



HHII Steering Board



HHII Policy Brainstorming committee

*(This is the first attempt to begin to condense and synthesize the principles and thoughts you have developed during the past eight months. The writing in Black is the set of Guiding Principles that you have devised in all you prior local and multi-state Brainstorming Sessions. The writing in Blue is Sen Hightowers' notes of the conversation with Robert Hunter. The writing in Green is inserted by Dan)*

# Coastal Band

Principles & Objectives Guiding Legislative Creation of a Special Insurance District  
*(A Working Document -- 20140324)*

A single, non-profit or quasi-government entity that collects Cat Wind-and-Flood premiums and provides for hurricane wind and flood claims in a multi-state band that is 50 miles deep from the

beaches and running from Maine through Texas; created by Congress; receives – required by law -- hurricane portion of each premium from insurance companies and flood premiums from NFIP.

## A) Guiding Principles

- Decisions made when designing the Coastal Band and its governing entity will be based solely on what serves community policyholders the best; **Brings the product at the lowest possible price; it would make insurance available to all levels of income.**
- Decisions will be based on economic facts; **Create a mechanism that would be self-sustaining for the long term; Keep the entity financially sound;**
- Include all who want to be included – including Puerto Rico & Virgin Islands, other parts of US; **Bring together as many states as possible.**
- Establish an Insurance Mechanism, not a Savings Account; (Insurance is a subsidizing mechanism)
- Merge Hurricane Flood and Wind coverage if feasible; **The policy should be an all risk policy and not carve out wind, water, hail (that's the ideal). But allow the consumer to opt out of any element of coverage. The principal is that you want comprehensive coverage that people will be protected and understand. How do you do that? Create an All-risk homeowners policy that would attach whether it was a hurricane, tornado or wind, etc.** Seamless coverage from homeowners' perspective; Coastal Band only; and/or Cat Wind-and-Flood-related only; or broadly, all flooding; If Cat Wind-and-Flood-related flooding only, homeowners will have to have two flood policies. Stop Repetitive Losses. Add auto and/or all other risk, for financial reasons, but also as a negotiating chip that can be dropped later;
- **Why would we couple with other states: Together we could push the concept against insurance companies resistance. Together we could command more respect. Secondly, Bob assures me that the actuarial risks can be managed. (Distribute risk appropriately)**
- **Mitigation would be an element of the effort.**
- **Reinsurance: keep as much money in the coastal band or state.**

### Coverage:

- Tropical/hurricane wind & flood, in the band; what about routine rains flood; would this require a homeowner to have 2 flood policies – one for hurricanes and one for all other flooding?
- Non-tropical tornadoes briefly discussed (possibly left to domestic market)
- How would this entity treat mitigation?
- The elimination of Cherry Picking should distinguish quality of structures, if not geographical areas;

### Governance:

- **Governance would be of the sort that would be responsive to the public and keep the public's interest paramount, (bringing in the necessary expertise (see, too, Staff, below)).**
- An elected board; Insurance companies prohibited on board; or, maybe have a couple members from insurance companies, but don't give them the power; the board would need insurance experts in significant numbers, and maybe be the majority; this is particularly important to win credibility with rating companies;
- Board elected by either one-policy-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; some believe more districts – a larger board -- are needed;
- Review Congressional legislation that created REA as a possible model; review Alabama's Captive Insurance legislation as a possible model
- What is the length of their terms?

### Staff:

- Bringing in the necessary expertise.
- Best money can hire;
- Independent, contracted consultants – possibly, but generally dismissed, a board of scholarly advisors;
- Domestic insurance infrastructure (staff) sells policies and manages claims;

### Funding/ Financials:

- Congressional law requires Cat Wind-and-Flood premiums go to entity;
- Domestic insurers voluntarily sell Cat Wind-and-Flood coverage that's provided by the entity;
- In event of major catastrophe before fund is built up financed by bonds/loans, federally backstopped;
- Federal flood expenditures would be turned to entity if it's to cover hurricane flood;
- -- The significant capital advantage will be capturing the "Risk Load" reinsurance companies charge. It makes up about 80% of the reinsurance premium.
- -- A significant problem: raising initial capital and also winning credibility with mortgage companies; (need a financial rating from Demo-tech, or AM Best)
- -- Will need a business plan and involvement of actuaries; (business plan developed by Mr. Hunter, National Academy of Sciences and/or others)
- -- Don't mention/plan dividend returns to policyholders because all the capital will be needed;
- Premiums are invested equitably throughout the band;
- Pay dividends to policyholders when warranted;
- Washington should also approve a tax reserve set up for the fund. This would address the problem where the dollars are going off shore.
- Federal government provides lending backstop in early years in case damages exceed income; Timing: Florida was lucky and could build their reserve. It could happen with us, but it cannot be done with reinsurance companies as the vehicle. The director of reinsurance came to bob and said he was too greedy. The reinsurance industry did not want the Florida solution to happen.

### Advantages:

- Premium revenue from multiple states coupled with the capacity to borrow from bond markets, backed by the federal government or an alliance of state governments make it possible to operate without re-insurance;
- Savings to consumer are enhanced considerably because the entity accumulates annual premiums solely for the purpose of rebuilding after catastrophic windstorms;
- Premiums maximized because it is non-profit and not taxed;
- Prohibits cherry picking;
- Develop a central headquarters charged with making coast invulnerable to hurricanes as well as rebuilding homes after a hurricane; Mitigation would be an element of the effort.

### Disadvantages:

#### Questions to Research/ Study:

- What is critical mass; how many states are needed? If you have a strong coalition of states, 5 or 6 states, and you go to Washington and say we will guarantee this with bonds, but we need some federal government for back up during the transition, that may work.
- -- DOI might be supportive of HHII/GCEC requests for studies by the new Institute;
- Three steps: (1) Define Initial Study Scope (2) Feasibility Study. (3) Amass the data to show the claims coming in and money in each state, which can be obtained by the insurance carriers. This would substantiate the plan due to impact. If you have a strong coalition of states, 5 or 6 states, and you go to Washington and say we will guarantee this with bonds,

but we need some federal government for back up during the transition, that may work.  
(Ask Bradley Byrne to pass a resolution which says this has merit.)

- Define initial study: a) Scope; b) What we want to accomplish; c) What type of data do we need?

## A) Steps to Implementation

- Push implementation in Phases: Phases can start with one or a few states first, adding more in a later phase; and/or beginning with one of the above ideas, such as creation of the band as a negotiating bloc, and implementing additional strategies in later phases.
- Look for ways to sweeten pot for domestic insurance companies.
- Build alliances;
- Don't just go write a bill, but build the *Grassroots* coalition of states, with congressmen, then focus on legislation. (Robert said the path involves *Grassroots* coalition building twice, and indicated that this is the necessary work if the band will be implemented.)
- National Academy of Sciences performs the detailed study?
- Congressional action