

**NEW ECONOMIC STUDY SHOWS NATURAL CATASTROPHE
INSURANCE LEGISLATION PENDING IN CONGRESS WOULD ENTAIL
LARGE COSTS FOR TAXPAYERS IN MOST STATES
IF ANOTHER KATRINA-LEVEL EVENT OCCURS**

Taxpayers in at least 20 states would face multi-billion dollar burdens

A new economic study released by Sonecon, LLC and authored by Sonecon chairman Robert Shapiro and Aparna Mathur of the American Enterprise Institute on August 21, 2008, finds that in the event of another hurricane season comparable to 2005, natural catastrophe legislation pending in the Congress would impose large costs on taxpayers in most states and displace much of the private insurance and reinsurance arrangements that have worked well through previous hurricane seasons.

The new study examines legislation passed by the U.S. House of Representatives and pending in the U.S. Senate that would direct the U.S. Treasury to provide loans to “qualified reinsurance programs” at the state level for natural disasters and create a new Federal Natural Disaster Reinsurance Fund to provide direct Federal reinsurance to states for most of their insured losses. The study also looks at the effect of legislation passed by the House but rejected by the Senate, which would expand the National Flood Insurance Program to cover damage from winds during hurricanes.

The study points out that these proposals seem to be aimed especially at assisting Florida, which despite its being prone to frequent and severe hurricane damage, has applied rate controls and regulations that have deterred many private insurers from expanding their coverage in the state. Florida legislators also have established a subsidized state reinsurance system for natural disasters that has largely displaced private reinsurance. This program is currently the only “qualified reinsurance program” that would meet the terms of the proposed new Federal loans.

The study estimates that if a hurricane season comparable to 2005 occurs again, the economic losses that would be covered by the Federal government under those legislative proposals would reach \$140 billion to \$161 billion in 2009, \$197 billion to \$230 billion in 2013, and \$278 billion to \$332 billion in 2017, depending on the approach used to set insurance premiums for state programs.

These losses, the study explains, would very likely be borne by Federal taxpayers. Providing estimates based on the share of Federal revenues provided by each state, the Shapiro-Mathur study finds that if hurricanes comparable to those of 2005 strike again in 2009, taxpayers in at least 20 states would face multi-billion dollar burdens. These include burdens of at least \$19 billion for Californians, \$11 billion for New Yorkers, \$7 billion for Illinoisans, \$6 billion for Pennsylvanians and taxpayers in New Jersey, \$5 billion for those in Ohio, \$4 billion each for taxpayers of Massachusetts, Michigan and Virginia, and at least \$3 billion for taxpayers in Connecticut, Indiana, Maryland, Minnesota, North Carolina and Washington.

The study further concludes that the congressional proposals under consideration would displace much of the private capital currently deployed by insurance and reinsurance companies for such natural disasters and, in their place, create the large financial transfers estimated above from the taxpayers in most states to some businesses and residents in the Gulf states, especially Florida and Louisiana. The authors further conclude that these measures are unnecessary, because the current private insurance and reinsurance sectors have the capacity to handle even the very large claims arising from unusually serious natural catastrophes. The study notes that despite the huge claims arising from the 2005 hurricane season, private insurers covered those claims easily and the capacity of the insurance and reinsurance industries continues to expand.

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