There is a better way – Coastal Re-insurance Band

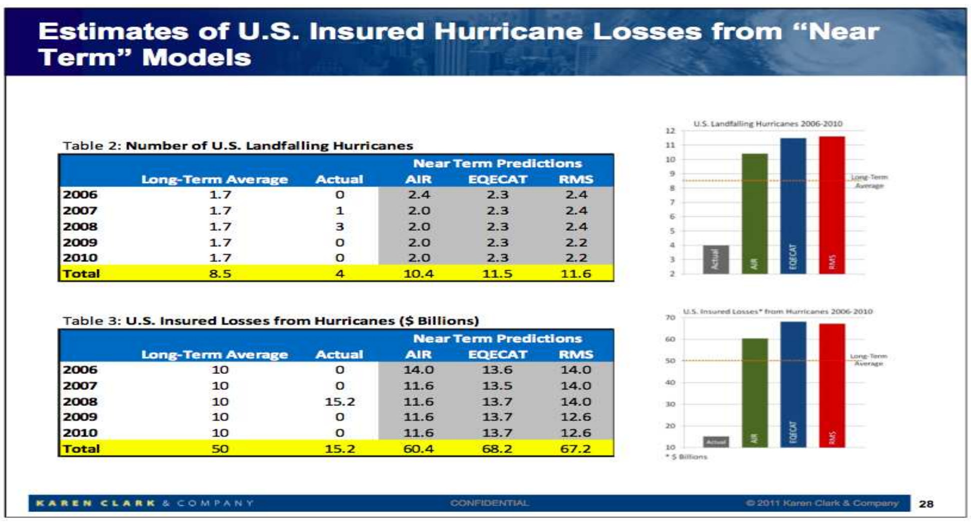
Summary Idea

A Coastal Reinsurance Entity would collect the hurricane premiums in a home-owners policy in the coastal band. It would pay for wind damages that resulted from named storms. It would be crafted by a Congressional Act or state compacts. Non-catastrophic homeowners insurance would remain with the private market.

Coastal Reinsurance Economics

Since 2006, an estimated $8-20 billion in home-owners hurricane insurance is collected in this band each year. The bulk of that goes to reinsurers out of the country.

An estimated average of $2 billion has been paid in hurricane claims a year since 2006.



Estimates of U.S. Insured Hurricane Losses from "Near Term" Models

Table 2: Number of U.S. Landfalling Hurricanes

			Near Term Predictions		
	Long-Term Average	Actual	AIR	EQECAT	RMS
2006	1.7	0	2.4	2.3	2.4
2007	1.7	1	2.0	2.3	2.4
2008	1.7	3	2.0	2.3	2.4
2009	1.7	0	2.0	2.3	2.2
2010	1.7	0	2.0	2.3	2.2
Total	8.5	4	10.4	11.5	11.6

Table 3: U.S. Insured Losses from Hurricanes ($ Billions)

			Near Term Predictions		
	Long-Term Average	Actual	AIR	EQECAT	RMS
2006	10	0	14.0	13.6	14.0
2007	10	0	11.6	13.5	14.0
2008	10	15.2	11.6	13.7	14.0
2009	10	0	11.6	13.7	12.6
2010	10	0	11.6	13.7	12.6
Total	50	15.2	60.4	68.2	67.2

Predicted losses and actual losses between 2006 and 2010: Between $60 – 68 Billion Losses Expected and only $15 Billion paid out nationwide*

Had the revenue stream been managed by a domestic Coastal Band Hurricane Reinsurance Entity, its fund would have $42-$126 billion in reserves today.

Cutting Premiums in Half

Collecting premiums at half the current price, the coastal band would receive $4-10 billion a year and could repair the $2 billion damage done by a Cat-3 Hurricane two to five times a year, year after year. Cat wind would accumulate because the fund is managed exclusively for storm repair. It needs no new taxes. Private companies would flock back to coastal areas because they have been relieved of catastrophic wind risk. Because the band affects only coastal America, inland politicians and their constituents can support it.

*from presentation given by Karen Clark, the inventor of the Cat models to the National Association of Insurance Commissioners http://www.naic.org/documents/committees_c_catastrophe_110328_presentation_karen_clark.pdf