

# Principles & Objectives Guiding Legislative Creation of the Coastal Band and Its Business Plan

## General Principles

Decisions will be based solely on what serves community policyholders the best

Decisions will be based on economic facts

Include all who want to be included – including Puerto Rico & Virgin Islands, other parts of US

Establish an Insurance Mechanism, not a Savings Account

Five general strategies for building legislation and a business plan are currently in the discussion. At the last HHII brainstorming meeting only Number 5 below was discussed in some detail. All of these and any others will be analyzed before selecting one or two to push forward.

A significant challenge: the logistics of bringing consumers in other states into the discussion.

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### 1

**The Coastal Band serve as a Negotiating Bloc that negotiates with private reinsurers for best prices and causes savings to be passed on to policyholders**

**Details:**

**Advantages:** Minimal changes to the existing system

**Disadvantages:** Hurricane premium continues to go out of the country into private pockets, hence savings and security cannot take advantage of the accumulation of premiums; no savings from tax deductions and non-profit rules;

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### 2

**Congressional Parity Law throughout the band requiring companies that sell anywhere in the band to sell everywhere, and that their price-per-thousand-per-product be the same throughout the band.**

**Details:**

**Advantages:** Minimal changes to existing system; eliminates cherry-picking within the coastal band;

**Disadvantages:** Hurricane premium continues to go out of the country into private pockets; no savings from tax deductions and non-profit rules;

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### 3a

**Multiple for-profits or non-profits provide hurricane wind & flood insurance under regulations that cause the non-profits to serve the policyholders best (similar to federal rules governing Medicare private insurance coverage)**

**Details:**

**Advantages:**

**Disadvantages:**

### 3b

**State catastrophic wind-pools (piloted first in Baldwin County) provide hurricane wind & flood re-insurance to companies that serve their jurisdiction.**

**Details:**

**Advantages:**

**Disadvantages:**

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### 4

**The Florida Plan – Expanded and Tweaked**

**Details:** Builds Cat Fund with premiums paid by private companies when they buy its reinsurance; supplements the fund if a catastrophe drains it with bonds that are paid off with assessments on all Florida insurance policyholders; Florida law prohibited insurance companies from leaving the state; it mandates private companies purchase at least 45% of their reinsurance from the state reinsurance fund (most companies voluntarily purchase about 90%); requires that companies keep the first \$ 7 billion in risk; covers the next \$19 billion in risk (requiring companies to keep a 10% share of that); requires that the private companies pay everything over the \$26 billion in losses (\$7 billion + \$19 billion = \$26 billion).

**Advantages:** Kept insurance available, reduced costs somewhat – stabilizing the Florida economy after Hurricane Andrew in 1992; provides a consistent and stable source of reinsurance; keeps and accumulates *some* of the hurricane premium;

**Disadvantages:** Potential assessments to pay off bonds; potential for running out of money; (two dangers that would be alleviated by the size of a multi-state coastal band); can't do re-instatement

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### 5

**Single, non-profit or quasi-government entity collects hurricane premiums and provides for hurricane wind and flood claims.**

**Details:**

Governance: an elected board; insurance companies prohibited on board; elected by either one-policyholder-one-vote; or one-person-(with a policy)-one-vote; elected from districts through the band, such as one representative from each of six districts including Northeast; North Atlantic; Mid-Atlantic, Southeast, Florida, Gulf Coast;

Staff: Best money can hire; independent, contracted consultants – possibly, but generally dismissed, a board of scholarly advisors; domestic insurance infrastructure sells policies and manages claims;

Funding: Congressional law requires hurricane premiums go to entity; or domestic insurers voluntarily sell hurricane coverage that's provided by the entity; federally backstopped; federal flood expenditures would need to be turned to entity if it's to cover hurricane flood;

Coverage: tropical/hurricane wind & flood, in the band; non-tropical tornadoes briefly discussed

Financial Management: Premiums are invested equitably throughout the band; pay dividends to policyholders when warranted; federal government provides lending backstop in early years in case damages exceed income;

**Advantages:** Savings to consumer are enhanced considerably because the entity accumulates annual premiums solely for the purpose of rebuilding after catastrophic windstorms; savings accrued, too, because it's non-profit and not taxed; prohibits cherry picking;

**Disadvantages:**