

Preparing and Protecting America from Natural Catastrophes

“The Next Big One: Are We Ready?”

**National Association of Insurance Commissioners
Southeastern Zone**

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The Time to Act is NOW

- The current system is clearly not meeting the needs of consumers
- Consumers deserve more protection at lower cost
- Traditional insurance model inefficient for mega-cats
- Insufficient capacity exists for events that will occur
- Unreliable and unstable private reinsurance market
- More responsible to act before the next crisis
- Strengthen the Public-Private Partnership at local, state and national levels
- Leverage our federalism system

The Consumer Perspective

- ◆ What this is really all about:

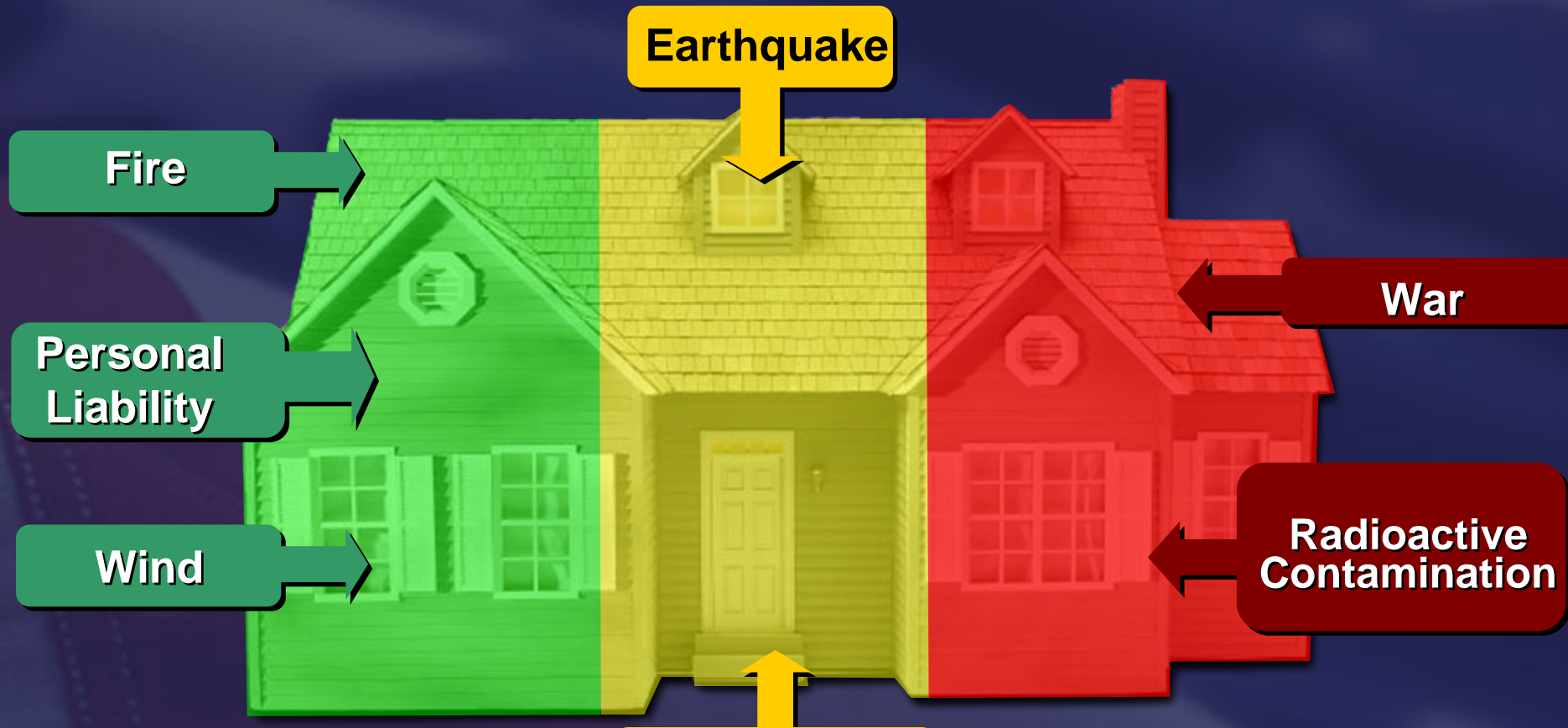
“Saving lives and protecting what people spend their whole lives building”

- ◆ There is a growing protection gap
- ◆ Need to be better prepared and more protected
- ◆ Current system is not working well

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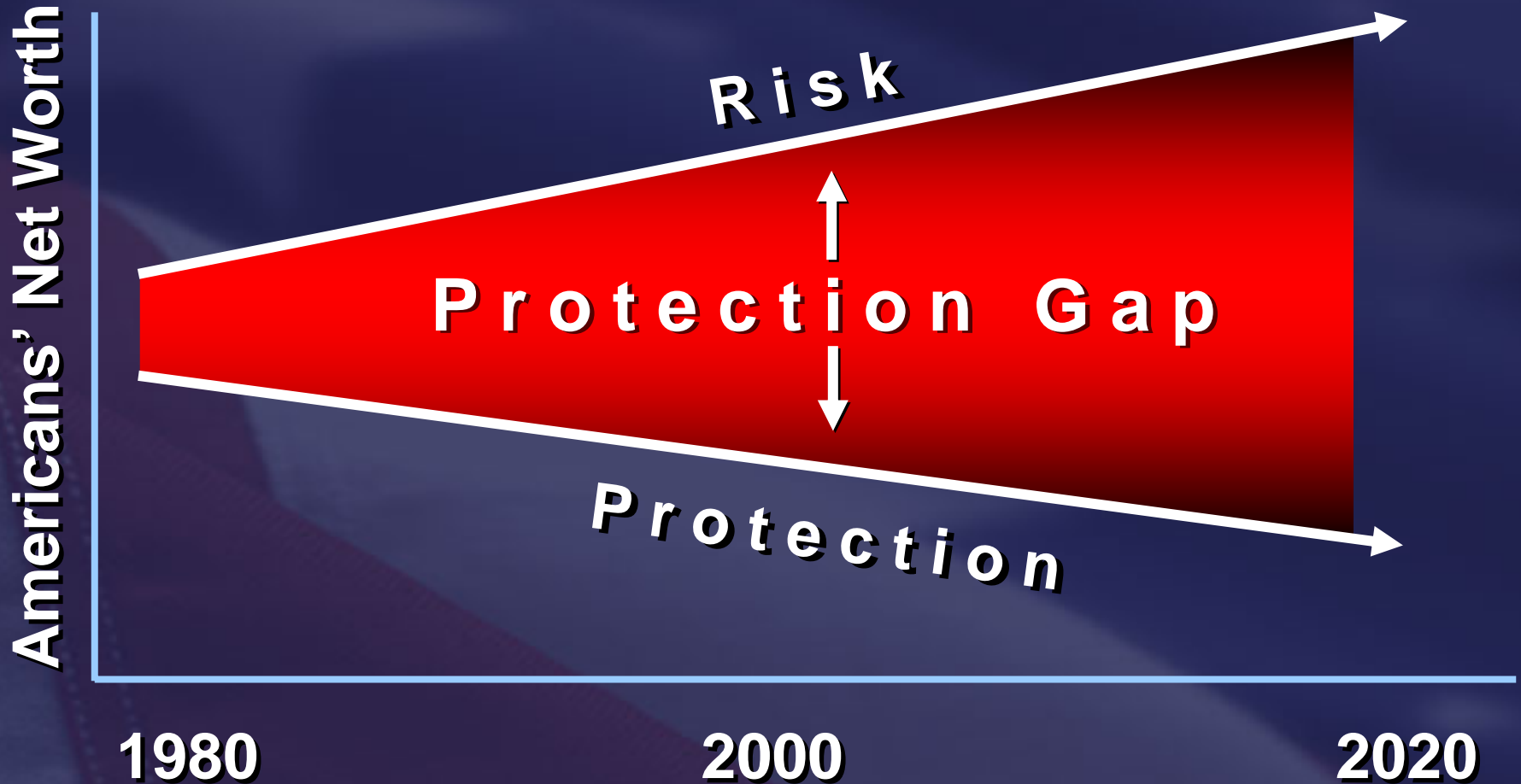
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Homeowners Face Many Risks With A Patchwork of Coverage



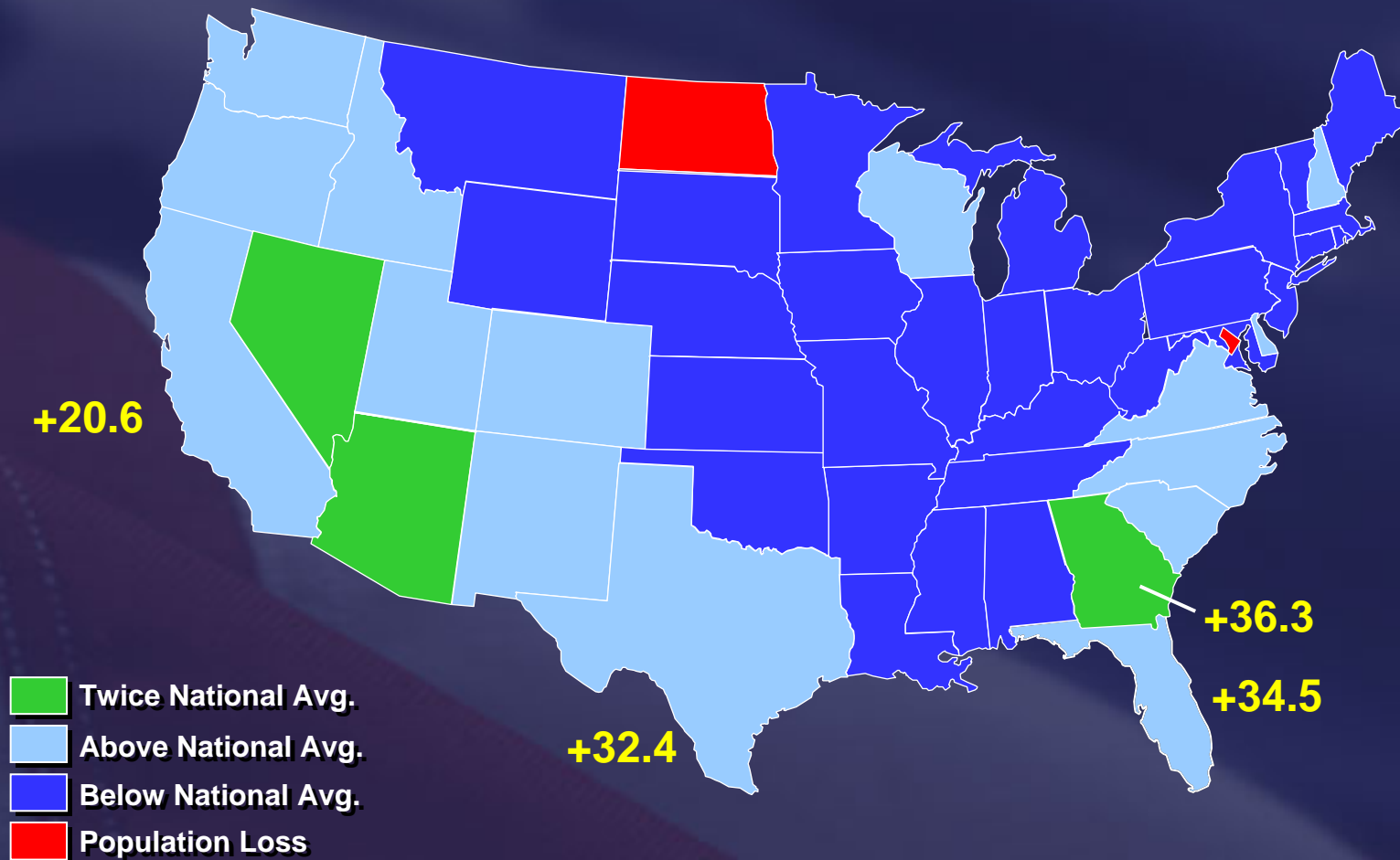
Green: Protection May Be Available
Yellow: Protection Partially Available
Red: Protection Not Available

Protection Gap Is Growing



Population Growing In Areas of Increased Risk

Percent Change in U.S. Population: 1990 - 2004



Source: US Census Bureau

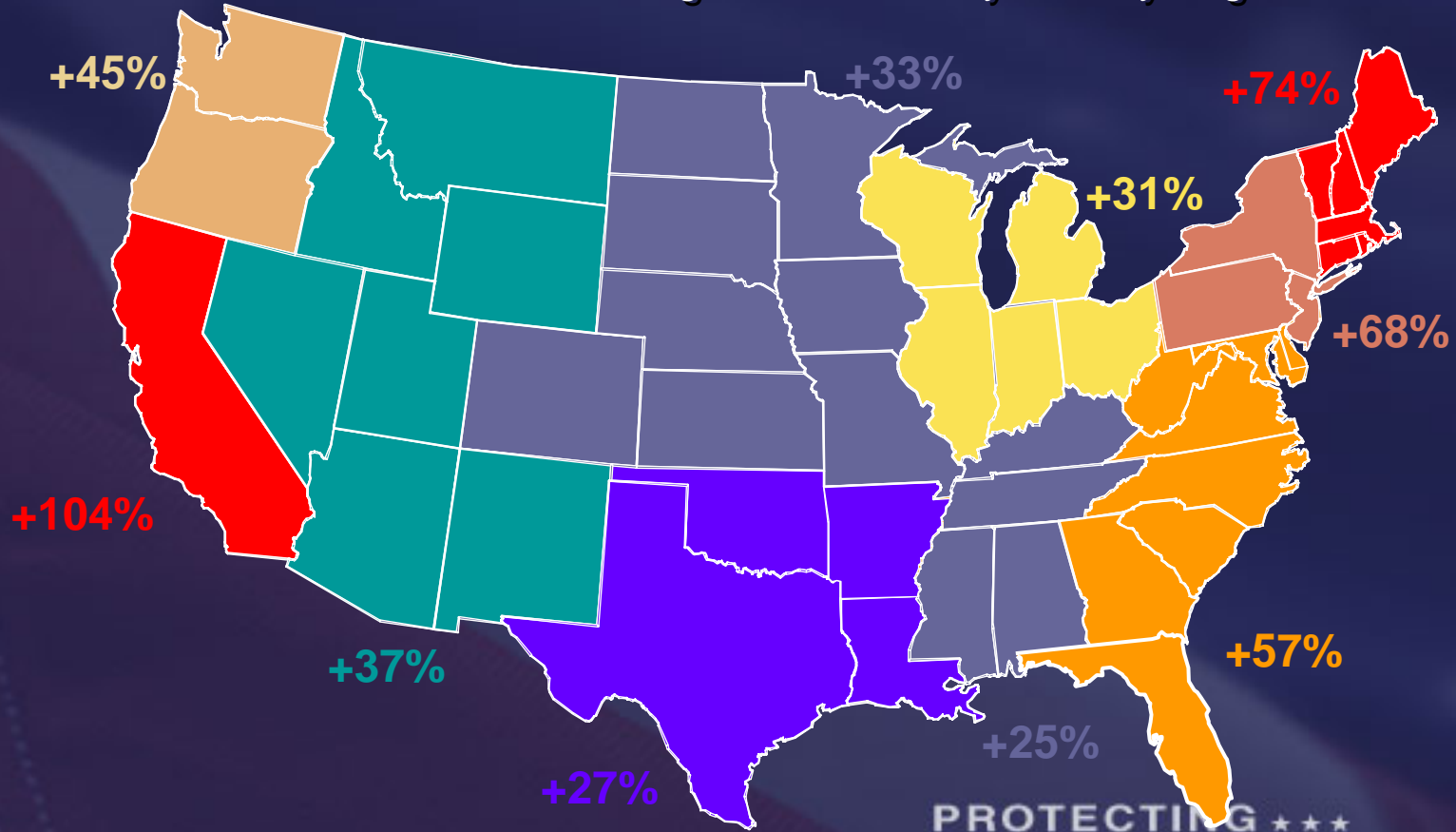
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Home Values Soaring In Areas of Increased Risk

Residential Real Estate

Cumulative Home Price Changes since January 2000 by Region



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Hurricanes: More than Florida, Gulf at Risk

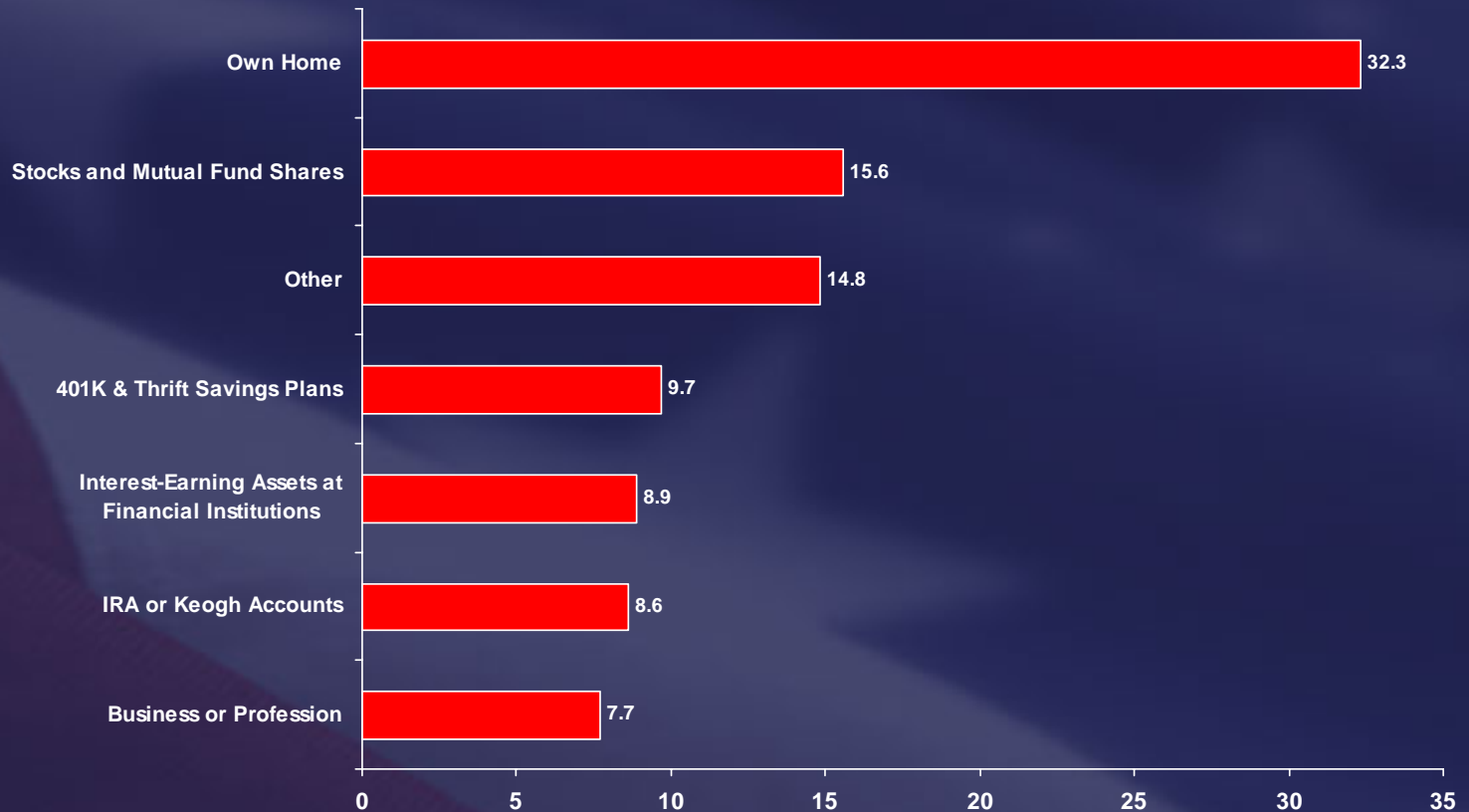
- Twenty states face the direct threat of hurricanes every year
- “Long Island Express” in 1938 would cause \$100 billion in damages today
- Entire nation would be impacted by another hurricane of this magnitude

Earthquakes: More than California at Risk

- Strongest earthquake in Continental U.S. was centered in Missouri (1811 – 1812)
- Scripps: San Andreas Fault in Southern California is “10 months pregnant”
- USGS: 62% chance of a major quake in San Francisco Bay Area before 2032

Americans' Financial Security Is In Their Homes

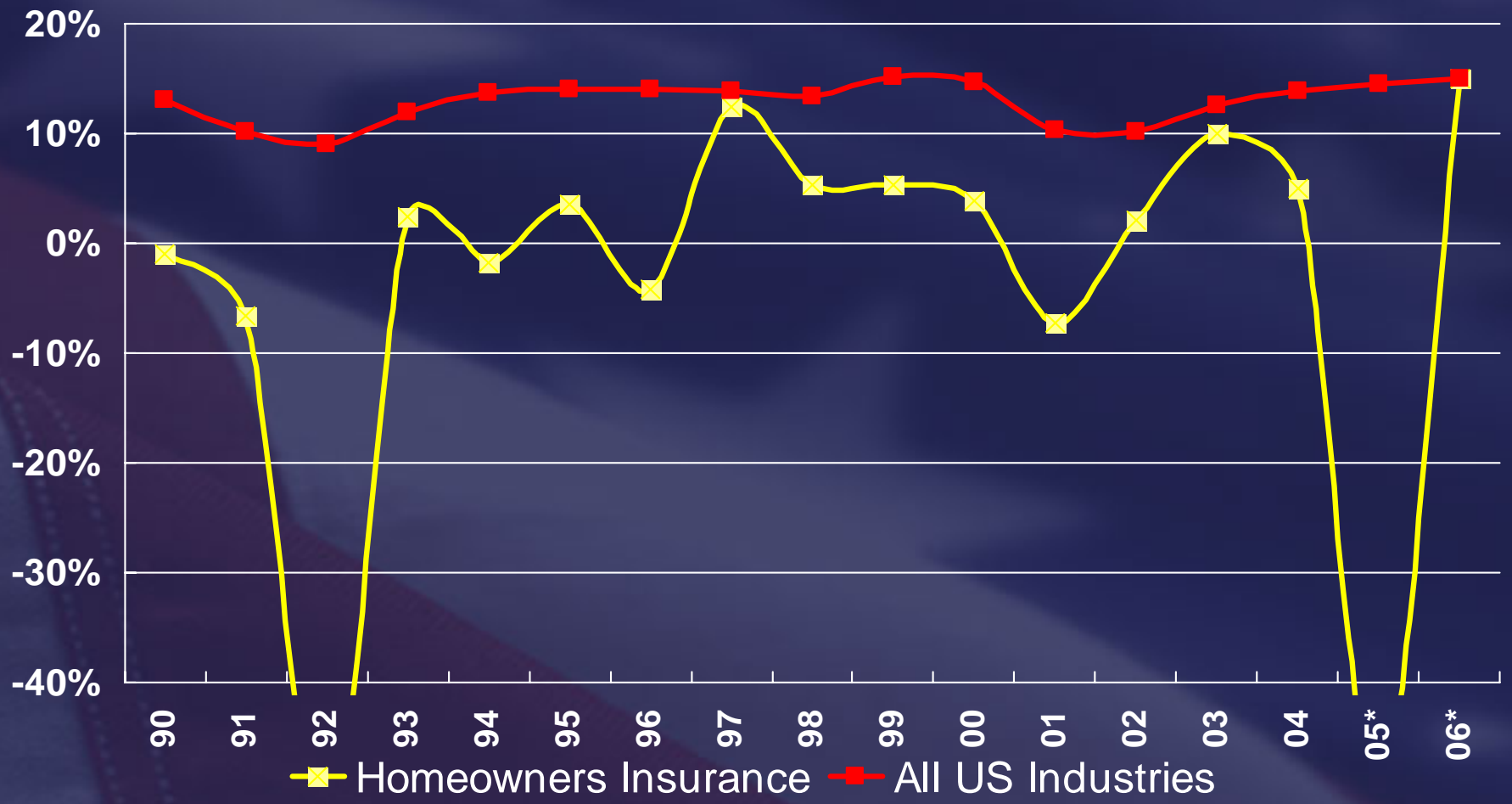
Percent of Aggregate Household Net Worth by Asset Type



Sources: 2000 U.S. Census Bureau, Survey of Income and Program Participation, 1996 Panel

Individual outliers that highly influence the mean value for asset categories were top-coded or excluded. The mean is used to calculate the percent distribution. The outlier adjustments to the individual assets and not the totals led to this column not summing to 100 percent.

Return on Capital in Homeowners Insurance is Low and Volatile



*2005 and 2006 figures are full-year estimates.

Source: Insurance Information Institute; Fortune for all industry figures

Protection Gap Is Growing



What is the answer?

- The status quo is unacceptable
- Strengthen the partnership between private and public sectors at local, state and national levels.
- Optimize public and private sectors and leverage federalism model

A Comprehensive, Integrated Solution

- Stronger financial protection for consumers at lower cost
- Improve prevention and mitigation programs
- Strengthen first responders and improve the process of relief, recovery and rebuilding
- Consumer education and protection
- Rigorous oversight and continuous improvement

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A Comprehensive, Integrated Solution that Strengthens the Public – Private Partnership

- **Stronger financial protection for consumers – integrated state and national financial backstop**

- ◆ **Pre-funded**

- ◆ **Actuarially sound**

- ◆ **Eliminates subsidies**

- **Consumers**

- **Taxpayers**

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A Stronger Public – Private Partnership

■ Backstop model benefits consumers and taxpayers:

◆ More protection

- Increases capacity**
- More stability and certainty**

◆ More affordable

- Non-profit**
- Tax-exempt**

◆ Finances and facilitates other components of the solution

A Comprehensive, Integrated Solution

- **Better financial protection for consumers ... AND**
- **Improve prevention and mitigation programs**
- **Strengthen first responders, improve preparedness and improve the process of relief, recovery and rebuilding**
- **Improve consumer education and consumer protections**
- **Create a rigorous process of continuous improvement**

Savings are Real

State	Estimated Savings	Household
NJ	\$ 54 million	\$ 42
TX	245 million	86
LA	39 million	224
WA	344 million	232
CA	3.2 billion	248
FL	4.1 billion	538

Preparing and Protecting America from Natural Catastrophes

Strengthen
First Responders

Prevention
and Mitigation

Consumer
Protection and
Education

Rigorous Oversight
and Continuous
Improvement

Financial Protection for Consumers

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It's a matter of "When and Where, Not If"

It's Time for Action

- ◆ Strong leadership is needed
- ◆ Encouraging news -- more policymakers are stepping up:
 - NAIC action
 - State action
 - Congressional action

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The Time to Act is Now

- Many remain in a state of denial
- Traditional insurance model is not working
- Relying on guaranty funds is not the answer
- “Everything is fine, just raise rates and hope for the best” is not the answer
- Don't need more government; need smarter government

Time to Act is NOW

- ***“The time to repair the roof is when the sun is shining”***

John F. Kennedy
Second State of the Union Address
January 11, 1962

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Questions and Discussion

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