastrophe Savings Account Act of 2006.” This Act adds a chapter to the Internal Revenue Code of 1986 providing consumers with the ability to manage a personal, tax-exempt Catastrophe Saving Account.¹⁸ The account would be a trust created/organized in the U.S. for the exclusive benefit of beneficiaries designated at the time of the establishment of the trust. The bill further delineates how to measure an account’s balance limit; provides definitions for qualified catastrophe expenses, qualified deductible, and qualified rollover contribution; and it delineates the tax treatment of distributions.

Senator Nelson proposed S. 3116, creating a “Policyholder Disaster Protection Act of 2005.” The Act amends the Internal Revenue Code of 1986 and provides for the creation of a tax-deferred insurance company catastrophe reserves benefit for the payment of policyholders’ claims arising from future catastrophic events. The Act explains that present tax law does not give adequate incentive to assure that natural disasters insurance is provided. The Act finds Congress should revise tax laws applicable to property and casualty insurance in order to allow controlled accumulation of pretax dollars devoted solely to the payment of claims arising from future major natural disasters. In order to qualify, the event must be designated either a windstorm (hurricane, cyclone, or tornado), an earthquake, a winter catastrophe, fire, tsunami, flood, volcanic eruption, or hail, and the event must be designated a “catastrophe” by Property Claim Services, the President, or by the chief executive official of a State or territory of the United States, or the District of Columbia.

Senator Martinez proposed S. 4005, the National Hurricane Research Initiative Act of 2006. The Act recommends the formation of a National Hurricane Research Initiative, which will provide urgently needed hurricane science and engineering research and education. It also proposes an additional \$435 million in funding per year through 2017.

House Memorial 11A:

House Memorial 11A was drafted following consideration of the ideas presented at the House three day bi-partisan conference on the Florida insurance markets and extensive review of the recommendations of the Property and Casualty Insurance Reform Committee. The Memorial is a resolution of the State of Florida urging the Congress of the United States to take the following actions, which are all included in the written recommendations of the Governor’s Committee :

Support a National Catastrophe Insurance Program. The suggested insurance program should:

- Provide consumers with a private market residential program that provides all-perils protection;
- Promote personal responsibility to mitigate the effects of natural catastrophes by creating disaster savings accounts and income tax deductions for mitigation expenses;
- Modify the tax treatment of certain segregated insurance company catastrophe reserves to benefit policyholders;
- Enhance local and state government’s role in establishing and maintaining effective preparation and responses to catastrophic events; and

¹⁶ *Allstate Promotes Catastrophe Fund*, January 14, 2004, Associate Press, available on <http://www.allstate.com>; originally appearing on News-Journal Online at <http://www.news-journalonline.com/NewsJournalOnline/Business/Headlines/bizBIZ05011406.htm>, on file with Insurance Committee.

¹⁷ *Allstate Promotes Catastrophe Fund*, January 14, 2004, Associate Press, available on <http://www.allstate.com>; originally appearing on News-Journal Online at <http://www.news-journalonline.com/NewsJournalOnline/Business/Headlines/bizBIZ05011406.htm>, on file with Insurance Committee.

¹⁸ H.R. 4836(1).

- Create a national catastrophe financing mechanism providing a quantifiable level of risk management and financing for mega-catastrophes through sound risk-based premiums paid in correct proportion by all policyholders in the United States.

Participate in a federal/state issues summit in Florida to discuss and develop policy positions on emerging issues of state importance.

Provide federal income tax exemptions for:

- Catastrophe premium equalization deductions which would be held by the State of Florida in a segregated account for the benefit of insurers in the event of a catastrophe;
- The Florida Property and Casualty Joint Underwriting Association.

Create a federal personal income tax deduction for individuals to offset the dramatic rise in the cost of residential property insurance.

Support the National Hurricane Research Initiative, which is intended to foster a better understanding of hurricane prediction, intensity, mitigation on coastal populations, infrastructure, and the environment.

C. SECTION DIRECTORY:

This memorial is not divided into separate sections. It provides a series of “whereas” clauses, followed by a resolution.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

None.

2. Expenditures:

None.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

To the extent this memorial urges Congress to adopt a National Catastrophe Insurance Program for the benefit of consumers; the consumers should experience a positive economic impact (through the use of catastrophe savings accounts and measures to mitigate catastrophic damages.)

D. FISCAL COMMENTS:

None.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

This bill does not require counties or municipalities to spend funds or to take action requiring the expenditure of funds. The bill does not reduce the percentage of a state tax shared with counties or municipalities. The bill does not reduce the authority that municipalities have to raise revenue.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

None provided.

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

IV. AMENDMENTS/COMMITTEE SUBSTITUTE & COMBINED BILL CHANGES

Not applicable.