



American Insurance Association

Insurance Regulation In The Post-Katrina Era Is OFC the Answer?

AEI/CEI Panel Discussion

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Characteristics of Natural Catastrophe Risk

- High (and Growing) Loss Potential
- Significant Volatility
- Computer Models for Frequency and Severity
- Risk Spreading to Reinsurance/Capital Markets
- Potential for Adverse Selection

Characteristics of Insurance Regulation in Some Coastal States

- Anti-Insurer Populism
- Rate Regulation/Suppression
- Product Regulation
- Wide Range of Other Regulatory Interventions (post-event and perpetual)
- Large Residual Markets
- Cat Funds in Place or Under Discussion
- Legal Instability
- Post-event Assessment Risk

Nature of the Risk:

Catastrophe Exposures

or

Regulatory/Legal Intervention?

AIA Coastal Agenda

- Support:
 - Mitigation and Land Use Planning
 - Regulatory Reform (state or federal)
 - Legal Reform
 - Use of Tax Codes to Improve Affordability
- Oppose:
 - Cat Funds
 - Mandated All Perils Policy
 - “Blame” Measures

OFC (S. 40) – Federal Option

- Free Market Rate Environment
- Reduced Regulatory Oversight of Forms
- Consumer Protection Regulation at Federal Level
- Residual Markets Remain at State Level
- Contract Interpretation Remains at State Level
- Does not Directly Address Mitigation or Land Use Planning

OFC's Benefits for Coastal Insurance Markets

- ✓ Removal from Local Politics
- ✓ Market-based Competition Will Allow Risk-based Pricing/Rate Adequacy
- ✓ A New Forms Regulatory Regime Will Allow Insurers to Tailor Coverage to Needs
- ✓ Freedom from Excessive Regulation will Allow More Entry and Exit
- ✓ Residual Market “Assessment Risk” Remains but Reduced in Scope

Issues Beyond the Scope of OFC

- Mitigation and Land Use Planning (but risk-based pricing helps create incentives)
- Contract Uncertainty/Legal Risk
- Tax Incentives to Improve Availability

Conclusion

- OFC → More Competition, Risk-Based Pricing
- Risk-Based Pricing → Better Mitigation Incentives
- Rate Adequacy Reduces Emphasis on Post-Event Assessments
- More Competition → Healthier Insurance Markets
- Healthier Insurance Markets → More Choice, Better Service, Greater Stability
- OFC is not the Only Answer but → Lasting Reform