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March 17, 2009

Honorable Maxine Waters
Chairwoman
Housing Subcommittee
U.S. House of Representatives
Washington, DC 20515

Honorable Shelley Moore Capito
Ranking Member
Housing Subcommittee
U.S. House of Representatives
Washington, DC 20515

Dear Madam Chairwoman and Representative Capito:

On behalf of the undersigned associations, we are writing to express our strong opposition to “The Multiple Peril Insurance Act of 2009” (H.R. 1264), offered by Rep. Gene Taylor (D-Miss.), that would authorize the National Flood Insurance Program (NFIP) to sell windstorm insurance.

According to an April 2008 report to Congress by the Government Accountability Office (GAO), the implementation of a combined federal flood and wind insurance program would present numerous challenges. In addition to an increased exposure for the federal government, the GAO cited the possibility that an “adverse selection spiral” could make rate setting very difficult for FEMA and could lead to decreased participation in the National Flood Insurance Program.

H.R. 1264 also has the potential to dramatically increase the exposure of the NFIP and the federal government to catastrophic losses. The states along the Gulf coast and eastern seaboard contain more than \$19 trillion in insured property values. The majority of these risks are currently insured in the private marketplace — either directly or by insurer-backed state residual market programs. Moving significant numbers of these properties from the private insurance marketplace to the NFIP could markedly increase the exposure of loss to the federal government, and the potential for a significant taxpayer subsidy despite the provision that calls for “actuarially sound” rates for the windstorm portion of this coverage. This legislation comes at a time when the NFIP is already more than \$18 billion in debt. The interest alone on this debt costs the NFIP more than \$900 million a year, none of which goes to pay back any of the principal.

Moreover, adding wind to the NFIP will not address “wind versus water” disputes, because the legislation does not eliminate the need for multiple insurance programs. Property owners who want fully adequate coverage or who are required by their mortgagees to obtain higher limits will have to purchase it from the private market and integrate two different insurance policies. In fact, the new option contained in this year’s version of the bill that allows the purchase of separate flood and wind-only policies would do little to facilitate the resolution of these claims.

We urge you to oppose H.R. 1264 should it come up for consideration. We look forward to continuing to work with you and other members of the Committee on market-based solutions to address the availability of insurance in high-risk communities.

Respectfully,

American Insurance Association
National Association of Mutual Insurance Companies
The Financial Services Roundtable
Property Casualty Insurers Association of America
Reinsurance Association of America

cc:

The Honorable Barney Frank
The Honorable Spencer Bachus
The Honorable Paul Kanjorski
The Honorable Scott Garrett

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