

Via E-Mail

September 26, 2007

The Honorable Nancy Pelosi
Speaker
U.S. House of Representatives
Washington, DC 20515

The Honorable John Boehner
Minority Leader
U.S. House of Representatives
Washington, DC 20515

Dear Madame Speaker and Minority Leader Boehner:

The Reinsurance Association of America (RAA) is writing to express our opposition to House passage of H.R. 3121. "The Flood Insurance Reform Modernization Act of 2007." The RAA opposes this legislation because it unnecessarily expands the scope of the National Flood Insurance Program (NFIP) to offer windstorm coverage that is currently being provided by private sector insurers, reinsurers, capital market participants and residual market programs.

The RAA, headquartered in Washington, D.C., is a non-profit trade association of property and casualty reinsurers and reinsurance intermediaries. RAA underwriting members and their affiliates write more than two-thirds of the gross reinsurance coverage provided by U.S. professional reinsurance companies.

A Robust Private Market for Wind Coverage Already Exists

This legislation fundamentally alters who bears the risk of loss from wind. Instead of spreading this risk throughout the worldwide private insurance marketplace, this legislation puts the entire burden of deficits on the U.S. taxpayer. This fundamental shift is unnecessary. There is adequate wind capacity being provided by direct insurers and/or state residual markets. Moreover, there is a very robust global private reinsurance market for wind to help insurance companies manage their risk or loss. Over \$35 billion of new capital has entered the private reinsurance capital markets to cover wind risk since Hurricane Katrina. RAA questions why Congress would want to shift the risk of loss to the U.S. taxpayers, rather than spreading this risk throughout the private insurance marketplace.

Adding Wind To The NFIP Will Increase Reliance On Disaster Assistance Without The NFIP's Mitigation Requirement

As revealed by Hurricane Katrina, only 20% of qualifying insureds living in flood prone areas bought flood coverage. Expanding the NFIP to cover wind will exacerbate, not relieve, the reliance on disaster assistance. The majority of post-Katrina lawsuits involved policyholders who did not have flood insurance. How does this legislation help the policyholder if it does not mandate the purchase of flood insurance? Is it good public policy to offer wind coverage without government mitigation measures now required under the NFIP?

Federal Taxpayers Will Subsidize Coastal Insureds

The RAA also has serious concerns that the NFIP will recklessly attract policyholders' into buying wind coverage by suppressing the federal insurance rates. This has occurred in most state property insurance residual markets, which are under intense political pressure to maintain rates that are not sufficient to pay losses. Suppressing rates and loosening underwriting standards only places the U.S. taxpayer at further risk and encourages more development in high risk areas.

All State And Federal Disaster Insurance Programs Operate At An Expected Loss

The NFIP is already \$17 billion in the red. What if the NFIP had borne the wind loss associated with the 2004 and 2005 storms? The private marketplace paid \$16.5 billion of wind insured losses in 2004 and over \$60 billion of insured losses for the 2005 season. If this legislation were in place when these storms hit, the U.S. taxpayer would be paying greater deficits for these losses, rather than the private global insurance and reinsurance marketplace.

For these reason, we strongly urge members to vote no on passage of H.R. 3121.

Sincerely,

A handwritten signature in black ink, appearing to read "Frank Nutter", with a long horizontal flourish extending to the right.

Franklin W. Nutter
President