

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.

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;

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;

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:

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

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: