THE HOMEOWNERS' INSURANCE CRISIS AND ITS IMPACT ON COMMUNITIES, HOMEOWNERS, AND THE ECONOMY

FIELD HEARING

BEFORE THE

SUBCOMMITTEE ON
OVERSIGHT AND INVESTIGATIONS

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

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THE HOMEOWNERS' INSURANCE CRISIS AND ITS IMPACT ON COMMUNITIES, HOMEOWNERS, AND THE ECONOMY

Monday, February 11, 2008

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 1 p.m., in the Palm Beach County Commission Chambers, North Olive Avenue, West Palm Beach, Florida, Hon. Melvin L. Watt [chairman of the subcommittee] presiding.

Present: Representatives Watt, Klein, Mahoney, and Wexler.

Mr. KLEIN. [presiding] The Oversight and Investigations Subcommittee of the Financial Services Committee of the United States House of Representatives will come to order.

The purpose of the hearing today is to discuss the homeowners' insurance crisis and its impact on communities, homeowners, and the economy, and we thank all of you for joining us today. We are going to be welcoming some members from the committee. Our chairman is going to be here in a few minutes; his flight was slightly delayed.

Before we get to anything else, the Congress would like to extend its appreciation to the Palm Beach County Commission for making your facilities available to us and for all the wonderful work you do on behalf of our community, and I would like to turn the meeting over to the board chair of the county commissioners, Commissioner Addie Green.

Ms. GREEN. Thank you very much. It gives me an honor and on behalf of Palm Beach County Board of County Commissioners, I would like to extend our welcome to Chairman Watt and the members of the Financial Services Committee, Oversight and Investigations Subcommittee.

I would also like to thank our local congressional delegation members for their support over the past year, not only in working on important insurance legislation, but also in securing resources for many of our local appropriations and legislative priorities.

Congressman Wexler, you have for many years been the champion of securing the dollars necessary for Palm Beach International Airport's new air traffic control tower. We thank you and our staff for securing $7.4 million this year towards the cost of that construction.

Congressman Mahoney, many thanks to you for $735,000 for our Palm Tran buses and for your leadership on Everglades funding and last year's Water Resource Development Act.

Congressman Klein, thank you for your assistance in authorizing $4.5 million in funds for the restoration of Peanut Island and your efforts in securing almost $2 million for the County Sands Transfer Plant at the Lake Worth Inlet. We look forward to working with you again this year on our local priorities.

We appreciate the subcommittee's selection of Palm Beach County for your meeting today. As you all know, Florida, and particularly Palm Beach County, has been no stranger to rising homeowners' insurance costs associated with recent hurricane events over the past several years.

While our State leaders have tried to control the rising cost of homeowners' insurance, we have still seen rising premiums. In many cases in our community, there has been the complete cancellation of property insurance policies. These actions should not be considered acceptable and the Federal Government should continue to work with the State and with insurance providers to reverse this trend.

We thank Congressmen Klein and Mahoney for their leadership in passing the Homeowners' Defense Act, which will help create a national solution for providing affordable homeowners' insurance to residents in Florida, Louisiana, California, North Carolina, and every other State in the country that is susceptible to natural disasters.

We appreciate Senator Nelson sponsoring the Companion Bill and hope it will pass this year in the Senate. Your deliberation and testimony here today are important. Please take our words with you to Washington and share them with your colleagues.

You are lucky because today is a beautiful day in Palm Beach County, however, sometimes the seas swell up to 20 feet, the wind gusts over 100 miles per hour, and the rainfall measurements are in feet and not inches.

These kinds of conditions, and we have seen more than our fair share of them over the last 5 years, require assistance to our government that the private sector must help provide.

Please help us to assist and protect the many full-time and part-time residents of our State who call this area home and who need and demand affordable property insurance.

Again, thank you.

Mr. KLEIN. Thank you very much, Commissioner, and thank you again to the whole County Commission and your staff for making this facility available to us, and of course for welcoming our colleagues in from around the country for this event.

Before we go any further, we actually have some very sad news today. A colleague of ours, a longstanding Member of the Congress, one of the great champions of human rights, a Holocaust survivor, chairman of the Foreign Affairs Committee—of which Congressman Wexler is a member—and I know Congressman Wexler is particularly close with him, because he is a subcommittee chairman, Tom Lantos, passed away this morning, and it is a great loss to our whole country, and if I could just ask for a moment of silence.

Thank you.

We would first like to acknowledge a number of folks who are here today in addition to our local residents and business leaders who have come to talk to us, as some of our elected officials.

I see Representative Booker, State Representative Booker, and Commissioner Gottlieb. Let's see, I know there are a couple of other county commissioners who are going to stop by. I know there are some staff from various offices who are here, so we thank all of you for participating with us and representing your offices.

The job of Member of Congress is only one that works very well with all of our State and municipal and county officials, so we thank all of them for their service.

I would also, of course, like to acknowledge my colleagues sitting here. Congressman Mahoney has been, as a new member, he and I came together, and this has just been an incredible privilege and honor to serve in Washington, but it has really been a wonderful opportunity to serve with Congressman Mahoney. With his background and my background we have just been blessed with a lot of great people in Washington who helped us work on the insurance issue. And this man sitting next to me has been an absolute stalwart, has used his business skills and capacity to help guide the legislation through to make sure it makes sense, and I want to acknowledge that.

And Congressman Wexler has not only been doing that this year, but has been doing this in previous years as a Member of Congress and has been a long standing member working actively on this issue, and also Congresswoman Wasserman Schultz, who is not here today, has been very active as well.

I also would like to acknowledge Congresswoman Brown-Waite; Ginny Brown-Waite is a Member of Congress from the west coast of Florida. She submitted a written statement which we will make a part of the record, without objection, and she has been a very active person, coming up with some solutions and working with all of us in a bipartisan way to get this bill passed out of the House this year.

So I think we are very blessed to have a group of Florida Members on both sides of the aisle who have worked very actively in leading other parts of the country on this issue.

And with that, I think what we are going to do now is just get to some opening remarks, and as I said, the chairman will be here in a matter of a few minutes and then he will take over the meeting, but as part of the opening of the meeting, we would like to get some local remarks from our Members of Congress.

So I am going to start with Congressman Tim Mahoney.

Mr. MAHONEY. Thank you, Congressman Klein. And I would like to say thank you to the County Commission and Commissioner Green for being here today, and you are right, it is a beautiful day, and I am thrilled to death that it is a Monday, a work day, and I am here in South Florida so that is a good thing.

I would also like to thank Congressman Klein, and we do make a good team. Congressman Klein's many years of service to the State, his knowledge of the issues, and his ability to keep telling me to calm down, it is going to be okay, we are going to get there, has been a real inspiration. I have been very blessed.

As well as having the gentleman on my left, Congressman Wexler; Congressman Wexler is a great leader in the House of Representatives and he has certainly been a great leader for the Florida Delegation. And on this legislation and all issues, he is somebody that we go to for help and advice and he has never let us want for good actions to take, so I want to thank Congressman Wexler.

I would like to begin by thanking you, and the people on the subcommittee, and Chairman Watt for taking leadership on this issue. And I just want everybody to know that this is not the first hearing of the committee; it has been one of several that we have had in the 110th Congress.

The commitment of Congress to investigating this issue so that the Members of Congress and the American public can better understand this crisis gripping Florida and the rest of the Nation is noteworthy and was very, very key this past November in the successful passage of H.R. 3355, the Homeowners' Defense Act.

In addition, again, I would like to thank Congressmen Klein and Wexler. I would also like to recognize Commissioner McCarty and thank him for coming in, I believe, from California where he was attending an insurance commissioners conference today, and he has worked tirelessly on behalf of the people of the State of Florida to break this spiral of rising homeowners' insurance rates.

I would also like to recognize a special witness joining us today, Mr. Roger Jesse. Mr. Jesse is a retired homeowner from Hobe Sound, Florida, and he, like many other seniors and families in the State of Florida, was notified last year that his homeowners' insurance was not going to be renewed. Fortunately for Mr. Jesse, he was able to find another insurance company. Unfortunately, his premiums doubled.

Finally I would like to thank Mayor Tom Wenham, from the Village of Wellington, for participating in today's hearing. And it is a real honor, Mr. Mayor, to have you, and I think that Wellington is very typical of the types of communities across the country that are seeing the negative impact that this homeowners' insurance crisis is having on our communities.

Before I begin summarizing the national catastrophe insurance crisis affecting my district, the 16th Congressional District of Florida, I want to reiterate that it is a national problem.

In 2004 and 2005, natural disasters resulted in approximately $89 billion in privately insured catastrophic losses. It is estimated that over 60 percent of homeowners in America have seen sharp increases in their premiums. The incidence of natural disasters is increasing, as well as their severity. Just this past week, we witnessed a brutal chain of devastating tornadoes that hit half-a-dozen States and killed 58 citizens in Arkansas, Tennessee, Alabama, and Kentucky.

This rare midwinter storm was the worst tornadic activity to hit America in over 20 years. When one factors in the increase and the severity of the storms with an increase in population growth and the higher cost of construction and labor materials, the homeowners' insurance industry, which has the responsibility to their employees and shareholders, has been left no other option but to adjust their models, increase their premiums, and reduce their liability by canceling policies.

Ladies and gentlemen, the private homeowners' market has failed, and certainly it has failed in States like Florida and Louisiana.

The problem is clear—private insurers do not have enough capital to cover potential losses a mega disaster would incur. As a result, their only option is to reduce exposure by increasing premiums and looking at exiting markets.

As a member of the Blue Dogs, a conservative group of Democrats in Congress, there is nobody who believes more in the free enterprise system than I do. However, I believe that there is a proper role for government when markets fail and both citizens and industry need help. And that is why we pass legislation and it is precisely why we are here having this hearing today.

Here in Florida, the State has acted responsibly. And even with the $28 billion catastrophe fund, insurers still continue to increase premiums and cancellations because they cannot cover exposure.

To the homeowner with a mortgage, homeowners' insurance is not an option; the lender requires it. When rates go up, the homeowner has no choice but to pay. The toxic cocktail of rising gas prices, housing, healthcare costs, property taxes, and homeowners' insurance has created a vicious cycle of terror for our seniors living on fixed incomes while robbing families of their dreams of homeownership. In Florida, the market has deteriorated so dramatically that homeowners can't even get insurance regardless of price. And in an effort to address this growing problem, Florida had to step in to avert an economic disaster by creating Citizens Property Insurance.

I am sorry to report that Citizens of Florida, the owners of the biggest homeowners' insurance company that covers over 30 percent of the market—I have received hundreds of letters from my constituents detailing the difficult choices they have had to make in order to pay their homeowners insurance bills.

For example, I got a letter from a single mother of two who was dropped by her insurance in 2006. She eventually found another company, which charged her more than 3 times what she had been paying for similar coverage. As a result, she has been forced to work overtime on Saturdays, give away one of the family pets, and reduce her weekly grocery budget. And sadly, her story is not unique. Thousands of families across Florida have been forced to make these similar difficult decisions.

I want to point out though, that the efforts of Commissioner McCarty and Governor Crist have resulted in improvement this year. But let's be clear, battling for rate reductions from premiums that are already too high and getting premiums from companies or subsidiaries of firms with questionable financial reserves, does not constitute a solution.

In response to this crisis, I joined with Congressman Klein in introducing H.R. 3355, the Homeowners' Defense Act of 2007. I am proud to say that our bill passed with bipartisan support in the House this past November. This legislation creates a national catastrophic program designed to stabilize the homeowners insurance market by expanding private industry's capacity to cover natural disasters while helping States better manage risk.

Our bill recognizes that in the days following a disaster, it is imperative to get people back in their homes. As we saw on the Gulf Coast, a failure to do so ends up killing local businesses and communities.

H.R. 3355 recognizes that nobody got into the business to insure an act of God, and today the insurance companies have to plan and pay for the cost of a 1-in-200-year event each and every year.

Finally, H.R. 3355 will lower rates by capping the homeowners' insurance companies' liabilities, ensures that each State that voluntarily—let me repeat that—voluntarily participates, have a catastrophe program that is actuarially sound and in the final analysis when that 1-in-200-year event happens, money is there to quickly get people back in their homes, and save businesses and communities.

What makes this legislation historic is that never again will the farmer in Nebraska or the accountant in Arizona have to write a check in the form of a government disaster bail-out and not get paid back.

Our bill loans the States the money at low interest rates and gets paid back over 30 years, ensuring that rates stay stable and the American taxpayer does not get left holding the bill.

We appreciate Senators Clinton and Nelson for taking leadership on this issue in the Senate. As a former insurance commissioner, Senator Nelson was one of the first to recognize that our Nation was facing a crisis and called for Federal action. Congressman Klein and I, along with Congressman Wexler, are working with the Senate to make sure that this legislation becomes law.

Again, I want to thank the County Commission for allowing us to be here. I thank my colleagues for holding these hearings today. And I look forward to hearing the testimony from our distinguished guests. I yield back the balance of my time.

Mr. KLEIN. Thank you very much, Congressman Mahoney.

Congressman Wexler.

Mr. WEXLER. Thank you very much. I, too, want to thank Commissioner Green and the entire County Commission for availing us the opportunity to meet here today and meet and hear and learn from constituents.

Commissioner Green has been serving the people of Palm Beach County for the better part of 2 decades. She and I had the privilege of being plaintiffs together in, I think, a historic lawsuit to protect the rights of our citizens to vote and have their votes counted. We still have work to do.

I would be remiss if I didn't maybe just add, and we very much appreciate your comments at the beginning, but Congressman Alcee Hastings has been an enormous asset to this community and has played an instrumental role in obtaining resources for both Palm Beach and Broward Counties at the Federal level and his assistance and leadership has been extraordinary for a period of time longer than any of us have actually served in Washington.

The issue of property insurance and homeowners' insurance rates is obviously the single most important economic issue affecting our communities. The insurance rates of all of our constituents in many instances has doubled, and in the worst instances has actually tripled, even when they haven't made claims in several years.

Insurance companies are dropping homeowners right and left and these responsible working families cannot, in many instances, find an insurance company willing to write a new policy at any price. This is obviously unacceptable.

The problems in Florida are terrible and they are now causing significant problems in other States as well. From hurricanes to floods, ice storms, earthquakes, wildfires, and tornadoes, every State has some risk of catastrophic natural disaster. Pooling these risks together will mean that when a catastrophic disaster does occur, the combined resources of the participating States are ready to respond. This provides a more stable pool of resources and reduces the overall risk to investors for any one natural disaster.

The Homeowners Defense' Act, which Mr. Mahoney and Mr. Klein have talked about, encourages States to prepare well in advance of a disaster, buying into a national pool through State-sponsored insurance funds and lowers homeowner insurance rates.

Insurance experts agree that solving this homeowners' insurance crisis requires first stabilizing the private insurance market, not supplanting it. And under Mr. Klein and Mr. Mahoney's plan, private investors can make market-based determinations of the financial risks while the Federal Government spreads the risk of natural disaster. And let me speak to this one point quickly, if I could.

There are many people who have historically said that the Federal Government has no role when it comes to insurance. Well, Florida is the perfect example of why the Federal Government needs to get involved and get involved now. As Mr. Mahoney said, the Florida legislature, Governor Crist and the legislature, acted responsibly. They did what the State could do, but it wasn't enough. And what we have proven in Florida is that even when a State legislature acts responsibly and in fact attempts to solve the problem, that the resources of one State, even a State as large as our own, is not significant enough to provide the relief that homeowners need. That is why the Federal Government needs to be involved.

This isn't a Republican issue or a Democratic issue; it is not liberals or conservatives. This is a people issue. And this is, in the context of the Homeowners' Defense Act, a response on behalf of all people, all residents. We in Florida have struggled too long with astronomical homeowners' insurance rates. The problem now is spreading across the country to homeowners in many different States. And this committee meeting today, this effort today, is a part of a growing strategic effort to persuade our colleagues in other States that, before this last season or before this last year, said, "No, no, I don't have worry about catastrophic concerns in my area," this is our ongoing attempt to create a coalition of Democrats and Republicans alike to address this issue.

In closing, if I could just offer one observation. I have never before, in my 16½ years of public service, seen two people take on an issue so aggressively as have Mr. Klein and Mr. Mahoney, and together along with the help of many other colleagues, have pushed the issue of property insurance to the forefront of the agenda of Congress.

It was not an easy task, but these two gentlemen came to Washington last year after winning election and went to the Democratic leadership, to Speaker Pelosi, to Mr. Hoyer, and to others, and said, “We were sent here to fix the problem of property insurance, because homeowners are struggling in Florida, and we cannot go home until we achieve something.” It is unheard of in Washington, for two freshmen, in a body of 435, to come forth with a bill of this magnitude and actually pass it. This is an extraordinary achievement, and I thank both gentlemen for all of their efforts.

Mr. KLEIN. I think, with that, we will just close right here. That was very nice.

Actually, to comment on Congressman Wexler’s comments, Mr. Mahoney and I would probably agree when someone says it takes an act of Congress, I now know what that means. I mean, it is a pretty substantial ordeal to move the Members of Congress.

And, again, something like this has been out there for many years. Those of us who have lived in Florida for many years and certainly those who have lived here since Hurricane Andrew have seen the deterioration of the market.

As a matter of fact, those of you who know Citizens today, it was originally called the JUA, and the Joint Underwriting Association was a response by the legislature in back in 1992, after Hurricane Andrew, to what was thought to be a very short-term window before the market would reestablish itself and it was a State government back-up to the fact that people couldn’t buy insurance from other companies.

And that JUA, which probably should have been gone, at least under the theory, after a few years is now the Citizens Insurance Group, which is the largest insurance underwriter in the State of Florida. That is the exact opposite of what we want as consumers. You don’t want the government standing behind this; you want private underwriters, successful competition for price, for service, and all of those things.

So it really has been quite an ordeal for all of us from Florida. And what has made the difference, as mentioned by my colleagues, is two things.

Number one, the leadership in Washington has been responsive to some type of solution, different ideas, but we came up with something with a lot of support from experts in the field. Tim and I might be nice guys but we really did rely on a lot of people out there who helped us to come up with some new models here.

And number two, the fact that as you now watch the news every day, there are new natural disasters occurring constantly and things that in some cases are covered by insurance, and in other cases, arenot covered. Whether it is wildfires or major storms or tornados—and it goes on and on and on. So natural disasters are not limited solely to areas like Florida.

I guess in my opening remarks before the chairman gets here, I would of course like to again thank the chairman of this subcommittee, Mr. Watt. I would like to also acknowledge the chairman of our Financial Services Committee—which is a large overall committee that this bill went through—Chairman Barney Frank, and, of course, the leadership of the House, both Democrat and Republican, for allowing us to bring this bill forward.

The issue of available and affordable homeowners' insurance is something that everyone in this room and everyone in our community deals with on a regular basis. But the problem is with displaced homeowners desperate for relief; we all know that we have to continue to find a solution.

Even with holding this hearing today, I think we understand that although the House has moved on this bill, it is now in the Senate. And with Senator Nelson and others, in a bipartisan way, we are asking those Members of the Senate to consider this bill. If they have to make some refinements to it, we welcome and are looking forward to those opportunities to make the bill even better and then to get together with the House and present it to the President for consideration.

Hundreds of thousands of homeowners, not only in Florida but around the country, have been dropped, and the treatment by some insurance companies to do what has happened in Florida, between cancellations and the elevations and the tripling of premiums in some cases, has now become very relevant in other parts of the country as well, places like New York, New Jersey, and all the way down the eastern seaboard. We know about the Gulf Coast. In California—over 85 percent of the homes in California have no earthquake insurance. Think about that.

If we have a Northridge or San Francisco San Andreas Fault type of earthquake of any kind of magnitude, we are talking about a situation that is not insured, and you can only imagine that the California delegation will be coming to the United States, people, all of us in Congress, to say help us, help us like you helped with Hurricane Andrew, help us like you helped with Hurricane Katrina.

So the more we can do as a policy, as a private-sector group of people to more proactively plan for and underwrite these expenses and these possible reconstruction efforts, we can reduce the exposure of the Federal taxpayer.

As we know, as it was explained, this bill has taken a more creative approach. It is voluntary and it only says that the States that want to participate will, so the States that don't feel like they have a need to, don't have to, which is good. And it is just a creative way of letting the private sector transfer the risk over to Wall Street, so private investor bonds can take care of this.

So we believe that using an innovative capital strategy and these new ideas will allow investors to take on this risk in a voluntary way and at the same time will allow us to reduce the overall risk.

We understand that the total economic impact of natural disasters exceeds $100 billion in any number of given years. Yet, we know that at the same time, there has been a failure of the insurance market to be able to take care of us as individual homeowners.

So we believe that this piece of legislation and possibly other ideas that come forward are ways of planning for the future, not waiting for the natural disaster to hit and then responding afterwards and we plan to work with all of you and continue to work with the Congress and the President until this legislation is signed into law.

The status quo is no longer an option and we know that this is the time and this is the place for us to pass this legislation and with that we look forward to hearing the testimony that is presented today to help us continue to build and refine this bill and make sure that it gets passed as soon as possible.

So we thank you for allowing us to share some opening thoughts with you. What we would like to do is now ask the first panel to come forward.

Mayor Wenham and Commissioner McCarty, if you would step to the microphones, and we will get you started here.

Mayor Wenham, if you would begin, introduce yourself, if you would, and give us your observations and your suggestions on this issue, please.

STATEMENT OF THE HONORABLE THOMAS WENHAM, MAYOR, WELLINGTON, FLORIDA

Mr. WENHAM. I am Mayor Tom Wenham of the Village of Wellington, which has a population of about 57,000. We are about 12 miles west of here, where State Road 7 and Forest Hill meet, and Congressman Mahoney is our Congressman.

Good afternoon, Mr. Chairman, and members of the subcommittee. I want to thank you for the opportunity to address you on behalf of the community of Wellington in what I believe is an issue of national importance. And I thank all of you for your comments because I am going to get into some things here just how it affected the Village of Wellington.

As far as homeowners insurance and its impact on communities, homeowners, and the economy, I am going to speak to you with the specifics of my community.

I would also like to thank my fellow panel members for their insight into what they had presented.

I can only speak to the experience of my own community, a community that in most respects is better prepared to deal with disaster than most. We have what we call a hurricane fund as part of our overall budget, and we have $2 million sitting in there right now. We were very fortunate through the hurricanes of 2004 and 2005, that we had a very large reserve.

When I am writing a check to a group that came in to pick up all our debris, our vegetative debris, for $2.1 million, that gives you an idea of just what the Village of Wellington, which is probably very representative of the other communities.

We actively plan for catastrophes and we have created the reserve funds to help, but there are things that no community is ever prepared to deal with completely on its own and that is what I think you gentlemen are trying to present and we support it.

In 2004, it cost Wellington $6.2 million to clean up after Hurricanes Francis and Jean. We also suffered nearly $2.3 million worth of damage to our public facilities out there, all of our Village buildings. Residential damage to the community was $6.7 million and commercial damage was $1.1 million.

In 2005, the numbers for Hurricane Wilma were $5.8 million in recovery costs. So if you look at where we had $6.2 million in 2004, and $5.8 million in 2005, there is $12 million in recovery costs that the Village of Wellington had to pick up.

I will say, and Congressman Mahoney knows, we have been to Washington any number of times speaking to FEMA about trying to get some relief, and I will address that in a few minutes.

With $5.8 million, $3.75 million in loss in public property again, after 2004, now we get hit in 2005 with our public buildings, $50.4 million to Wellington residents on their properties, and $7.75 million in losses to the businesses in the community of Wellington.

We are a new community in which most of the structures have been built under more stringent windstorm codes. Wellington became a community in 1996, 4 years after Hurricane Andrew hit. So we were fortunate that all the homes that were built after the hurricane, were built to the Miami-Dade Code, which is very fortunate for us.

During the recent period of increased hurricane activity, the cost of property insurance for our community has increased over 400 percent. The cost in 2003 to 2004 was $175,000. That is what the Village paid for its insurance. This past year, we spent $719,000 for insurance, just on our buildings. That is an increase of over $540 million just to the Village of Wellington. Thank goodness we have a reserve that can help us get through some of these areas. I don't know how some of the other communities in Palm Beach County are doing.

Personally, I have spent over $11,000 in adding storm shutters and a wind-rated garage door. Even with these improvements designed to limit damage, my insurance rates have gone up 248 percent, from $1,381 in 2002, as my wife and I went through these numbers over the weekend, to over $3,400 this past year.

Annually these increases—and you can see it all in front of you when you lay it out: 2002, $1,381; 2003, $1,409; 2004, $1,810; 2005, $2,289; 2006, $3,154; and this past year, $3,428. So that is just what my personal insurance costs, and I will bet you anybody else in back of me could get up and probably say about the same thing. I am talking about a 3,200 square foot house under roof, 2,200 under air, which is the common denominators, the benchmarks, that we all use. And it has gone up $2,000, a little over $2,000 since 2002.

We understand that natural disasters are not the fault of the insurance industry, but neither are they unpredictable. I mean, everybody knows 3 days in advance when a storm is going to come, so the insurance companies—we hear it, they hear it.

When the hurricanes are over, I have been on channel 5, 12, and 25; I have been on the radio with all of them saying how do we stand in the community of Wellington, as I am sure the other mayors in their communities have to do.

The cost of homeowners' insurance is rising to the point where it is pushing the cost of homeownership beyond the reach of our average resident, if you can even find a company, as has been said by you gentlemen, to write a policy.

Even the availability of insurance is not a certainty. In the face of all the problems associated with homeowners insurance, perhaps it is time to develop a national policy and I hope that you certainly do it.

One final point, if I am allowed the time, and then I will pass on.

Mr. Chairman, we as local officials here in the community are the ones who are on the firing line when the residents, immediately after a storm, start calling. They may call you gentlemen and ladies up in Washington, but it is us elected officials here in the community who get the brunt of it.

We have to make sure, and these are some of the things that I have been faced with, and I am sure you have been too—we have to make sure that the water is safe to drink. At least people, if it is safe to drink and they can take a shower, whether it is cold because they don't have any electricity, at least they will be satisfied there.

The roads are clear of vegetative debris so that the people who have been cooped up can get out to see how the rest of the community is looking. Now, that is—you may laugh at that, but how many times, when the manager and I have gone out and there are people just sightseeing and riding around.

"When am I going to get my power? I need to get a roofer tomorrow before another storm hits. When will schools be open?" These are some of the questions that we get hit with and I am sure that you Congressmen who live here know what I am saying because you have probably been hit with them too.

We are called upon to answer after the storm. After Wilma, as Mayor, I personally answered, with my aide, 61 phone calls in one day relative to the storm about these kinds of questions, what is the Village of Wellington—not the Congressmen, not our Senators, not our State legislative delegation—what are you as the Mayor and the village council going to do to help me through this. And that is the truth, gentlemen.

Helping to resolve this issue, this insurance problem issue, would certainly make life easier for all of us.

I would like to thank you, Mr. Chairman and the members of the delegation, for allowing us to present our views, thoughts, and information relative to this situation that affects all property owners, not only in Wellington but certainly in Palm Beach County.

What is it I have to say now, Mr. Mahoney, I yield my time?

Mr. MAHONEY. You yield back the balance of your time.

Mr. WENHAM. Oh, the balance of my time. Thank you.

[The prepared statement of Mayor Wenham can be found on page 86 of the appendix.]

Mr. KLEIN. Before we get to Mr. Mahoney, I just want to take care of a couple of housekeeping things.

I just want to say that, without objection, all members' opening statements will be made a part of the record. And, without objection, the written statements of our witnesses today will be also made a part of the record.

I have a couple of other people to recognize—Commissioner Santa Maria, thank you for joining us, and a couple of local people who were very involved for many years in helping us with some early insurance tasks for us, Barbara Zee and Fran Fisher. Thank you for both being here today and being part of this.

Congressman Mahoney.

Mr. MAHONEY. Are we going to go to the next testimony and then we will ask questions?

Mr. KLEIN. Yes, why don't we do that. I just wanted to say that Mr. Mayor, it is only—what took you less than 45 minutes to figure out took me a year to learn how to say. I yield back my time.

Mr. WENHAM. Well, I just learned it from you, sir, so it only took me about 10 minutes.

Mr. KLEIN. There you go.

I think what we will do, if it is okay with the committee, is we will move on to Commissioner McCarty for his comments. And before we do that, I see that our chairman has arrived, and we would like to extend our appreciation for a long travel day.

Congressman Watt, our chairman, is from North Carolina and has a long history of being a leader on our committee, but also has a great deal of understanding in terms of oversight and investigation, which is what the focus is of this particular subcommittee that is holding this hearing today.

And being from North Carolina, and certainly those of us from Florida, share a lot of common interests in dealing with natural disasters. I think, until the last few years, North Carolina actually had more experiences with hurricanes than Florida had for many years.

But we appreciate you coming down and holding this congressional hearing and being able to take some of the testimony and some of the comments from the people who are presenting today back to Washington. As we continue to work through this legislation of which you have been such a great mentor to all of us on, that you can continue to make sure that we pass something that will work, and that will help all of us, in all 50 States, work through this issue.

Where we are at right now is we have taken testimony in this first panel from the Mayor of Wellington. And with your permission, Mr. Chairman, the next presenter is Commissioner McCarty, who is the insurance commissioner of the State of Florida, and has been for many years. I will turn it over to the chairman before we get to him.

Chairman WATT. Thank you so much.

Am I on? I am on. Okay.

Let me first express my apologies for being late getting here. We actually got off the ground reasonably on time in Charlotte, North Carolina, this morning, and we flew for about a half hour, and then the plane made a U-turn and went back to Charlotte because we had an ill passenger on the plane. We landed back in Charlotte about 11 a.m., and we were back off the ground by 11:45 a.m. or so, and here I am.

Commissioner McCarty, go right ahead, and then we will proceed from there.

STATEMENT OF THE HONORABLE KEVIN MCCARTY, INSURANCE COMMISSIONER, STATE OF FLORIDA

Mr. MCCARTY. Thank you, Mr. Chairman, and welcome to the Sunshine State. I would like to take this opportunity to thank you for your leadership on this issue as well as the other members of the Financial Services Committee's Subcommittee on Oversight and Investigations.

I feel that to a certain degree, I am preaching to the choir, by hearing the testimony and the opening remarks are much of what I have been saying the last several years. But I do welcome the opportunity to be here to testify on this very important issue and the affordability and availability of homeowners, the emergency insurance crisis, its impact on our communities, but moreover its impact on our national economy.

My name is Kevin McCarty and I am the insurance commissioner for the State of Florida. I also serve as the chair of the Property and Casualty Committee of the National Association of Insurance Commissioners and chair of its Catastrophe Working Group.

While Florida is historically known for its hurricane risks, it is the State of Louisiana where Katrina made landfall with $38 billion of insured losses.

This event created shortages in the construction industry, created mass human migration, and affected the Nation's oil prices and its overall inflation rate.

Hurricane Katrina quickly emerged beyond a State issue, but a national issue. Not only did the Federal Government appropriate over $100 million for recovery, this affected homeowners' rates across the country. The most critical point I think it is important to make today is that catastrophic events are not a State problem. It is not a Florida problem; it is a national problem that cries out for a national solution.

To accurately price insurance products, insurance companies must be able to predict future storm damage. In order to do this, you have to look at the frequency and severity of storms and then estimate the impact on damages to homes and businesses. Predicting both of these elements has created a problem for the insurance industry and for regulators across the country.

During the 2004/2005 hurricane season, eight named storms made landfall in the State of Florida, a scenario certainly not anticipated by any of the hurricane predictors or any of the hurricane models, most of which had focused on mega catastrophes like Hurricane Andrew in 1992. There is also a general consensus by many in our scientific community that we are in a period of more active storms for the Gulf of Mexico as well as the Atlantic Basin.

Predicting storm damage is very challenging. Recent demographic shifts in our population have enticed people to move to warm-weather States like Florida, the increased building along our coastline; now nearly half of our residents live near or close to a coastline.

All of these elements combined create uncertainty which continues to impact the availability and the affordability of homeowners' insurance. This uncertainty has led many of our national carriers to limit their writing from Texas to Maine. I personally have spoken with representatives of the global reinsurance industry in Bermuda and Europe to encourage them to invest in the Gulf Region, particularly in Florida.

Given the current situation as I have already outlined, there is little interest in expanding investment, in large part because of the exposure of Florida, and this is at any price. This creates a critical problem for coastal States like Florida. Homeowners must have insurance as a term and condition of their mortgage. If the private insurers will not insure homes, the State must intervene to provide the capacity or our economy in the State of Florida would grind to a halt.

States like Florida had to create alternative markets like Citizens. Despite record catastrophe loss in 2004 and 2005, the U.S. property and casualty market companies have made record profits. Some coastal markets have experienced a mild recovery in a relatively healthy property market.

By example in Alabama, only 2 of its 67 counties experience problems with contraction in the marketplace, while in Mississippi, 6 of the 82 counties are directly experiencing insurance problems. Louisiana, which felt the brunt of Katrina, is experiencing difficulties in 24 of its parishes.

States with longer coastlines have experienced more dramatic problems: In North Carolina, the State's residual market has increased its policy count by 32 percent; South Carolina increased by 38 percent; and in Massachusetts, one-third of the policies in the Cape are written by its residual market. Some insurers have even recognized a potential problem in New York, even though the State has not had substantial tropical activity in many decades.

In Florida, the State's residual market, Citizens Property Insurance, experienced an increase of about 500,000 policies from 2005 to 2006, becoming the State's largest insurer.

During 2007, the Florida legislature passed comprehensive legislation to address the availability and affordability of its homeowners' coverage. It changed Citizens Insurance Corporations so that its rates were more affordable for its policyholders.

It expanded the CAT fund to give the industry up to $12 billion of low-cost, inexpensive reinsurance to recognize the cost of global reinsurance.

It provides Floridians with incentives to mitigate against future damage and mitigating future storms. Prior legislation created $250 million in a capital build-up company to encourage reinvestment in the State of Florida.

More recently, the Florida Building Commission adopted a code-plus standard allowing buildings 2,500 feet from the coast to withstand a 1-in-500-year event, the most stringent building code in the country.

Insuring catastrophes is beyond the State's resources. The United States is one of the only industrialized nations in the world without a comprehensive national catastrophe plan. While Hurricanes Andrew and Katrina caused tremendous loss, these pale in comparison of other potential natural disasters.

Merely a repeat of the 1906 earthquake would cause $400 billion in damage, and as Representative Klein has already alluded to, most of that would be uninsured.

A 1938 hurricane in New York would cost $300 billion in damage. Even last week featured tornadoes that ripped through four southern States causing loss of life and millions of dollars in damage, highlighting once again that all parts of the country are exposed to catastrophic loss.

The solution is not a large Federal program, but the United States does need to think proactively and to think strategically about how it deals with natural disasters. I am a supporter of H.R.

3355, the Homeowners Defense Act passed by Congress last year. This bill recognizes the importance of preparation, of prompt response, of mitigation, and the limitation of State resources.

I want to thank the leadership of Representatives Mahoney and Klein on this very important issue, and I will be happy to answer any questions.

[The prepared statement of Mr. McCarty can be found on page 65 of the appendix.]

Chairman WATT. Thank you very much, Commissioner McCarty and Mayor Wenham. I am sure you welcomed everybody to your fine city. I got a birds-eye view of it coming in. It is beautiful, and I am delighted to be here.

I think I will defer my questions until last, and I will do my opening statement later too. It is almost redundant at this point.

Why don't we go—which direction do you all want me to go in? They keep passing the buck, everybody is doing that. I will recognize Representative Klein for 5 minutes.

Mr. KLEIN. Thank you, Mr. Chairman.

Commissioner, this is something that we have been trying to, as you were pointing out, it is—I think most people are aware, this is no longer a Florida-versus-49-other-States approach.

In your meetings at the NAIC, where you are taking a leadership role in this, part of what we are trying to do in a way of encouraging the Senate to move forward is to reach out to the Senators. And what we found so far is a very similar reaction to what we had in the House, which was everybody seems to think the old model of a national risk catastrophe pool is some big Federal program where every small piece of every policy in the United States goes into some big pool and there is a back-up. That is not the case. We have come up with a totally different way of looking at and approaching this, and it doesn't obligate any State that doesn't want to be involved to be involved.

However, the perception is different still in the Senate. And I know our Members, Senator Nelson and others, are spending some time.

Can you give us some thoughts or some suggestions in approaching through your colleagues, State-to-State, a way of working with us to educate the Members of the Senate so that they realize whether they come from a State that is prone to have large-scale natural disasters or no natural disasters, that this is a very attractive solution that can provide great relief to the taxpayers and stabilize a very significant problem in the United States? Some suggestions and an approach for us, please?

Mr. MCCARTY. Thank you very much.

First of all, I would like to express my appreciation for Representative Mahoney, who took time out of his busy schedule and briefed the National Association Committee meeting when they met in Washington, D.C. I think that gave a unique opportunity for, first of all, us to debunk some of the myths that are out there exactly what the homeowners, most of them thought of it as a national bailout program, when in fact it is a reasonable, appropriate, voluntary approach which deals with a myriad of issues from mitigation to funding solutions including maximizing capital markets.

So I think part of it is an educational issue and I—this was the first Federal legislation property insurance that the NAIC has endorsed in my tenure there, so I think that is very important. And remember, that is made up of the 50 States and six other territories, so we have the same challenge of having to convince people in the central part of the United States that they are in fact paying for Katrina today, and it is estimated between $850 to $1,000 per taxpayer is being spent because we have a national catastrophe plan. It is just inefficient and ineffective, and it pays money after the fact instead of before, instead of maximizing the efficiencies of the insurance market and getting money—as you testified in your opening remarks—back into the hands of people so the communities are built.

It is an education process. It is an evolutionary process. And I will continue to, you know, certainly work with my colleagues to build a necessary consensus.

I also think that it is important to educate folks today or in 2004, it was Florida and then it was Louisiana. The fact of the matter is that 49 of 50 States have a moderate to severe risk of a natural disaster other than floods. We have been in the business of that. When Floridians pay into the flood program, we pay 41 percent of the flood premium in this country. So we need to continue to work with our colleagues around the country to understand that it is a national problem that demands a national solution, which means that we all may chip in at the beginning but in the long run it is beneficial to the national economy.

And then to follow up, Mr. Chairman, you know, I think that people don't understand that there is a major earthquake risk to the Midwest. There is a major fault line in the Midwest which doesn't pop up very often in terms of activity, but it has the potential of creating as much of a problem as the San Andreas Fault in California.

But if I could just follow up—and the Commissioner, I think for all of our purposes, as you are helping educate your colleagues and if you could ask your colleagues and maybe survey them and they only have two Senators for each State. So if they could sort of give us intelligence or perspective on which Senators, if they have a meeting with the Senators or communicating with them as to why they think it is important, and get the reaction back, if they are taking some of that educational opportunity to work with them and then get that information back to us and we will obviously—Senator Nelson and others are taking a lead on this, but it is a team effort here.

So any information you have about the reaction or perspective, you know, favorable five to one where they stand on this or where they need more information, we can reach out to them from the Washington side as well, so appreciate that benefit as well.

Mr. MCCARTY. It would be my pleasure.

Chairman WATT. I thank the gentleman for his questions and for the responses. And I will now recognize Representative Mahoney for 5 minutes.

Mr. MAHONEY. Thank you, Chairman Watt, and I am glad you had the opportunity to fly over Wellington. I will be enlisting you with a bunch of other projects that we are going to be working on.

Chairman WATT. Thank you, Congressman.

Mr. MAHONEY. Mr. Mayor, thank you very much for being here, and thank you for sharing your personal story with regards to your family's homeowners' insurance problem.

You know, Wellington is kind of an interesting town. When I moved here in 1988, it was an area and it was fast-growing, and it was known for being a place for young families to be able to get affordable housing, and as a result the community prospered. It also prospered because my wife and daughter spent a lot of money doing horse shows down in Wellington.

But my question for you is that, you know, the big concern—one of the concerns that I have with regards to this issue, and it continues to pose as the top issue here in Florida, is the impact of affordable housing and maintaining Wellington's profile as being a place where young families can continue to move and have a very desirable lifestyle.

Over the last 5 or 6 years, as we have seen these premiums go up and property taxes and other things, what has been the impact, or has there been an impact, in terms of what you are seeing in terms of people being able to move in and afford to live in the community?

Mr. WENHAM. Well, I could say this because the question has come up many times and with the value of houses dropping, the real estate market, we do have, and some neighborhoods have told me this, we know do have affordable housing, whether it is workforce housing, senior housing or whatever, that there is that type of housing now in the community.

There are still some properties selling out there for well over a million dollars. And I was talking to a real estate broker this past weekend, and land in the equestrian area that you are referring to is well over a million dollars an acre, as you know. So it is there but—and that doesn't make for very affordable housing.

Mr. MAHONEY. But have you seen an increase—I mean, one of the other things that we are having to deal with in the subprime crisis is people defaulting on their homes?

Mr. WENHAM. Yes, we—yes, we have seen some of that happening in the community also.

Mr. MAHONEY. And has the cost of homeowners' insurance, do you think, been a contributing factor to that?

Mr. WENHAM. There is no—well, there are two things, Congressman. There is the insurance and of course the taxes. And I think that the State of Florida is trying to address that situation, but both of them, many of our residents and my constituents have come up to me and expressed the insurance and the taxes, yes.

Mr. MAHONEY. Thank you.

Commissioner McCarty, great to have you here fighting this battle with you.

Now as a businessperson, at the end of the day, all I care about is lower homeowners insurance rates. I mean, that is what it is all about. And one of the things that we are trying to do is trying to figure out how we can create a system that enables the insurance companies to come back in. People don't want Citizens Insurance; that is the insurer of last resort. The industry doesn't want Citizens Insurance to become an all-perils company which it found by necessity to do in order to generate additional revenue so that it wasn't continually to be just a sieve of money on the taxpayers.

But the question for you is that, in H.R. 3355, one of the things that we are doing is in order to stabilize the market; we are doing three things. We are trying to expand reinsurance by allowing investors to invest in CAT programs where there is a consolidation of risks amongst States that have these programs. The second thing that we do is we make sure that in that 1-in-200-year event, that the Federal Government comes in and provides a loan to States that participate to make sure that there is enough capital. And then the third thing that we do is in those events is we cap the liability of the insurance industry to 1½ times annual premiums.

My first question to you is, as an insurance commissioner, if presented with that program that the State of Florida was in at a 1-in-200-year situation, when you sit down and take a look at what homeowners' insurance rates are, given that scenario, would you be able to easily ascertain what the risk is, what the cost of the risk is, and what the fair insurance premium should be for a company?

Mr. MCCARTY. Now that certainly is going to vary by a number of factors. First of all, how successful we are in providing incentives for greater capital in part of that program. I think one of the things your bill recognizes is we measure reinsurance in terms of billions of dollars but capital markets we measure in trillions of dollars.

So any way that we can provide lessening burdens and obstacles of getting capital—and it really does depend on how much new capital we can bring in to bring competition to the reinsurance marketplace.

But the key aspect of this is for most insurance companies and why they are retreating, is the risk of ruin. And to the extent that you are able to provide a backstop so that companies are able to on an individual basis calculate their tolerance for risk and eliminate the risk of ruin aspect, I think, brings that stability in the marketplace, which in combination with the other factors we have discussed and are in the bill will, hopefully, bring a return and challenge Citizens.

Citizens, we don't want the government to be—that is not what we do well. On the other hand, insurance companies have done a fairly good job of getting money quickly in the hands or their policyholders in the aftermath of an event. Not in all cases, but in most cases, which is critical as we have heard before about getting kids back to school, people back to work, back to paying taxes because that is what the effect is in the local economy, which ultimately affects the national economy.

Mr. MAHONEY. Another question I have for you is that in addressing this issue of having to deal with rising premiums, our research has shown when we have—investigating this bill, is that there are two other elements that perhaps we should be looking at; the modeling companies that the insurers use to determine what the right level of risk could be and the rating agencies. And I would be interested in your thoughts on whether or not you think that Congress should be looking at the role that the modeling companies and the rating agencies play in this crisis?

Mr. MCCARTY. Well, these have certainly been contentious issues in the State of Florida. As you know they have been the subject of some subpoenas issued by the Office of Insurance Regulation. We, too, are interested in the relationships of the modeling companies, the re-insurers, the brokers, and the rating agencies to ensure that the comprehensive reforms that were adopted by the Florida legislature were in fact passed on to the policyholders of Florida.

I think it certainly has been a lot of information that has come to our office, which we certainly think it is a legitimate area of inquiry.

With regard to the computer models, we, in Florida, have been addressing this issue for a number of years. As you know, we have established the modeling commission to review models. Some companies have used what is called the short-term models, which generate 35 to 40 percent higher losses than the approved models. We, in cooperation, the Office of Insurance Regulation, with FIU, have created our own computer models, State-run computer model to check the—you know, do as a reality check.

So looking at modeling companies, I think, is of critical importance, because I think the variations on how they generate rates are huge, on a statewide basis, but then when you get down to towns like Wellington and Miami Beach, and those areas, you might see swings that are over 100 percent.

Mr. MAHONEY. Would you be supportive of a role for the Federal Government in terms of taking responsibility through, for instance, the National Oceanic and Atmospheric Administration or FEMA or somebody that would have the responsibility for running the models, that there would be some agreement as to what the right level of risk would be?

Mr. MCCARTY. You know, I think that is appropriate—I think there needs to be a national model similar to the FIU model. I think we have to continue to encourage the proposition of modeling companies, because I think through that competition we should have a national modeling check, our check on the commercial models.

Chairman WATT. Thank you for your insightful questions and for the responses. And I will now recognize Representative Wexler for approximately 5 minutes.

Mr. WEXLER. Thank you very much, Mr. Chairman.

It has been said before, but we are privileged to have Mr. Watt here. He has an extraordinary amount of knowledge on this issue and many others and to have Chairman Watt on our team is an enormous advantage for those of us who are so committed to seeing this to a successful resolution. We really do thank you for being here.

Commissioner McCarty, I also want to applaud your testimony, and your answers to some of the early questions.

Your unequivocal support for H.R. 3355 quite candidly is a breath of fresh air. And I hope people appreciate, I am sure they do, that the positions you have taken, have been taken without regard to partisanship. You are just saying what you think needs to be said, and I really do applaud your effort and applaud what is an exceptionally intellectually honest approach to this problem.

In that regard, if I could just share with you some of my experience, and I think the experience of Mr. Mahoney and Mr. Klein, when we go out and we talk to our colleagues about supporting this bill and supporting a national catastrophic response, often what we will hear is, well, speaking for myself, what I often hear is, "Hey, Wexler is from Florida; Florida could do this; Florida is a big State." Or, "Just get together, get your people from Florida to get together with people in California and do something or, you know, Florida, Mississippi, Alabama, and Texas, you guys do something together."

Tell us why that is not sufficient, in your experience. Tell us why Florida, working with two States, three States, whatever it may be, isn't going to be the answer that we need.

Mr. MCCARTY. Well, first of all, thank you for your kind remarks. I appreciate that comment.

There are a couple of reasons. One is a matter of global reinsurance. In order for it to work, you need to spread the risk, not concentrate the risk. When you take the risk of hurricane and put it with a hurricane in the Gulf of Mexico, you are actually compounding the problem instead of spreading the risk globally. So if you were to counterbalance with Florida's risk for catastrophes with California, you are spreading the peril, but the only way to do that is spread it in the global reinsurance market, which is what reinsurance is all about.

The problem is that there are limitations on the global reinsurance market capacity. Like I said in my testimony, my test in Bermuda Lloyd mitigation programs and it is mitigation programs and it is building code and building enforcement. All this is well and good but there is a finite amount of reinsurance that Florida can—Florida is considered a super peak and really needs to counterbalance that with earthquakes in Japan, etc., and the problem is that there is a finite amount of capacity.

What the Mahoney-Klein bill attempts to address, in a very important way, and I think that this is something we need to continue to look at both at the State level and the national level, is breaking down the barriers and bringing more capital to the marketplace. And regionalizing and concentrating it is counterintuitive to the principles of insurance.

Mr. WEXLER. If I understood your original testimony correctly, you said 49 of the 50 States have some risk of national catastrophic problems happening. What is the one State that doesn't?

Mr. MCCARTY. It is a relatively unpopulated State; it is the State of North Dakota. But if you throw in the risk of flood, then all 50 States are exposed. And as you know, many of the States will say, well, listen, this is a Florida problem, you know, but we have solved their problem to a certain extent by addressing the standard of the Federal Flood Program. In a large way, we subsidize that in Florida, because we pay 41 percent of the premium, we get about 16 percent back over the years. So again, one of the things that we have to remember that is that it is not a single peril; it is all perils.

Mr. WEXLER. It is minus-39 degrees today in North Dakota. They have a freezing issue there, I am sure.

Chairman WATT. Thank you. And let me thank this panel for being here. And before I release the panel, I want to ask some questions, but now that I have gotten settled in a little bit, I just want to make a couple of comments, and not an official opening statement, because I think I will just ask unanimous consent of my colleagues to put my opening statement, a formal written opening statement into the record and just kind of make a couple of general comments.

First of all, I am not sure if my colleagues even know this, but we need to pause for at least a moment of silence, because we lost one of our Members this morning, Tom Lantos, who was very recently diagnosed with cancer and had announced that he was not planning to run again. Because of that diagnosis, he didn't last long at all after the diagnosis.

So if you all would, just indulge us for a moment, for a moment of silence in memory of our wonderful colleague and one of our leading international experts in our body, the chairman of the International Relations Committee in the House of Representatives, Representative Tom Lantos.

Second, I would be remiss if I did not comment on how much I am pleased to be here with my colleagues, Representative Klein, who represents this congressional district, and Representative Mahoney, who is in the adjoining congressional district.

Mr. MAHONEY. We are all adjoining, but it is the—it is the better district to the north.

Chairman WATT. I didn't want to get into that now.

Both of these new Members of Congress, freshman Members of Congress, have come into the Congress and made an immediate impact by not only by becoming cosponsors of this legislation that has been testified about some this morning and taking ownership of this issue of flood insurance, catastrophe insurance, but on a number of other issues that we won't be addressing today, they have taken leadership roles.

I have had the pleasure of getting to know both of them as members of the House Financial Services Committee. And I think, without getting partisan or political about this, I just want to express my thanks to this area of Florida for sending us these outstanding representatives and tell you that they are doing an outstanding job on your behalf.

I haven't spoken about Representative Wexler—

Mr. WEXLER. We apologize for sending me there.

Chairman WATT. He is holding his breath, because I have known him much, much, much longer than I have known either Representative Mahoney or Representative Klein. You came to Congress in the same class with me, didn't you?

Mr. WEXLER. You are a little older than I am. No, I came during the impeachment year.

Chairman WATT. Oh, the impeachment year. Okay, okay, okay. Well, it seems like he has been there as long as I have, maybe that is what it is.

But I have had the honor of serving on the House Judiciary Committee with Representative Wexler, and I know the passion that he brings to our body and the commitment that he has, not only on this catastrophe issue and hurricane issue, but on Constitutional issues and a whole range of other issues that we have had the opportunity to address.

And I am delighted to be here in the State of Florida and convening this hearing, although I wasn't here to convene formally.

It has been our Oversight and Investigations Subcommittee that has been directly involved in a number of these issues; I kind of got involved in the aftermath of Hurricane Katrina. It was our Oversight Subcommittee that held hearings and is continuing to hold hearings, in fact, about the non-payment of claims in the aftermath of Katrina.

Most people saw the visible lack of response that the Federal Government made in New Orleans and Mississippi, but there was a massive public failure, there was a massive private failure, because what happened after Hurricane Katrina exposed some really serious problems in the interface between public insurance, which our Federal flood insurance is, and private insurance.

In effect, what was happening is they started pointing fingers at each other. The private carriers said that the damage was caused by water and to some extent the public carrier, the flood insurance naturally was saying that the bulk of the damage was caused by wind. So the consequence of that for a long, long period of time was that, neither the public insurance nor the private insurance market was responding to the needs of the people.

Finally the Flood Insurance Program kicked in and paid probably some claims that they should not have paid and went substantially into debt borrowing substantial money that we have not modeled for under the Flood Insurance Program. And then over time, the private insurers went through litigation or settlement or through their own undertakings have stepped in and started to pay the claims.

But during that period of time there was just massive non-payment of claims, and it exposed some really serious problems in the hurricane, flood, wind, and homeowners area that Representatives Klein and Mahoney kind of stepped into and said, we have experienced in the private sector. We have our own hometown experiences to bring to bear on this, and they have been invaluable in their contributions in this area.

I say that not because I had it in my prepared comments, my prepared comments actually went in a completely different direction, but I think that we are just blessed.

And I should say, so that nobody walks away from thinking this a partisan issue, it is not. It is neither a partisan issue because Representative Brown-Waite, from Florida, also has a piece of this bill that was passed by the House and made an important contribution to the discussion and to the solution that we are trying to pursue.

So it is not a Democratic issue, it is not a Republican issue, it is not an upper-income issue nor is it a lower-income issue. It affects all of us. And we saw it all in the aftermath of Katrina because the lowest of the lowest income people in Louisiana were hit and the highest of the highest income people along the coast of Mississippi were hit and everybody between those two economic extremes was hit. So hurricanes didn't come in and select Republicans or Democrats to impact, didn't come in and select rich people or poor people or black people or white people to hit. This was something that showed us how vulnerable we are in every possible respect that you can imagine.

And I think if we can find a good solution and I think we have, at least a part of a good solution that has been put forth by the wonderful Representatives here in Florida, if that solution or other solutions emerge as effective solutions, we will have benefited from the experiences and benefited from the knowledge that this is not a partisan issue or a class issue; it impacts the whole country.

So having said that, let me ask a couple of questions, particularly of Commissioner McCarty. One of the issues we always face, I think, is that well, I think that there are two really serious dilemmas that we have here.

Number one is that the private market has always been resistant to either a State government or the Federal Government or a local government playing a role in the insurance area. In fact, we had some problems even finding somebody who would come and testify about it because I suspect they knew I was going to ask them the question I am getting ready to ask Commissioner McCarty.

They don't want the public sector to be involved in this because they say it is intensely and uniquely a private enterprise issue, but as far as I know they haven't come up with a good solution to catastrophic losses.

Commissioner, you are closer to the private sector. You deal with private insurance companies on a regular basis, are they suggesting anything as an alternative to this, because they just don't seem to have bought in as readily as you as an insurance commissioner have bought into the prospect that the Federal Government has a role here?

Mr. McCarty. Well, I think the answer to your question, Mr. Chairman, really depends in large part on what company you are talking with. It is not a monolith by any means.

Your large carriers have been very active in getting a national exclusion in a Federal backstop, a reinsurance program because that really fits in with their strategy in terms of their particular exposure, in many ways they are overexposed natural catastrophes. Some are smaller and national companies who don't have a lot of risk have a different view. Far be it for me to testify on their behalf, but the first thing they need to do is to eliminate the State impediments to the rate law.

In essence what they would like to do is a free and unfettered market to sell their insurance product. The problem with that is you have to assume axiomatic to a free market system is willing buyers and willing sellers. In the instant case, it is a term and condition of a mortgage, so people have to buy insurance in order to have the mortgage, and you almost have to have a mortgage to buy a home. So you don't have the unfettered willing buyers and willing sellers.

But their first contention, is let's see what we can do in terms of bringing in free capital initially before we look at any other Federal programs. Some of the various associations have evidenced some interest in some Federal backstops; I think there is a whole range of opinions on this issue. But I think first and foremost they would like to see the market free up deregulation of State regulation.

Chairman WATT. Talk to us a little bit about this seeming irreconcilable to me. I can't quite figure it out; maybe you can explain it to me, how on the one hand insurance companies can be experiencing severe losses and going out of the market and fleeing the market and yet on the other hand, at least on a global basis, have had record profits. You alluded to that in your testimony. How do you reconcile those two things?

Mr. MCCARTY. Well, I think that, again, this is a company's purpose, to make profits. The regulators like to see some balance struck between investors and their policyholders. We think that there is some responsibility, corporate responsibility, not only to the stockholders, but to your policyholders, and I think the companies have reconciled their issue by recognizing that their immediate concern is the quarterly profit statements and their need to generate a profit in order to continue to satisfy their stockholders. That is not terribly uncommon with most businesses in America.

What makes insurance strikingly different is the risk of ruin. Their capital is at stake everyday in a hurricane season, to lose all of their capital. So their strategic plan is, in order to make—continue to make profits is to retrench from those areas. They have historically underestimated their risk of ruin. They have historically underestimated their potential exposure and as they get better science, they are of the mind that they need to reduce their interest. Well, the reduction exposure is not just a Florida issue, as I testified earlier, this is occurring from Maine to Texas. The retrenchments particularly escalated to hurricanes in coastal prone areas.

By reducing that exposure, you can also increase your profits.

Chairman WATT. Now, some people have suggested that allowing insurance companies to kind of create subsidiaries and do this State by State, have a Florida subsidiary in another State, contributes to this problem that I have described as one that I don't understand how you can have both record losses and record profits at the same time. That is one peg, I will put it.

The second peg I will put is that I saw a statistic, in preparation for this hearing in fact, that indicated that about half of the U.S. population lives near the coast. That is the second peg.

The third peg is there is now before Congress, and it will come actually before our Financial Services Committee for consideration, a proposal to create an optional Federal insurance charter. I know that is something that State insurance commissioners, my own State insurance commissioner in North Carolina kills me or threatens to shoot me even if I mention it publicly, but it is—the legislation has been introduced and in the course of having this discussion, I think it is worthwhile to have a full-blown discussion.

Insurance is about spreading risk, and if half of our population lives along a coastal area, 49 of our 50 States have some kind of catastrophic risk of being exposed to catastrophes of some kind or another, what—give me your perspective, Commissioner McCarty, on whether that, plus the propensity of insurance companies to go State by State by State because they are regulated State by State by State, whether that might create a case for at least considering the prospect of an optional Federal charter.

And I want to make it clear that I am not on record as being supportive of an optional charter. In fact, I think if you look at the comments I have made about it, my comments have not been all that favorable toward it because I know that insurance is something that has been historically regulated and done at the State level and I am patently aware of that.

But I just think we shouldn't come to Florida and not get the Florida insurance commissioner's comments about this, if he is willing to allow me to put him on the spot.

Mr. MCCARTY. My pleasure, Mr. Chairman.

The three issues to consider as they are oftentimes referred to, in the aftermath of Hurricane Andrew, State Farm, Allstate, and Nationwide, to mention three of the major companies that are Florida-specific companies, certainly part of the reason you set up a corporate entity is limit your liability. There is certainly going back to the issue before, being driven by the capital—the rating organizations that they would be downgraded once they did set up pup companies, so they have, but I think it is quick to point out they have capitalized them and have recapitilized those companies in the aftermath of our storms since there were back-to-back eight named storms that hit Florida. So they have evidenced their commitment to Florida.

Rates are really State-based anyway. They file with each individual State jurisdiction to do that. So setting up the pup company, in and of itself, does not necessarily raise rates, but if that pup company buys all of its reinsurance in that one region, that could affect the cost of the reinsurance component.

In terms of changing demographics, I think you are right on point, Mr. Chairman, there is a significant change in the demographics of the United States since the 1950's. More and more Americans are gravitating towards and relocating towards high-risk areas, whether that risk is the risk of hurricanes in the Gulf of Mexico or the risk of earthquake exposure in California and other places in the west, we are certainly much greater at risk of catastrophic loss, just merely by the change of demographics.

As I alluded to before, if we were just to repeat historic events, these events would be many, many, many times more cataclysmic today merely because of the changing demographics.

And lastly, with regard to the issue of the optional Federal charter, I think that the insurance industry marshals a very compelling argument for having a national Federal charter. Because of the inefficiencies of dealing with 50 States many times it is easier to deal with foreign countries than it is to get 50 licenses in the United States and appointment of agents, etc.

Having said that however, I think if any of the bills you have seen out there for an optional Federal charter do not complement the regimen as we have seen in many States in the United States, including the State of Florida, which by that I mean, having a complete consumer protection regulation framework put in as well, I think when you start talking about consumer protection by an optional Federal charter, support for it will not be as strong as it is for many members in the insurance industry.

I think the better solution is a solution that would create greater efficiencies among the States through compacts, as we have seen with the interstate compacts that have been done in the past and creative work then among the States to the National Association of Insurance Commissioners, as opposed to creating an optional Federal charter.

The fear by most regulators is the mask of the optional Federal charter is effectively to get around State regulations and State consumer protections. If you were to build in a firewall and still have State consumer protections, but you can just get a license easier, I think the real issue is companies would like to see much of the apparatus for consumer protection dismantled.

Chairman WATT. I think I have long since exceeded my time, and I will go another round if you all care to go another round. I now recognize Representative Klein.

Mr. KLEIN. Thank you, Mr. Chairman, and just a few observations.

First on the deregulation issue which you asked about, and your questions were extremely insightful, having been in the Florida legislature 14 years before this and been involved with these issues, these are the issues that are the crux of what is going on in Florida and other States where these same symptoms have manifested themselves in terms of risk reduction, reduction of the portfolio and also acceleration of the rates.

On deregulation, the argument that I have heard in Florida over the years is, you know; let the market establish its equilibrium. If you do that, you will be bringing in lots of capital, lots of competition and things like that.

The problem is, if you have a $2,500 policy, and the market is at $8,000, all of a sudden you have 10 competitors come in, that is a wonderful thing on the competition side, but you have now priced it out of the realm of homeownership in Florida or other States.

So this is a question where I think there is sort of an acknowledgement of market failure at a certain point. We all know you have to have insurance if you have a mortgage and this is obviously something, even if you didn't have a mortgage, I would certainly think it is the proper way to prepare to protect your own values, and your estate, and your home and things like that.

The second issue is the separation of the risk and Mr. Mahoney has been very outspoken about this. This was presented in the Florida legislature early on after Hurricane Andrew with separating and taking apart one side of the risk, and up to this point the companies have capitalized when necessary when there was a problem after the hurricanes.

But, if that is the case, why shouldn't there be one company? And more importantly it is this notion of the evaluation of the risk. I mean, if you are just separating out—it is almost like saying Palm Beach County should have its own little lines—of let's evaluate what Palm Beach County looks like; here are the lines. A joke here in Florida—they have what they call the I–95 mountain range—I–95 is a road in a flat State that has no topographical differences on one side or the other, yet you pay more on the ocean side than you do on the west, yet, in the event of hurricanes, if I ask people here who live here, anybody here live west of I–95? How much more damage occurs, more west or more east? A rhetorical question, it is because the storms came in from the west, no storm surge, so it was you could argue it is a fiction of the east side versus the west side. And again, these are things that have been used to drive up rates and justify rates.

And lastly on the optional Federal charter, that is obviously being discussed on many levels in Washington. My biggest thing is, as the Commissioner is pointing out, that to the extent that those kinds of things are considered, if we were to look at the entire United States as a risk area, and we do what insurance is supposed to do, spread the risk and if somebody gets a national charter for offering homeowners' insurance, that is wonderful and that, you know, different rate, different areas, involve different risk and that is fine, but you are blending the entire United States together into one category with reinsurance, but if they are not prepared to do that and it is a national charter but still each State does their own thing, I don't see any benefit to the consumer and I think what we are trying to figure out here are ways to balance the right of a reasonable profit for a for-profit business for what we all know is a necessity and that is to have homeowners' insurance at a reasonable rate that many people in this room have paid in for 15 or 20 years, and they have that one claim, they are afraid to make a claim because they are going to get cancelled or the insurance company won't be there to back them up.

So those are the things that we are all trying to address nationally and I appreciate you honing in very directly on the questions that are really the operative questions in resolving this.

Thank you, Mr. Chairman.

Chairman WATT. Representative Mahoney.

Mr. MAHONEY. Thank you, Mr. Chairman, for giving us this second round. This is very stimulating.

First thing I just wanted to make sure I understood from Commissioner McCarty and that is is that this concept of a regional approach to catastrophes is something that you say increases risks, doesn't reduce risks, and is not a good solution. Did I understand that to be correct?

Mr. MCCARTY. Obviously pooling together in a regional CAT fund is better than doing nothing at all. My problem with the concept, however, is that you are not spreading it in a wide enough manner. To make it most effective, certainly a small State like Louisiana isn't large enough to create a Louisiana CAT fund like Florida. But if you pooled it together with a number of States in the Southeast, they would be able to be able to do that.

Mr. MAHONEY. But not to interrupt you, but three States that all have the same risk which is catastrophic hurricanes, does that increase, you know, does that share the risk or does that heighten the risk for that region? I mean there are people that are saying that that is what we need to do, we need to have regional catastrophic strategies and I just want to make sure I understand that what the—whether or not you think that that is accurate or not or should we be doing, saying no, that is the wrong thing, we should be going to a national approach.

Mr. MCCARTY. I think a national approach spreads the peril and the geography—

Mr. MAHONEY. Right.

Mr. McCARTY. —which I think are the two most critical issues. But short of a national plan, a regional plan makes some sense because of the cost of lowering insurance. A CAT fund can have actuarially rates at one-third the cost of the private sector.

Mr. MAHONEY. Well, I think the problem with global reinsurance, hearing your testimony, sir, is the fact that there is just not enough of it. And so when something is scarce, the cost is high. Is that—am I understanding that, is that a simple understanding?

So my question is, let's just run through the math. You know, somewhere along the lines somebody said that two category fours hitting Florida in a year would generate $79 billion worth of damage, is that—does that sound familiar to you?

Mr. McCARTY. That is certainly within the realm.

Mr. MAHONEY. And if you take a look at all the insurance premiums we got for wind that come in the State, what would you say annual premiums are in the State?

Mr. McCARTY. I don't have that figure, but it is substantially less than that.

Mr. MAHONEY. The number I think I am working with is somewhere in the $9 to $10 billion level?

Mr. McCARTY. That is about right.

Mr. MAHONEY. And a fully funded CAT fund is how much in the State of Florida right now, if we had the fund fully funded now, right now, the CAT program?

Mr. McCARTY. The CAT—we have a CAT capacity of about $36 billion, but that is mostly through debt instruments.

Mr. MAHONEY. Okay, let's say we have $36 billion in that, $10 billion in premium. That gets us to $46 billion. You know, the point I am trying to make here is that we still have between $30 and $40 billion of unfunded liability. And everybody needs to understand that is what is causing the instability in the market, because when the Commissioner goes out and we borrow money or we tax people by adding a premium to their policy to build a State CAT fund in order to provide lower cost reinsurance, what the insurance companies are doing, as Commissioner McCarty is saying, is that they are taking advantage of it, they are buying the lower reinsurance through the market, but at the end of the day, with the savings that they have, they still have unfounded liability. So they still are going back to that expensive reinsurance, which is costing anywhere between $200- to $300 million per billion to cover.

I will tell you just anecdotally, one thing we have a great chief operating officer, just goes to show you here, Mr. Chairman, that Democrats do know how to manage, we have Alex Sink, who is chief operation officer for the State, and I met with Alex in Washington D.C., and she was trying to figure out how to finance that shortfall in the State of Florida—

Chairman WATT. That is the same Alex Sink who came out of my congressional district in North Carolina; I just wanted you to know that.

Mr. MAHONEY. So Alex Sink met with us and she showed me a letter from a company that will remain nameless to what they call a commitment letter, and that commitment letter was a commitment to raise the money, it wasn't having raised the money, it was to raise the money to fund the CAT fund so that in the event the money would be there. And they wanted, I think it was $600 million for the letter—$600 million for the letter.

So the point I am trying to make here is we can't solve the problem in the State of Florida, because if you add up all the nickels and dimes, we are still about $40 million dollars short and there isn't a reinsurance industry although they are fighting us tooth and nail to try to keep us from regulating. There is not a reinsurance industry that has enough capital, A; and B, if they had the capital they wouldn't put it all into disasters in North America, let alone the United States, let alone the Gulf Coast, and that is what is creating the problem.

And that is the reason why the Federal Government has to step in and say look, we will be the lender of last resort for that $40 million, the State of Florida and the State of North Carolina respectively have to take on their responsibility and the insurers have to do the same. Because until you solve that instability in the market, there is no relief.

Would you agree with that?

Mr. MCCARTY. Absolutely.

Mr. MAHONEY. Thank you very much, I appreciate it.

Chairman WATT. Representative Wexler.

Mr. WEXLER. Out of deference to the second panel, I will be very quick, but if I could just ask the Commissioner for his assistance. We have a political problem in that when we had the hearings regarding this bill in the House of Representatives, the Administration, meaning the President of the United States, the Administration came and testified vehemently against this legislation and essentially made the argument, not the argument that you make, but the argument that you alluded to, that it was improper to create what in effect was a Federal regulatory role and that what was really necessary was that the private market was being inhibited by State insurance commissioners such as yourself. And I and others asked well, what are you saying is that Commissioner McCarty is not letting the prices go high enough and to a degree, that is in effect what they said.

But my point is this, you are the chairman of what is, I suppose, the most relevant organization in the Nation with respect to this issue in terms of expertise.

Would it be possible in the context of dealing with the Administration if an organized effort could occur where a majority of like-minded people such as yourself could communicate informally to the Administration the principles and to support the principles that are at a minimum enunciated in the bill to better enable us to convince our colleagues in the Senate and other of our cronies in the House to push forward with this.

Mr. MCCARTY. Yes, I am aware of the Administration's position with regard to any Federal action with regard to intervention in what they consider the private marketplace. I also believe we can probably play a role, hopefully, in educating the Administration on some of the limitations. I am a free market guy and bringing Governor Bush to meet with them and bringing macroeconomics in and bring in more capital, and be very clear that there is a finite amount there and again, the unregulated surplus line market which is not regulated rates, are not regulated, there is a limitation on how much capacity they can take. So it is a matter of the capacity and the exposure in different parts of the country particularly Florida.

But I certainly would do my best to—I don't know how effective I would be, but I certainly would make those efforts.

Mr. WEXLER. Thank you very much, Commissioner.

Chairman WATT. We have found that free markets really can't do effectively or as effectively as government, and it strikes me as that this is one of those areas where regardless of how we model or how effective we are, I can look at the historical risk patterns and I can tell you generally who is going to have an accident, or who is going to have a fire or who is going to have a theft, but I don't know anybody who is going to be able to contemplate and figure out the likelihood of Acts of God. And government's prime role is to step into the breach for the common benefit of its citizens and so I don't want to get on, you know, this is not government versus private enterprise; it is about the common welfare of the people that we all serve.

And so, with that, let me thank you, Mr. Mayor, for being here. Thank you, Commissioner McCarty for being here. I am extremely apologetic for being late, but you know, it was not in my control. I am glad to hear Representative Mahoney praising Alex Sink, who came out of North Carolina to work for Bank of America and came down and became a success, even more successful in Florida than she was in North Carolina. She is a good friend of mine too, a wonderful, wonderful person.

So thank you all being here and we will now call up the second panel.

Just for information purposes, there was somebody in the room who raised their hand, and it is not traditional in congressional hearings, either in the field or in Washington, to take questions from the audience. In a lot of cases, we have townhall meetings where questions are appropriate to the Members of Congress, but I am afraid I won't be able to take any questions from the audience today, sir.

Mr. OSER. Let me say this, I am so proud of our Congressman up there and I have lived in three States.

Chairman WATT. He might recognize you for that purpose of—

Mr. WEXLER. Mr. Oser, please speak up.

Mr. OSER. I spent a little time in Cherry Point, North Carolina, before you were born.

Chairman WATT. We might all ask you to come to the mike if you are going to—no, no, we thank you for the praise, but unfortunately we have to honor the protocols and rules of Congress in —thank you.

We would now like to welcome up our second panel and therefore CVs have been put into the record or will be put into the record. I guess I will ask unanimous consent to put your full resumes or CVs into the record and I will make a brief introduction.

Our first witness on the second panel is Mr. Charles Bonfiglio. Did I come close?

Mr. BONFIGLIO. Very good.

Chairman WATT. —president of the Florida Association of Realtors. Our second witness on the second panel is Mr. Alex Soto, past president of the Independent Insurance Agents and Brokers of America. And our third witness on the second panel is Mr. Roger Jesse, a resident of Hobe Sound, Florida. And that is in keeping with our tradition when we go into the community of having some residents come and testify. We did that when we were in Mississippi too, so we thank you so much for being here.

Just so you know the rules of the road, without objection, your entire written statements will be made a part of the record, and each of you will be recognized for 5 minutes or thereabouts. I am not as rigorous about that as some Chairs, but you will be recognized for 5 minutes. Do they have a lighting system over there?

He will raise up a hand when you have 1 minute left in your 5 minutes. Don't stop though in the middle of a sentence just because you have run out of 5 minutes. Please finish up your thoughts because we are here to get as complete a record as we can.

And with that, Mr. Bonfiglio, we will recognize you for 5 minutes.

STATEMENT OF CHARLES BONFIGLIO, PRESIDENT, FLORIDA ASSOCIATION OF REALTORS

Mr. BONFIGLIO. I have a great Alex Sink story, but we will save that for another time.

Thank you, Chairman Watt, Congressman Wexler, Congressman Mahoney, and Congressman Klein for the opportunity to be here to speak to you on behalf of the Florida Association of Realtors, on the homeowners' insurance crisis and its impact on communities, homeowners and the economy.

My name is Chuck Bonfiglio, and I am broker/owner of Century 21 Triple A Realty in Cooper City, Florida, and also president of the Florida Association of Realtors. The Florida Association of Realtors is the largest trade association in the State, with more than 150,000 members.

I must begin with a public thank you to Congressman Klein and Congressman Mahoney for their efforts to address the problem of availability and affordability of property insurance.

The bill that that they led through the United States House of Representatives, the Homeowners' Defense Act of 2007, defines a process for supporting reinsurance markets nationwide and as such marks a solid first step in ensuring the availability and affordability of homeowners insurance in at-risk markets. On behalf of all Realtors and homeowners in Florida, we thank you.

Mr. Chairman, as you know, the availability and affordability of property insurance is at its core a consumer issue. The importance of this insurance to homeowners, commercial property owners and those who would like to own their own home or place of business cannot be overstated.

Unfortunately, it is also something that consumers nationwide, even those who are not in what have traditionally been considered disaster-prone areas, now know all too well.

The Florida Association of Realtors strongly encourages Congress to enact a comprehensive natural disaster policy to help property owners prepare for and protect against losses from future catastrophic events. Such a policy would recognize the respective responsibilities of property owners, private insurance markets and all levels of government in preparing for and recovering from future catastrophic events.

An unprecedented number of strong hurricanes, including the most powerful hurricane ever measured, Hurricane Wilma, caused extraordinary devastation in 2004 and 2005. As you all know, eight hurricanes rated category three or higher, blew through Florida in just 2 years.

My Association commissioned a study on the impact of hurricanes on housing and economic activity which was completed in April 2006. I would just briefly mention some of the findings of this study, but I would like to submit the full study for the record.

Chairman WATT. Without objection, we have a copy of it, I believe, the Affordability and Availability of Homeowners Insurance in Florida, and without objection, it will be submitted in its entirety for the record.

Mr. BONFIGLIO. Thank you.

After the devastation of 2004 and 2005, private insurance companies sharply raised insurance premiums and/or drastically lowered their insurance coverage in Florida.

The limited availability of property insurance in turn forced many homeowners to seek coverage through Florida's public insurance system. But Florida Citizens Property Insurance Corporation, specifically set up to provide insurance in high-risk areas where private market insurance options are limited, has also come under great financial strain and been forced to significantly raise insurance premiums.

The current high cost and limited coverage of property insurance appears to be impacting the housing market. Unfortunately, declining housing activity is often the precursor to a larger economic slowdown. Without a doubt, the 2004 and 2005 hurricane seasons were catastrophic and unpredictable.

Hurricanes of such strength and frequency could not have been anticipated through normal historical analysis, and hence, cannot be considered as normal insurable losses. I believe that Federal catastrophic insurance coverage would permit insurance companies to better manage risk and widen insurance availability at reasonable costs.

Just as with Federal terrorism insurance, coverage on unknown events allows the private insurance market to continue its presence. A Federal catastrophic insurance program will not only benefit Floridians, but also residents living near the Mississippi River who experienced flooding, families in Kansas and Oklahoma who will see more than their fair share of tornados, west coast residents from San Diego to Alaska with earthquakes, Texans and Coloradoans with wild fires, and numerous other people in cases of unforeseen and unpredictable natural disasters.

As you all know, a strong real estate market is central to a healthy economy by generating jobs, wages, tax revenues, and a demand for goods and services. In order to maintain a strong economy, the vitality of residential and commercial real estate must be safeguarded.

Homeowners' insurance is a necessary component in securing a mortgage and buying and selling a home. If a potential homeowner is unable to obtain or afford the required insurance, the sale will not be completed.

In addition, many of our commercial Realtors have reported problems with commercial insurance. Our members have experienced large increases in premiums, in some cases more than fourfold with concurrent increases in deductibles and decreases in coverage, and in other cases a complete lack of availability.

While most agree that States are the appropriate regulators of property insurance markets, I believe that there is a proper role for the Federal Government in addressing mega catastrophes. Some disasters are just too large or unpredictable for the private market to manage alone. As such, it is appropriate for the Federal Government to intervene in insurance markets and prevent market disruption and insolvency among insurance companies.

I must admit that we all have a duty to ensure that there is confidence that our homes and businesses will survive future catastrophic events. I just met with the president of the Florida Homebuilders, Bob Parrish, on Friday, and we agreed that appropriate mitigation measures can also create the confidence.

Federal and State governments can provide incentives through tax credits. We know that a dollar spent on mitigation saves society an average of nearly $4. Florida has the "My Safe Florida Home" mitigation program that provides matching grants to homeowners to harden or strengthen their homes, and it is working. We would encourage Congress to look at tax credits to encourage mitigation as well.

There is no guarantee that 2008 or any future years will be as benign for natural catastrophes as 2006 and 2007. The question is not whether there will be another Katrina-like event in size and scope of destruction, but when.

As we learned, it is far less costly to prepare ahead of time than to fund recovery efforts. We also encourage Congress to consider proposals that will provide incentives for property owners to undertake mitigations measures, allow individuals to establish catastrophe savings accounts to pay for losses resulting from catastrophe events, strengthen the Nation's infrastructure, and ensure the long term viability of the National Flood Insurance Program.

Thank you again for inviting me to present the views of the Florida Association of Realtors. We certainly hope the United States Senate will have a similar hearing, and we stand ready to help you, Chairman Watt, and others in Congress to develop a responsible natural disaster policy that addresses the needs of consumers, the economy, and the Nation.

Thank you.

[The prepared statement of Mr. Bonfiglio can be found on page 54 of the appendix.]

Chairman WATT. Thank you for your testimony and thank you for the role the Realtors are playing on this issue and in providing housing around the country. Certainly some of the most thoughtful ideas for dealing with the crisis of foreclosures and lending and other lending issues that we have been facing in my community have come from my local Realtors and from your national association, so we thank you so much.

Mr. Soto, you are recognized for 5 minutes also.

STATEMENT OF ALEX SOTO, PAST PRESIDENT, INDEPENDENT INSURANCE AGENTS AND BROKERS OF AMERICA

Mr. SOTO. Thank you, Chairman Watt, and Congressmen Klein, Mahoney, and Wexler.

I appreciate very much the opportunity to be with you. As you have indicated, my name is Alex Soto. I am the immediate past president and the immediate past chairman of the Independent Insurance Agents and Brokers of America.

We are 300,000 men and women working in 25,000 independent agencies, which are small businesses throughout our entire Nation. We are not employees of the insurance companies and we are not representatives of the insurance companies, nor the reinsurers.

The big "I" likes to think of itself as being a group of small business owners, and we have contractual relationships with many insurance companies and serve our clients by placing their risk with the best possible solutions within the companies that we represent.

I am also the president and the CEO of InSource, Inc., which is one of the largest privately owned insurance agencies in the State of Florida. We are based in Miami, Florida. We also have offices in Broward County. And I had the dubious distinction of having lived through Hurricanes Andrew, Katrina, and Wilma, and Congressman Klein alluded to the former JUA, which was the predecessor of Citizens, I was for a period of time, vice chairman of that organization.

Let me make the following comments. The insurance industry is neither monolithic or monopolistic. The fact of the matter is that if you go to A.M. Best, and A.M. Best is an organization, the largest and the oldest that rates and ranks insurance companies, you will see on their Web site that they have financial information on over 7,500 insurance companies. And these insurance companies sell all types of insurance and A.M. Best does not keep financial information on the entire universe of insurance companies. So if we are generous, and say that they do it for 75 percent of the marketplace, then that universe is about 10,000 insurance companies.

If you go to the Department of Insurance of the State of Florida, you will note that 118 insurance companies are licensed to sell homeowners' insurance in the State of Florida, a small proportion of the total universe.

That number of 118 is very misleading because the reality of the fact is that a number of these 118 companies are not writing any new business, or worse yet they are not only not writing new business, they are actually canceling and non-renewing a number of insurers.

These 10,000 insurance companies everyday, their CEOs make a decision on where they are going to invest their capital, in terms of the lines of insurance they are going to offer, coverage, and the geographic areas.

And so in effect, every State in the Nation competes everyday with every other State for the attention of these insurance companies in order to bring capital to their State and as Commissioner McCarty already indicated to us, the fact of matter is that the marketplace does not have confidence that they can risk a substantial portion of their capital, and I am talking about the individual companies, in coming to an area such as South Florida or coastal areas or other catastrophe prone areas of the United States.

So, we are unfortunately left with pup companies, as he alluded to, emerging companies, and the residual Citizens marketplace. Not a sufficient amount of competition, and when insurance companies compete for the attention of my clients, my clients win. It happens all the time.

I will give you a very quick example. We were working on the renewal of a large architectural firm. We contacted eight insurance companies. There is no crisis in professional liability. We indicated to them that we were going through a bid process on behalf of our client and they were delighted to participate. As we moved through the process, what happened was the premiums came down, the limits went up, the deductibles went down, and the language of coverage expanded. There was competition, there is competition, and that is what we would like to return in Florida.

Perhaps unlike other segments of my industry, I will tell you that my Association is four square in favor of your bill and we salute you for what you are doing. We have been the independent agents in favor of a backstop solution because there is a place for the Federal Government. While we ultimately believe that some deregulation of rates would be a good idea, it would be irresponsible where there is no competition in an area such as Florida to do it precipitously so we don't believe that is an important or a proper solution so we salute you for what you are doing and we support it and we will work in order to try to get it passed through the Congress.

We support any other measure that would create more competition and more market being brought to our areas, the coastal areas of the United States.

There are two other components to this that I think are important in romancing, if you would, capital to come to our areas.

Quite frankly, I would like to see our elected officials in our State, our Governor and members of the legislature, speak with a little softer voice when condemning our industry. When you use a blanket brush to attack the industry, what you will never know is that certain companies in certain parts of the Nation will simply not come and invest in your area, among other things, because they believe there is a hostile environment.

Finally, I like the comments that Mr. Bonfiglio just made in terms of retrofitting and hardening homes. It is probably one of the most important magic bullets that we have.

It works this way: If you think of premiums as innies and payments of claims as outies, every one of us have to keep, in our private lives, in our businesses, even in State government, the innies ahead of the outies. Insurance companies need to do that. If you don't like the innies, the premiums that we are paying, we have to reduce the losses.

If you look by example at Hurricane Charlie that came in from the southwest coast and cut across a swath, it went out Daytona Beach, there was an analysis done recently by the Institute for Business and Home Safety, that looked at the losses of the homes that were in that area and were affected, in the ones that were built prior to 1996, when a better building code went into effect, had fully 60 percent more claims than the ones that were built afterwards.

And when you compared the total number of claims, law of large numbers, the severity of the ones that were better built after the improvement of the code was actually 42 percent less severe. There is nothing as dramatic as hardening of our homes that we can do in order to improve our market condition.

I salute you for what you are doing and we will work with you in order to get it passed. At some point in the question and answer session, I would love to get into optional Federal charter or deregulation of insurance or any of the other topics.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Soto can be found on page 79 of the appendix.]

Chairman WATT. Thank you for your outstanding testimony, and I will now recognize Mr. Jesse for 5 minutes or thereabouts.

STATEMENT OF ROGER JESSE, RESIDENT, HOBE SOUND, FLORIDA

Mr. JESSE. Thank you, Mr. Chairman. And I am glad to be here with Mr. Klein, Mr. Mahoney, and Mr. Wexler.

I am just a plain retired guy, okay? I retired in 1999 and I had experience in general management, marketing, sales, and engineering. I purchased my Florida home in 2002 and became a Florida resident; I homesteaded in 2004. I am a widower, I am on a fixed income, and I am 73 years old.

I have resided and owned 9 homes in over 48 years, from coast to coast. I have been in some earthquakes and a few things like that and that experience level. I have a Bachelor of Science degree from the University of Wisconsin and Chemical Engineering and Naval Science, in that area and I am very active in volunteering in Martin County, specifically in this area.

As I said my current home was purchased in—I said August of 2002, but I made a mistake—it was July, so I stand corrected.

I purchased homeowners' insurance through a local agent from Allstate Floridian in 2004 and was informed in the spring of 2007 that my insurance was not being renewed. Although my residence had been through three hurricanes and had not had a claim made with Allstate Floridian in this case.

As the crow flies, my home is 5 miles from the ocean, in that area. It is still on the east side of I–95, in that area. The home is rather unique in its construction, in that the exterior walls are actually poured reinforced concrete. It is a fortress, in that area, it really is. My total hurricane damage from those three hurricanes was $280 for the screening of my lanai, and just a part of the screen of the lanai, in that area.

Being of relatively new construction, it has shutters, hurricane shutters and all the improvements that are called for in all the codes in that area.

I am currently insured by a company called Royal Palm Insurance and my insurance rates have not, you know, they are nothing incredibly dramatic, but since 2004, it has doubled in that area.

In addition, there is some—I guess my concern is about the capabilities of a company that I haven't really heard about before, as opposed to a company that is national and certainly more visible in the area. And there was a recent article in the local Stuart News that this insurance company was doing drive-by appraisals and increasing the premiums on the policy in the area. That did not happen to me in that area.

I guess the increasing cost and availability of good, reliable homeowners' insurance is a major concern, but it doesn't impact me that heavily in terms of my current lifestyle. I have reasonable computer skills and frequent the Internet regularly. I am very concerned that for many seniors or disadvantaged who are on the edge and have a difficult time communicating in this electronic world.

Thank you.

[The prepared statement of Mr. Jesse can be found on page 64 of the appendix.]

Chairman WATT. Thank you so much for your cogent reminder that we can put all the statistics and models and whatever, but in the final analysis this is still about the citizens that we serve, and I thank you so much for being here.

Mr. Klein, you are recognized for 5 minutes. Do you want to go— Mr. Mahoney for 5 minutes.

Mr. MAHONEY. You can see, Chairman Watt, the pecking order here of a Florida delegation, how it works, and I am at the low end of this pecking order, so I am happy to go first.

Chairman WATT. You look like you are in the middle there to me.

Mr. MAHONEY. Well, that is the only concession that I got, sir, was having my colleagues on either side of me.

Mr. Bonfiglio and Mr. Soto, thank you very much for being here today and having the Florida Association of Realtors and the Independent Insurance Agents supporting this bill has been an enormous asset.

I don't think I have to remind you that operating businesses, whether they be insurance agencies or real estate firms, that things have been kind of rough for your constituents these past several years.

And we have seen here, Chairman Watt, the perfect storm of what can happen when you have out of control insurance rates, premiums for insurance—homeowners' insurance, property taxes and that here in the State of Florida, whether you like it or not, the real estate industry and construction and all of the things that affect it are still the major industry in the State and we are, I would say, fair to say, in a recession and having to figure out how to dig ourselves out.

But the first question I have, and it is just from the perspective of your constituents Mr. Bonfiglio and Mr. Soto, is that when you take a look at all the things that are impacting sales right now for your members—property taxes, homeowners' insurance, and housing costs—could you just kind of lay out what is happening in the State of Florida and how each is impacting. I know they are all negative but, you know, could you give us a little relative, you know, discussion as to how—which is bigger, lesser, how things impact the market.

Why don't we start with you, Mr. Bonfiglio?

Mr. BONFIGLIO. Yes, thank you for the question.

You know, when you look at it, our number of sales in 2007 in the State of Florida were down by 29 percent from 2006. And that was after being down about 30 percent in 2006 from 2005. And I did some quick numbers and resales, existing homes in the State of Florida for 2007, totaled about $130,000. There are a 160,000 Realtors, and there are probably another 160,000 non-Realtor licensees, so you do the math. It equates to less than one-half of a sale per licensee.

We have foreign investors who love the State of Florida; the Canadians, the people from Great Britain, and with the dollar being what it is, those folks ought to be coming here in droves and buying up our property. But unfortunately the reason that they are not and that has gone down as well, 2 years ago, foreign investors did about 15 percent of our sales and that was over 80,000 sales. Last year in 2007 that dropped to 7.3, so you say well, with all the things that are positive for the investor, for the foreign investor, then why aren't they buying and the answer is simple; taxes and insurance.

Until we can fix that, these folks aren't going to be purchasing as they should be and that should be a tremendous market for our State.

Mr. MAHONEY. Mr. Soto, do you have a comment on that?

Mr. SOTO. Yes, two or three very quick points.

Number one; there has been a theme of concern about the rising cost of insurance. We have a small but growing segment that are making decisions to go bare, by that, meaning not to buy windstorm insurance. And some people are doing it in a thoughtful manner and they are putting some money away, they are doing the reserve. Others will be bankrupt the moment that they are hit by a catastrophe because they are going bare without the wherewithal to create another plan.

Some are going to be bankrupt because of the size of the deductibles. Deductibles have increased. There has been a premium stabilization in the last year or so where the increases have been more modest, but there is a tremendous danger as to the quality of the paper and the insurance that stands behind it.

There is a tremendous concern—I used to worry about my home and my clients' homes. Now I have to worry about everybody in the State of Florida because of the exposure of the catastrophe fund, which I believe is sorely underfunded and also Citizens Insurance. And that is why we really, I think the analysis that you all went through in terms of the size of the exposure, it is well beyond our borders and our State, what it can handle.

Mr. MAHONEY. I appreciate that, Mr. Soto, because I was going to address another question to both you and Mr. Jesse.

By the way, Mr. Jesse, I am glad to see that you came in your official uniform of a successful retiree today.

Mr. JESSE. Thank you.

Mr. MAHONEY. Okay, and I think it is very, very valuable what you are doing here, talking about your experience.

And the thing that struck me is the fact that who are living in this hardened shelter and a little piece of paradise called Hobe Sound, that has not lost its beach charm and the small town community feel.

But, you know, you were talking about having been insured by a subsidiary of Allstate, Allstate Floridian, and then you are now to another company and my question to you is, as a homeowner being rejected by a national name, Allstate, even though it is a Florida pup company, which has its ramifications, and going to another company that doesn't have a national reputation, can you just explain to me, I mean, how confident are you that you are really insured at this point in time?

Mr. JESSE. Not terribly confident. I would say being advised that, you know, they are not going to renew is, you know, as you get on and older, as I said, it gets more difficult, okay, and I am pretty good, I have my senior moments, but I am there and I can find new stuff and everything like that if it is available, if it is any good, okay. And how, again, I have heard so much about, you know, shortfalls and everything like that today. I mean it really makes you think, you know, where—what have I really got here.

Mr. MAHONEY. Well, the other thing you pointed out too is that you are fairly computer savvy and, you know, one of the things that you have been able to do that I know a lot of our seniors have had difficulty doing, because they haven't used the Internet and so and so forth, is be able to take advantage of some the services that are out there that might be able to help them find lower cost insurance, which is a different problem.

But Mr. Soto, getting back to you, you know this whole issue of pup companies and these new companies. I mean, I remember having a conversation with the Governor and Commissioner McCarty, unfortunately I think he had to leave already, and there is coming back to us and saying don't worry because we have more competitors in the market, we have new companies coming into the market, and being an old financial services guy myself, I mean, I am always concerned about the strength of one's balance sheet frankly, in terms of being able to handle the event.

We had a situation in the last Hurricane Wilma where we had a fairly significant company insure, I will say, not a company, end up going bankrupt and putting additional stress.

As an independent, representing independent agents, I mean, one of the great values that you bring to the marketplace is your independence, your ability to take a look at what is out there in the marketplace and be able to assess and evaluate companies and their product offerings.

I would be interested in your perspective in terms of whether or not the programs instituted by the State, our inability to stop the exodus of what I would call A-tier companies from the State, could you give us an assessment of, you know, what you think the current situation is of the balance sheet of the insurance industry is in the State of Florida right now?

Mr. SOTO. Sure. Well, very quickly, thank God for the emerging companies because we have practically nothing else. We would be left with Citizens. They have stepped into a gap.

But I will tell you and I review—one of my corporate responsibilities is to review and read carefully every contract that my organization signs with every company.

My standard used to be, you had to be an A rated company and you had to have a financial size of eight or larger. A.M. Best gives you a letter rating and a Roman numeral rating and we have basic standards. We have to throw that out the window.

I was facetiously telling one of my partners the other day that I just signed a contract, with a company that was just organized last week and that they have five chickens in their treasury, three of which I thought had the Avian Flu, and it is very scary, it is very scary in the position that we are in.

The second part is that you have to realize and I will tell you that I helped organize one of those insurance companies. We are doing business exclusively in the State of Florida, we are writing homeowners business, with wind, but there is no spreading of the risk in terms of going to Nebraska and Ohio and other places, so that is a concern.

We cannot rest on the basis of the creation of those companies, we have to—and I believe that your plan will give a certain amount of confidence to other companies to get involved, the larger ones, because at the end of the day we have to in effect, get them back to the coastal areas.

Mr. MAHONEY. Just to finish up, Mr. Chairman, if you indulge me for a few more seconds.

I mean one of the things that our bill does is it recognizes that the goal here is to bring A-tier companies back into the market and that, you know, the goal would be from my perspective, that a well crafted plan like our bill will not only encourage companies to come back in, because the key to it is is that there is stability, again, remind everybody that there is stability because in that big event that, you know, in that 1-in-200-year event, the Federal Government will provide the loans, it is capped and we have done everything we can possibly do to expand the market for reinsurance.

So we are, you know, this is a very much a pro business, pro market approach where we are trying to get companies to come back in, because frankly I haven't met anybody who wants to be insured by Citizens.

So, I just, again, want to thank both of you for coming, because between the subprime crisis, homeowners' insurance, and the property amendment, it has been a perfect storm of epic proportions. And I hope you all recognize that Congress, in the Stimulus Package and with the interest rate cuts working with the President and the Federal Reserve, are doing everything that we can do to resuscitate the real estate market and so that we can protect our local economies.

With that, I will yield back my time.

Chairman WATT. Thank you so much.

Representative Wexler.

Mr. WEXLER. Thank you again. Thank you to all the gentlemen for giving us the opportunity to learn from you.

Representative Mahoney talked about the Stimulus Package. To me, ultimately the most important part of that package, if I understand it correctly, from now until the end of the year will enable conforming loans, the amount of a conforming loan to go from whatever it is—$417,000 to almost $300,000 more than that depending on the cost of the average price of a home in a particular area and so forth.

I would be curious just to hear your reaction in terms of what kind of an impact you think that actually will have here in Palm Beach and in Broward and the Treasure Coast. And also beyond the provisions of H.R. 3355, specifically as it relates to hardening homes, as you described, Mr. Soto, and mitigation of risk, what tax provisions in your idea would be the most meaningful in terms of incentivizing people to take on the financial cost of doing that type of mitigation.

Mr. SOTO. Would you like me to take that part first?

Mr. WEXLER. Please.

Mr. SOTO. We ought to make this, in my opinion, a Marshall Plan program and there are a number of steps and I will hit the facts very quickly.

We ought to do at the Federal, at the State, and even local level, everything we can to support first, the research. There is wonderful work being done in a number of universities in our State. In my area, FIU is creating the wall of wind. They are going to take fans and blow up to 170-mile-an-hour winds on fully built homes that they are going to put on Lazy Susans, and they are going to spin them around and they are going to blow it at the doors, at the roofs, at the windows, at the cornices, at everything possible in order to garner the knowledge as to when these elements will fail. And they are going to build homes according to the code in the past, the code today, and over the years the historical number of codes. They are also going to test all sorts of hardening and retro fitting. So we need to support that vigorously.

Number two; we need to make sure that all that information gets to our citizens. I look forward to the day that I can go on the computer, as Mr. Jesse can do today, and type in that I live in zip code 33143, my home is built in 1990 and answer a few questions and I will be told what will happen to my home at certain wind speeds, the different elements, and what I need to do in order to improve it, and then a list of licensed contractors that will help me harden the home.

Then after that we need to have inspectors that are trained in order to come out and look at it and see the work that I have done and demand that my insurance company give me a sufficiently strong actuarially sound credit commiserate with what I have done. I did that in my house and I did it, but as a private citizen, and I got a reduction in my premium of $1,200.

A property tax credit or an income tax credit or some sort of credit that I can see a direct link between the dollars spent and what I am getting back, that in combination with the credit from my insurance company will be significant. We still have a very large segment of inventory that was built, more than 80 percent, was built prior to 1996.

Mr. WEXLER. If you don't mind me asking, what did it cost you to get the $1,200 credit, understanding that is a recurring credit, I assume, I hope.

Mr. SOTO. Yes, it is. And a number of other things that I have done but I will tell you the inspection cost me a $105 in order to get that. I found that some elements of my home were built better, also simple little things. You know, we have learned that if you use ring shank nails to secure the roof of your home, it takes the roof—

and ring shank nail is nothing more than a nail that has rings on it—it takes it from a category 1 to a category 4. Well, I am not going to undo my entire house but part of the research that they said it, if you put a commercial grade ribbon of glue where your plywood and your trusses come together, that you can now increase a holding power to a category 4-plus.

It cost me $100 from Home Depot of commercial grade glue and a skinny, wiry young guy, in the winter, I didn't want to kill him, to go up in my attic and do it and then I got up there and tapped it and it is like concrete. My roof is not flying off in pieces. It may do like Dorothy and go in one piece, but it is now—so it is that type of thing that you can do. And I found that in the Web at the Institute for Business and Home Safety, out of the research that some of our universities did.

So there has to be a connecting bouncing ball all the way across and it ought to be done, in my opinion, as almost a Marshall Plan. It is—when you take the reduction of the losses of 60 percent fewer claims and 42 percent less severe, there is nothing that we are putting in place in terms of reinsurance, in terms of savings that is that dramatic as reducing losses.

Mr. WEXLER. With the exception of, and I will stop with this, Mr. Chairman, with the exception of the investment and the research which is obviously critical to the whole thing, those other matters seem to me to be matters more appropriately regulated to the State or local governments, would you agree?

Mr. SOTO. Yes, to a great extent they are.

Mr. WEXLER. Okay. Thanks.

Chairman WATT. I think I will let Mr. Klein, since he is in his home turf go last and because I will pick up on just one thing.

Mr. Jesse testified that he lives in a fortress, had a hundred and some dollars worth of damage in a major hurricane. You testified you upgraded and got a big credit. He says his insurance rate went up about double. How do you reconcile that? I mean is there something now that will allow somebody who lives in a fortress who really has stable well-built hurricane proof, whatever that is, home to get—to really get insurance savings and tax savings similar to what we are proposing for the greening of homes? That is one of the things that is in our energy bill. So it wouldn't be too much of a step to go one step further and talk about tax credits for the strengthening of homes.

But if Mr. Jesse is not going to get the benefit of that because the system doesn't have enough flexibility in it to give him the benefit of the hardening of his home, what good is it to him? Is that flexibility in the system now?

Mr. SOTO. In a number of insurance companies they do, in others it is pathetically poor and that is that the credits that they give for the differential and the construction of homes, is in my mind, not sufficient and when I mean sufficient, I mean sufficient to meet actuarial standards. The fact of the matter is there is a huge significant of the amount of damage that a home can suffer.

Now he has poured concrete—poured reinforced concrete walls. I don't know whether he has the same in terms of his roof or his roof is a joist and masonry type roof which is another aspect there, but the short answer is I would encourage him to get in touch with his insurance company or his agent and inquire as to every possible credit that they make available and the size and significance, and then get them to do a thorough inspection or he can hire a private inspector that will complete a form that will indicate as to what standards his house meets and I suspect that he may get some pretty good credits.

Chairman WATT. Well, I think if nothing else comes out of this, I am going to get Mr. Jesse and Mr. Soto paired up today so he can, he can help you get your insurance rate down. It sounds like, I mean, if you are living in a fortress and everybody else around you is having his house blown away and yours is still standing there with a hundred and some dollars worth of damage, we want you rewarded for that, I think.

And if you are not rewarded, then other people will see that you are not rewarded, and they won't have the incentive to follow your lead, to build those fortress kind of hardened homes that have been talked about.

So I think I will go with that to the hometown guy, Representative Klein, thank him once again for hosting us, and yield him as much time as he may consume.

Mr. KLEIN. Thank you, Mr. Chairman, and I share our hometown in our gerrymandered South Florida area and to having this hearing and appreciate your support.

Chairman WATT. I support the notion of the tax. We don't use the term gerrymandering in North Carolina. I don't use it since it was my congressional district that went to the Supreme Court 3 or 4 times and got reformed 3 or 4 times in the last round of redistricting, so those beautiful, carefully constructed congressional districts, we love them.

Mr. KLEIN. Look at the map of mine and get a beauty—

Chairman WATT. Yes, it can't get be anymore beautiful than mine. I just—I didn't mean to get you off track, but I just always have to send up the red flag when somebody uses that term.

Mr. MAHONEY. Just to show you how bad it is here between where I parked across the street and coming in, I went through three congressional districts.

Mr. KLEIN. I support incentives. And those incentives that are actually in the bill, H.R. 3355, are a few type.

Number one; I think that we have and consider legislation and we may want to continue to push on this to encourage tax incentives, whether they be credits, deductions, something to encourage fortifying of homes. And obviously it is not just hurricanes. It is earthquakes. There is lots of different engineering, I am not an expert and we rely on the building experts to tell us.

Florida really has moved farther than other States because of Hurricane Andrew and I know that in the legislature, we passed these a number of years ago, but on a nationwide basis, the more we can do to incentivize people to better protect their homes, it is good for them, in terms of their own deductible, if they don't have the damage in the first place, they don't have that huge deductible, they don't create the exposure of the insurance industry or to the State risk catastrophe pool or anything else. So a good thing.

Secondly, and your point about it being somewhat disparate and different insurance companies, our experience in Florida is the same, in that some insurance companies offer $25 credit which is worthless.

You know, this is a big investment. When you start putting in the type of glass or the types of, you know, fortifying the roof trusses or doing the shutters, in many homes it is tens of thousands of dollars before you turn around. And you have to be able to have that cash available to you or be prepared to make that investment and in order to do that, for many people, it is a question of how quickly can I recover that or what incentives. If my insurance policy is going down $1,500, and this whole thing is going to cost me $10,000, well maybe that is something I can justify over some time.

But again, I think that the experience we have had is it hasn't been enough to create that and we all agree from a public policy point of view, it is the right thing to do so I want to encourage us all to continue to talk about that and put that forward as an idea, I think it is justified.

Plus, on the Federal level, in terms of the Federal bailouts, once again, if we can reduce that national exposure, less damage, less exposure and less bailout of the treasury.

The only other thing I would like to add and it is along the same lines that I asked the Commissioner, and if I could ask the two gentlemen also, as you are working with your colleagues around the United States and if you wouldn't mind continuing to pursue those conversations with the U.S. Senators, and as you get information back to feed that to Senator Nelson or Martinez, us, as to how we can best educate, because this is still an education process of which the chairman has come down to help us continue this education process within the House, but in the Senate we need to continue to do that.

We can be successful with this because we have a very logical commonsense approach, but there are still a lot of people who are operating with the information that is not up-to-date. So I would just ask then on behalf of us up here if you could reach out to your colleagues in other parts of the country and find friends and those are not friends or are not of understanding, give us that information so we can begin the process of meeting with their staff, meeting with them and making sure they understand why this is a valuable and appropriate approach to dealing with this.

So, Mr. Chairman, from my point of my view, I appreciate again your ability to come down here and spend some time in this area recognizing this is a nationwide problem, then we had heard from Mr. Jesse, as representative of our whole community as a consumer and we are all consumers and we appreciate you expressing what has happened to you and because it is something that has happened to all us. My insurance was cancelled recently so we are all in the same plane here and appreciate your support and your interest.

Chairman WATT. Any other comments from Mr. Wexler?

Mr. WEXLER. Just real quickly. A gentleman just walked in, Mr. Goldstein, who is a prominent professional in our real estate industry, but more importantly at his ripe old age, if my understanding is correct, he and his wife just had a baby boy 2 or 3 days ago, and I just wanted to congratulate him.

Chairman WATT. He is probably glad to be out of the house today, instead of changing diapers.

Final comments. First of all let me sure that I made a unanimous consent request to enter the full content of my opening statement in the record; we will do that without objection.

I asked unanimous consent to submit for the record the full statement of Representative Ginny Brown-Waite, who was not able to be with us today, but sent a statement and we will make that a part of the record.

Just a comment. I suspect those along in Florida most likely heard of the hurricane prone sections of North Carolina, Wilmington, Carolina Beach, the Outer Banks.

I live in Charlotte, 3 hours probably from Wilmington, about the same amount from Carolina Beach. The Outer Banks is actually closer, much, much closer to Washington D.C., than it is to where I live in Charlotte.

And I never thought that I would experience a hurricane, but in the middle of the night Hurricane Hugo came 3 hours inland to strike Charlotte some years ago. I heard on the television the warnings that it could occur, I went to bed on the highest level of my house which was the worst thing I could possibly do because I always thought that hurricanes were fed by the ocean and that it was impossible for a hurricane to come that far inland, and I woke up the next morning and saw just an absolutely devastated city around me.

I make that point, because I think there is nothing better than personal experiences, the personal experiences that we bring to our positions as Members of Congress, the personal experiences that the two insurance representatives and real estate representatives, the personal experiences of Mr. Jesse, and the personal experiences that the Members of Congress bring to their jobs to understand the ins and outs of the problem and the potential range of solutions that exist to those problems.

You have sent us three wonderful Representatives who are here with us today—and I don't mean to suggest that the Representatives who are not here are not wonderful Representatives—who have a wealth of personal experience in this area. And they have immediately rolled up their sleeves and set about solving and finding a solution to this problem, which is really what we owe to our constituents and to the citizens of this country.

I am grateful to each of you being there today to enlighten us more because that is what these hearings are about. If we understand the problem, and we understand the potential range of solutions, then we are more likely to find the right balance and the right solution, if we are going to find the solution at all.

So, I thank you for being here. The Chair notes that some members may have additional questions for this panel and for the first panel which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and to place their responses in the record. We would also welcome a statement from the gentleman who wished to say something nice about his Representative, if he wanted to submit something for the record.

Mr. OSER. (Inaudible)

Chairman WATT. I am sure they will. I have some constituents who are kind of like you in my congressional district.

Mr. WEXLER. No, you don't.

Chairman WATT. I don't. All right. With that having been said, all hearts and minds are gathered to a solution for this problem and this hearing is adjourned.

Thank you so much for entertaining us here.

[Whereupon, at 4:01 p.m., the hearing was adjourned.]

A P P E N D I X

February 11, 2008

OPENING STATEMENT OF CHAIRMAN MELVIN L. WATT

"THE HOMEOWNERS' INSURANCE CRISIS AND ITS IMPACT ON COMMUNITIES, HOMEOWNERS AND THE ECONOMY"

February 11, 2008

We convene this hearing of the Oversight & Investigations Subcommittee of the House Financial Services Committee in West Palm Beach, Florida in the congressional district of our Subcommittee Member, Ron Klein, to examine a serious problem that has no easy answers. In recent years, Florida, like many other states, has experienced catastrophic natural disasters which have caused significant damage to the environment and infrastructure and have resulted in large insured losses, in some cases reaching into the billions.

By no means are natural catastrophes just a Florida problem. My home state of North Carolina has certainly been hard-hit by hurricanes. Over the last few years, Kansas has been hit by powerful tornadoes and California has experienced devastating wild-fires. And just last week several states experienced similar devastation. And, of course, in 2005 we experienced the nation's worst natural disaster - - Hurricane Katrina - - which caused over $41 billion in insured losses.

In light of the fact that natural catastrophes are not foreseeable, either in time or place, and even less in the magnitude of loss they visit upon us, it is not so surprising that they create the "perfect storm" (pardon the double meaning) for a crisis. Today's hearing will examine the crisis here in Florida and in other disaster-prone areas related to the availability and affordability of homeowners' insurance. In particular, we will examine the withdrawal of major insurance companies from offering policies in coastal areas, the rise in homeowners' insurance premiums and the resulting economic impact on state and local governments.

News reports have indicated that after Hurricane Wilma in 2005, Florida homeowners experienced significant increases in homeowners' insurance, with some residents experiencing a 50% increase in homeowners' insurance rates. Interestingly, these same news reports indicated that in the midst of devastating insurance losses and payouts the insurance industry still made record profits.

For many residents, including young families, seniors and those on fixed incomes, this cost is too steep to bear. For this reason, we've invited to today's hearing a senior citizen from Hobe Sound, Florida, who lives on a fixed-income and is struggling with skyrocketing homeowners' insurance premiums, to discuss his experiences. This, after all, is not just about statistics and the bottom line of insurance companies. It's, first and foremost, about the people we represent on local elective bodies, in state legislatures and, yes, even in the Congress of the United States.

Today, we want to explore potential areas of cooperation between the private sector, state, local and the federal government to find solutions to the vexing crisis related to the availability and affordability of homeowners' insurance in disaster-prone areas, not only in Florida, but all over the United States. We thank all our witnesses, and those who have helped make the necessary arrangements for this hearing, for helping us do our jobs on this extremely difficult issue.

U.S. Congresswoman
Ginny Brown-Waite
Representing Citrus, Hernando, Lake, Levy, Marion, Pasco, Polk, and Sumter Counties

Committee on Oversight and Investigations Field Hearing
"H.R. 3355, the Homeowners Defense Act of 2007"
February 11, 2008
Statement for the Record

Thank you Mr. Chairman for holding this field hearing today.

I also appreciate the witnesses appearing before the committee.

This hearing is long overdue for the residents of Florida who have been abandoned by many in Congress in the property insurance crisis.

I have been working to bring relief to these residents for over four years, and I thank my colleagues from South Florida, Mr. Klein and Mahoney, in joining me in this fight.

My bill, H.R. 91, would do this by providing lower-cost reinsurance to states that have created state catastrophe funds, as Florida has.

To qualify for this reinsurance, states must ensure that savings realized are passed on to consumers.

In return, states like Florida could purchase catastrophic reinsurance from a federal fund.

States could not collect this reinsurance unless a 1:200 year event occurred, and would still have a 10% cost-share requirement.

Mr. Chairman, this bill would further reward states like Florida that have already taken steps to anticipate their insurance woes.

I am happy that my colleagues agreed with my proposal and included it in the passage of H.R. 3355, the Homeowners Defense Act, introduced by my South Florida colleagues.

This bill passed the House last year and is awaiting Senate action.

I only hope our Senators, Mel Martinez and Bill Nelson, work as hard as we did to pass this legislation and send bill to the President before the 2008 hurricane season starts.

Again, I thank you for holding this field hearing today.

STATEMENT OF
CHARLES J. BONFIGLIO, Sr.

ON BEHALF OF
THE FLORIDA ASSOCIATION OF REALTORS®

Before a hearing of

The Subcommittee on Oversight and Investigations of the House Committee on Financial Services

"The Homeowners' Insurance Crisis and its Impact on Communities, Homeowners and the Economy."

February 11, 2008

Introduction

Thank you, Chairman Watt, Congressman Wexler, Congressman Klein and Congressman Mahoney for inviting me to present the views of the Florida Association of REALTORS® on "The Homeowners' Insurance Crisis and its Impact on Communities, Homeowners and the Economy."

My name is Chuck Bonfiglio. I am Broker-owner of Century 21 AAA Realty Inc. in Cooper City, Florida, and I am the 2008 President of the Florida Association of REALTORS®. The Florida Association of REALTORS® is the largest trade association in the state with more than 150,000 members and more than 17,000 member firms. The mission of the Florida Association of REALTORS® is to advance Florida's real estate industry by shaping public policy on real property issues; encouraging, promoting and teaching consistent standards for ethical practice and professionalism; and building on the efforts of local Boards/Associations to provide the information and tools members need to succeed.

I must begin with a public thank you to Congressman Klein and Congressman Mahoney for their efforts to address the problem of availability and affordability of property insurance. Your bill that you managed to get passed in the United States House of Representatives, The Homeowners' Defense Act of 2007, H.R. 3355, defines a process for supporting reinsurance markets nationwide, and as such, marks a solid first step in ensuring the availability and affordability of homeowners insurance in at-risk markets. More importantly, the legislation allows private markets to work effectively where they are already working and allows states to actively participate in assessing and customizing their catastrophe bond needs depending upon the kinds of risks their citizens face. On behalf of all REALTORS® and homeowners in Florida, we thank you.

Overview

The availability and affordability of property insurance is, at its core, a consumer issue. The importance of available and affordable insurance to homeowners, commercial property owners and those who would like to own their own home or place of business cannot be overstated. Unfortunately, it is also something that consumers nationwide – even those who are not in what have traditionally been considered "disaster-prone" areas – now know all too well.

The Florida Association of REALTORS® strongly encourages Congress to enact a comprehensive natural disaster policy to help property owners prepare for and protect against losses from future catastrophic events. Such a policy would recognize the respective responsibilities of property owners, private insurance markets, and all levels of government in preparing for and recovering from future catastrophic events. My testimony today offers suggestions for what REALTORS® believe must be included in a comprehensive approach to addressing future catastrophic natural disasters.

An unprecedented number of strong hurricanes, including the most powerful hurricane ever measured - Hurricane Wilma, caused unprecedented devastation in 2004 and 2005. Eight hurricanes rated Category 3 or higher blew through Florida in just two years.

The Florida Association of REALTORS® commissioned a study on "The Impact of Hurricanes on Housing and Economic Activity" which was completed in April 2006. I will just briefly mention some of the findings of this study.

After the devastating 2004 and 2005 hurricane seasons, private insurance companies sharply raised insurance premiums and/or drastically lowered their insurance coverage in Florida. The limited availability of private insurance, in turn, forced many homeowners to seek coverage through Florida's public insurance system. But Florida's CITIZENS Property Insurance Corporation, specifically set up to provide insurance in high-risk areas where private market insurance options are limited, has also come under great financial strain and been forced to significantly raise insurance premiums.

The current high cost and limited coverage of property insurance appear to be impacting the housing market. Unlike, past hurricanes, home sales in the storm impacted areas and other Florida regions have slowed significantly with no evident signs of pick-up. Declining housing activity often presages an economic slowdown. With Florida as the largest and most consistent top job generators in the country, a downfall in Florida will inevitably have national repercussions.

The 2004 and 2005 hurricane seasons were catastrophic and unpredictable. Hurricanes of such strength and frequency could not have been anticipated through normal historical actuarial analysis and, hence, cannot be considered as normal insurable losses. Nationwide federal catastrophic insurance coverage will permit insurance companies to better manage risk and widen insurance availability at reasonable costs. Just as with federal terrorism insurance, coverage on unknowable events allows the private insurance market to continue its presence.

A federal catastrophic insurance program will not only benefit Floridians, but also residents living near the Mississippi River (flooding), people in Kansas and Oklahoma (tornadoes), West Coast residents from San Diego to Alaska (earthquakes), Texans and Coloradoans (wildfires), and numerous other people in cases of unforeseen and "unpredictable" natural disasters - far more frequent and/or much more destructive than would be expected based on normal historical patterns.

Catastrophic Natural Disasters are a National Issue

The catastrophic events of 2004 and 2005 which I mentioned previously should serve as a wake up call that highlights not only the importance of having insurance, but also that individual property owners, insurance companies, all levels of government, and taxpayers have a role in preparing for and recovering from future catastrophic events. The ongoing recovery from these storms shows that all taxpayers in the country have a stake in a federal natural disaster policy because their tax dollars are funding recovery efforts.

As a result of the 2004 and 2005 hurricanes, attention has focused on Florida and the Gulf Coast states, but other areas of the country are also susceptible to large-scale natural disasters. Any of the following events could cause damage as great as, if not greater than Hurricane Katrina: a repeat of the 1906 San Francisco earthquake, another 1938 "Long Island Express" hurricane, or a significant seismic event along the New Madrid fault, which extends from northeast Arkansas, through southeast Missouri, western Tennessee, and western Kentucky to southern Illinois. While it is true that not all areas of the country are susceptible to the large-scale disaster scenarios above, the effects of these disasters certainly would be felt by all taxpayers.

The Problem Defined: Residential and Commercial Properties at Risk

A strong real estate market is central to a healthy economy by generating jobs, wages, tax revenues and a demand for goods and services. In order to maintain a strong economy, the vitality of residential and commercial real estate must be safeguarded.

Today, insurance availability and affordability concerns are not limited to the Gulf Coast region. We have heard REALTORS® in numerous states, including New York, New Jersey, South Carolina and North Carolina, express concerns about the availability and affordability of property insurance. Their insurance concerns extend beyond homeowners' insurance and include multifamily rental housing and commercial property insurance.

Insurance is a key component in financing the purchase of real estate since lenders will not lend without it. Additionally, owners who subsequently lose insurance coverage could be in violation of their mortgage terms. The limited availability and high cost of insurance, therefore, not only threatens the ability of current property owners to hold onto their properties, but also to slow the rate of housing and commercial investment in many communities. Either of these threats could, in turn, further delay the rebuilding of communities after catastrophic events.

The inability to obtain affordable insurance is a serious threat to the residential real estate market, impacting not only single family detached homes, but condominiums, co-operatives and rental units as well.

New home purchases, resale transactions and housing affordability are affected in the following ways:

Homeowners' insurance is a necessary component in securing a mortgage and buying and selling a home. If a potential homebuyer is unable to obtain or afford the required insurance, the sale will not be completed. As a result, otherwise able are excluded from the market.

The cost of owning a home is directly tied to insurance costs. Homeowners are required by their mortgage lenders to maintain homeowners insurance, regardless of its cost. If the homeowner is unable to afford the cost of that insurance, the mortgage is in default and the lender may foreclose. If disaster insurance coverage is required, potential buyers may choose not to purchase a home because their insurance costs would be too great.. If disaster coverage is optional, but too expensive, owners may choose to go unprotected.

Insurance costs impact rent levels. Insurance costs incurred by multi-family property owners are ultimately passed on to tenants through higher rents. This impacts housing affordability, particularly for low-income renters.

Many of our commercial members have reported problems with commercial insurance availability and affordability. Members have experienced large increases in premiums – in some cases more than four-fold with concurrent increases in deductibles and decreases in coverage – and in other cases, a complete lack of availability. These changes place property owners at greater financial risk to recover from losses, while also affecting property values since dramatic insurance increases often cannot be passed on to tenants. It is also likely that post storm event property values will also be impacted by such coverage damages.

Often it is the smaller property owner that suffers the greatest. Small owners cannot offset the increases in insurance costs for one property with lower insurance costs in other parts of the country; nor are they able to negotiate a lower multiple property rate. In commercial real estate, there is a point at which insurance becomes unaffordable – when insurance expenses are so high that the property no longer generates sufficient income to cover expenses. This problem forces many owners to sell their property.

We believe that one of the biggest obstacles to sustained redevelopment in the Gulf Coast region has been the lack of available and affordable homeowners' insurance. One result of the storms of 2004 and 2005 has been a ripple effect in many coastal communities where insurance companies – in an effort to manage risk and decrease their financial liability – have increased premiums, cancelled existing policies, or declined to write new policies. This is happening not just in Florida or in communities that were directly impacted by Hurricane Katrina, but also in states that have not experienced a hurricane in many years (e.g., Delaware, New Jersey, and New York). Having the ability to tap into a readily available source of federally-backed loan funds will allow states to "smooth out" gaps in coverage, provide confidence to reinsurance and insurance markets, and allow FAIR and Windstorm Plans to offer limited insurance products as a last resort for those homeowners unable to obtain insurance from traditional sources.

The Importance of a Comprehensive Federal Natural Disaster Policy

States are the appropriate regulators of property insurance markets, but there is a proper role for the federal government in addressing mega-catastrophes. Some disasters are just too large or unpredictable for the private market to manage alone. As such, it is appropriate for the federal government to intervene in insurance markets and prevent market disruption and insolvencies among insurance companies. The level of intervention, however, must not interfere with normal market forces, and this is where the difficulty lies.

As the catastrophic events of 2004 and 2005 showed, there is the potential at some point in the future that one or more are catastrophic natural disasters will require governmental intervention to prevent a collapse of insurance markets. Perhaps it will be a hurricane that devastates Miami or New York City, an earthquake that rocks the Midwest along the New Madrid Fault Line, or some other catastrophic event. Markets would benefit from the knowledge that there is a backstop to prevent market failure.

The Florida Association of REALTORS® strongly encourages Congress to develop and enact a comprehensive natural disaster policy to mitigate exposure to the risks of natural disasters and foster the availability and affordability of homeowners' insurance coverage. FAR supports the development of a comprehensive natural disaster policy that encourages personal responsibility, promotes mitigation measures, ensures insurance availability, and strengthens essential infrastructure (e.g., levees, dams, bridges, etc.).

A comprehensive federal natural disaster policy would promote the availability of affordable homeowners' insurance in disaster-prone areas. Conversely, the lack of a national natural disaster policy has had a direct measurable impact on the availability and affordability of property casualty insurance in many parts of the country. The inability to obtain affordable homeowners' insurance is a serious threat to the residential real estate market – and thus, our economy.

Homeowners and commercial property owners need insurance to protect themselves, their families and their property in case of a catastrophe. However, if insurance is not available or affordable, many make the unfortunate, but understandable, decision to purchase only the minimal amount or type of insurance required. The problem with this rational "fair-weather" economic decision is that if "the big one" hits, and people do have appropriate insurance coverage , then the American Taxpayer, that is to say everyone in the country, will pay through federal disaster assistance. Property owners who bear risk should pay a fair share – by obtaining and maintaining adequate insurance coverage.

They also should have confidence that their homes and businesses will survive future catastrophic events. Appropriate mitigation measures can help create that confidence. Federal and state governments can provide incentives (e.g., tax credits, insurance rate reductions) to property owners to undertake appropriate mitigation measures for their homes and businesses. We know that a dollar spent on mitigation saves society an average of nearly four dollars. Florida has a "My Safe Florida Home" mitigation program that provides matching grants to homeowners to "harden" or strengthen their homes and it is working. We would encourage Congress to look at tax credits to encourage mitigation as well.

FAR believes that it is in the best interests of all Americans to have a comprehensive federal natural disaster policy that includes aggressive mitigation and appropriate assumption of risk so that affordable insurance for homeowners and commercial properties is available. Creating a comprehensive natural disaster policy is essential in the coming years. There is no guarantee that 2008 or any future years will be as benign for natural catastrophes as 2006 and 2007. The question is not whether there will be another Katrina-like event in size and scope of destruction, but when. As we have learned, it is far less costly to prepare ahead of time than to fund recovery efforts.

FAR encourages the consideration of additional proposals that would provide incentives for property owners to undertake mitigation measures, allow individuals to establish catastrophe savings accounts to pay for losses resulting from catastrophic events, strengthen the nation's infrastructure, and ensure the long-term viability of the National Flood Insurance Program. FAR believes that all reasonable proposals should be considered as part of a comprehensive solution to address future catastrophic events.

Elements of a Comprehensive Natural Disaster Policy

FAR encourages Congress to develop a comprehensive natural disaster policy that encourages personal responsibility, promotes mitigation measures, ensures insurance availability, and strengthens critical infrastructure (e.g., levees, dams, bridges, etc.). FAR supports the creation of a federal natural disaster policy that:

1) Protects property owners by ensuring that transparent and comprehensive insurance coverage is available and affordable, with premiums being reflective of the risk involved;

2) Acknowledges the importance of personal responsibility of those living in high-risk areas to undertake mitigation measures and purchase adequate insurance;

3) Provides property owners adequate incentives to undertake appropriate mitigation measures.

4) Acknowledges the importance of building codes and smart land-use decisions, while also recognizing that proper enforcement of both is best left in the hands of state and local governments;

5) Recognizes the role of States as the appropriate regulators of property insurance markets while identifying the proper role of federal government intervention in cases of mega-catastrophes; and

6) Reinforces the proper role of all levels of government for investing in and maintaining critical infrastructure including levees, dams, and bridges.

Conclusion

Thank you again for inviting me to present the views of the Florida Association of REALTORS® on "The Homeowners' Insurance Crisis and its Impact on Communities, Homeowners and the Economy." We hope that we will have this same opportunity to testify before the United States Senate at some point in the near future. The Florida Association of REALTORS® encourages Congress to develop a comprehensive approach to natural disaster preparedness that encourages personal responsibility, promotes mitigation measures, ensures insurance availability, and strengthens the nation's infrastructure.

Passage of an appropriate comprehensive national disaster policy is a top legislative priority for REALTORS® in Florida and nationwide. We stand ready to work with you, Chairman Watt, and others in Congress to develop a responsible natural disaster policy that addresses the needs of consumers, the economy and the nation.

Roger Jesse
3777 S.E. Big Bend Ter.
Hobe Sound, FL 33455

Re: Testimony for hearing "The Homeowners' Insurance Crisis and its Impact on Communities, Homeowners and the Economy"

Personal; Retired in 1999 with experience in General Management , Marketing/Sales and Engineering .
Purchased Florida home in 2002
Became Florida resident (Homesteaded) in 2004
Widower on Fixed Income
73 years of age
Have resided (and owned) nine homes in over 48 years
Bachelor of Science (Univ. of Wisconsin) in Chemical Eng, & Naval Science
Active in Volunteering

My current home was purchased new in August of 2002. In 2004 I purchased Homeowners insurance through a local agent of Allstate Floridian. Was informed in spring of 2007 that my insurance would not be renewed . Although my residence had gone through three hurricanes at that time and no claims were made against Allstate.. As the crow flies the home is well over five miles from the ocean and not in a flood prone area. The home is rather unique in that the exterior walls are made from poured on-site steel reinforced concrete. My total hurricane damage has amounted to repairs to the screened lanai, and amounted to $280. Being of relatively new construction it has hurricane shutters and has all the builder improvements required for this area.

I am currently insured by Royal Palm Insurance and my homeowners insurance cost is now nearly double the amount in 2004. In addition there is my concern about the overall capabilities of a company that was not known to me before last year. A recent article in the local paper stated that Royal Palm was doing drive by appraisals and increasing the policy costs accordingly. The ethics certainly are questionable.

The increasing cost and AVAILABILITY of good, reliable homeowners' insurance is a major concern but does not impact heavily my current life style. I have reasonable computer skills and frequent the internet regularly. I am VERY concerned for the many seniors or disadvantaged who are on the edge and have a difficult time communicating in this electronic world .

Testimony of
Kevin M. McCarty
Florida Insurance Commissioner

Before the
Subcommittee on Oversight and Investigations
Of the
House Committee on Financial Services

Regarding:
The Homeowners' Insurance Crisis and its Impact on Communities, Homeowners, And the Economy

February 11, 2008
Palm Beach County Commission Chambers
301 North Olive Avenue
West Palm Beach, Florida

Testimony of Kevin McCarty
Florida Insurance Commissioner

Chairman Watt, Ranking Member Miller and Members of the House Financial Services Subcommittee on Oversight and Investigations: Thank you for the opportunity to testify here today about the homeowners' insurance crisis, and its impact on communities, homeowners, and the economy.

To provide comprehensive comments on these topics, I will also delve into the related issues of the cost of natural disasters, the impact on local and regional communities, and mechanisms the private sector, state and federal governments have undertaken to address this problem. I applaud you for your leadership on this critical issue of national importance.

My name is Kevin McCarty, and I am the Insurance Commissioner for the State of Florida. I also serve as Chairman of the National Association of Insurance Commissioners (NAIC) Property and Casualty Insurance Committee as well as Chairman of the Committee's Catastrophe Insurance Working Group.

My testimony will focus on four main issues:

- The problems of availability and affordability of insurance, especially in coastal areas.
- The current state of the property insurance market.
- Initiatives taken by the State of Florida to respond to this crisis; and
- The need for a comprehensive national catastrophe plan.

The Availability and Affordability of Insurance

In 1992, Hurricane Andrew reached landfall in south Florida. The impact was devastating to the lives and property of people in that area. The magnitude of that event surprised the insurance industry, and it tested the creativity and responsiveness of government officials. It was the first time that I remember a "next day flyover" by statewide elected officials. Most of Florida's domestic insurers failed in the aftermath of that event, and several regional insurers, some of relatively large size, also failed. The failures were a direct result of the decisions by those companies to retain catastrophic risk, not realizing the danger of "the risk of ruin." The industry and insurance regulators learned from the experience. Since that time, insurance companies have paid more attention to disaster preparedness, and have purchased more catastrophe reinsurance to spread the risk.

This event also motivated Florida to establish a better "safety net." When some national insurers left the Florida market following Hurricane Andrew, insurance became scarce and less affordable for the average Floridian. The state of Florida established the Florida Hurricane Catastrophe Fund (FHCF or the "Cat Fund"). It also created the predecessor organization to today's Citizens Property Insurance Corporation (Citizens). These entities provided state-sponsored insurance for those Floridians who could not find coverage in the private market, and state-sponsored catastrophe reinsurance for insurers that provided homeowners insurance coverage in the Florida market.

In 2004, Florida had four significant hurricanes. We started the season with Tropical Storm Bonnie, followed by Hurricanes Charley, Frances, Ivan and Jeanne. In 2005, we had Hurricanes Dennis, Rita, Katrina, and Wilma. These hurricanes destroyed many homes and damaged many more all across Florida. This damage shattered myths that had been accepted since 1992 -- only Dade, Broward and Palm Beach counties were vulnerable to substantial hurricane damage.

Hurricane Wilma in 2005 swept through from West to East, reaching full strength through the middle of the state, crossing the landward side of Broward County before exiting off the coast and leaving residents trapped in condominium buildings with significant damage and no electricity for weeks. Although Florida had the most efficient disaster relief program for hurricanes of any state, we still had people stranded, unprepared for some of these disasters. Of course, the federal government quickly assisted with disaster relief.

Those storms also left incontrovertible evidence that building materials and techniques are critical in determining how well homes can withstand hurricane events. We saw many photographs of neighborhoods where one home was destroyed by storm damage, while a newer, stronger-built home next to it survived unscathed.

I supported H.R. 3355, The Homeowners Defense Act passed by this committee in November 2007. The creation of a loan program that encourages state and regional planning, mitigation of homes, responsible enforcement of building codes, and financial preparation for catastrophic events is critically needed. Without it, the federal government and the affected states are forced into a reactive mode when a natural disaster strikes. We are forced to provide assistance without the luxury of time to plan and establish methods for an equitable distribution of assistance.

Florida has taken important planning steps by establishing financing mechanisms such as the Florida Hurricane Catastrophe Fund and Citizens to finance our risk. These entities pool risk, and use bond financing to pay claims. These claims will thus be repaid over a period of years to smooth the costs of financing Florida's risk.

There is a limit to what a single state can do. Florida wants a vibrant private insurance market, but private insurers are insisting a guarantee of a healthy profit-margin to stay in this market. In recent Florida State Senate hearings, companies admitted they had attempted to load profits of more than 25% into their recent rate filings. They also have used "near-term" computer models to project hurricane losses that are not as predictive as long-term models, even according to the scientists that developed them. In some cases, the use of these near-term models dramatically increased the perceived need for premium. Unfortunately for Floridians, an increase in premium attributed to this additional risk is expected to be passed to policyholders.

While I have focused on the needs of Florida, and our experiences in handling hurricane risk, we must also view this problem in a broader context. We must understand how other states handle other types of natural disasters in addition to storm damage. The ability of regional economies to withstand and recover from a natural disaster depends critically on the availability and affordability of insurance, especially property insurance. Areas with significant exposure to catastrophic perils, such as Florida's coastal areas, typically experience greater fluctuations in the price and availability of insurance. This is especially true when the risk is subjected to the economics of the private marketplace.

Publicly subsidized programs like the National Flood Insurance Program (NFIP) or optional earthquake coverage remove much of the volatility from the pricing of insurance products. However, the lack of market dynamics can also create other problems including service problems, and a failure to ensure that products are accurately priced over the long-term.

In many ways, hurricane risk differs from these other risks. There are many areas of the country not at risk for hurricanes (making it different from National Flood Insurance sold in all 50 states). It also differs in that it is required coverage for mortgages in Florida (making it different from optional earthquake coverage in California and other earthquake prone areas). Although there are residual homeowners' markets that handle this risk in Florida, North Carolina, South Carolina, Louisiana and Massachusetts for example, hurricane risk is primarily insured by the private market.

Like any business, insurance companies must earn a fair rate of return on their investment. Unlike other businesses, insurance companies must also protect against a perceived "risk of ruin," that is, the risk that an event or series of events could bankrupt the insurance company. Apart from the profit and contingency factors, the insurance company's challenge is to appropriately price the underlying risk, in this instance, hurricane risk.

To accurately price insurance products for hurricane risk, insurance companies must accurately predict potential storm damage. Predicting storm damage has two main components: 1.) Predicting the frequency and severity of storms; and 2.) Estimating damage to homes, given specific characteristics of the type of home, and severity of the storm. Predicting both of these elements has created a problem for insurance companies and regulators in recent years.

While historical data is certainly a guide, recent events have drawn into question the relevance of this data. During the 2004-2005 hurricane seasons, eight named storms reached landfall in Florida; a scenario not anticipated by the hurricane models, which have focused on the frequency of mega storms like Hurricane Andrew in 1992. There is also a general consensus among the scientific community that we have entered a period of more active hurricane seasons.

Predicting storm damage to buildings is also challenging. Recent demographic shifts have increased migration to warm-weather states like Florida, and increased building on the catastrophe prone coastline. Now nearly one-half of the United States' population lives near a coastline. All of these elements combine to create uncertainty, which directly impacts the availability and cost of homeowners' insurance.

The basis of the insurance industry is to eliminate uncertainly, and base their products on predicted losses and premiums for the long-term. When an event occurs that defies expectations, whether it is for severity (Hurricane Katrina) or frequency (such as the eight named storms that reached landfall in Florida within a two-year timeframe), insurers must rethink their business models including their interest in catastrophe exposure.

Consequently, several major insurance groups decided to limit their catastrophe exposure. I personally have spoken to representatives of the global reinsurance markets in the Caribbean and in Europe to encourage more investment in the Gulf Region. Given the current situation, there is little interest in expanding investment to insure against large scale natural disasters like hurricanes at any price.

This creates a critical problem for states like Florida. Homeowners must have insurance to obtain a mortgage. If the private insurers will not insure homeowners, the state must intervene to provide this insurance or its economy will grind to a halt. States, like Florida, have created residual market entities to fill this gap.

Reinsurance Markets

While major national insurers continue to cite the anticipation of future losses as a primary reason for lessening their exposure in Florida and the Gulf States, another reason is the rising cost of reinsurance. Reinsurance is literally, insurance for insurance companies. Similar to other segments of the financial marketplace, diversification is the key to stabilizing (and predicting) losses. Large carriers like Nationwide, AllState, and State Farm accomplish this by writing multiple lines of insurance in several different states.

However, even large insurers purchase reinsurance to diversify their risk and protect against truly catastrophic events. This also allows primary insurers to write more business, and write this business at a more inexpensive rate. Unlike the primary markets, reinsurance is an unregulated market with no price controls other than what the market will bear. The largest reinsurers are located in Europe and the Caribbean. The current state of the reinsurance market dictated that costs for homeowners' insurance in Florida, and other catastrophe prone areas would rise dramatically following the 2004-2005 hurricane cycle.

Not only have reinsurers dramatically increased what they charge insurance companies, reinsurers have restricted the conditions of their reinsurance treaties *(or contracts)* forcing insurance companies to retain more of the risk. Compounding this problem were actions taken by United States' rating agencies *(notably A.M. Best)* that required insurers to have higher capital retention to maintain favorable bond ratings. All of these developments caused capital to "dry up" in 2006 and 2007, translating to higher prices and less availability of insurance for the average American.

A report by Guy Carpenter and Company, a company the studies the reinsurance marketplace, indicated that in 2006 reinsurance rates across the United States rose 76 percent on average, while insurers and reinsurers were covering less and less of the risk. These increases were even more stark in coastal regions which sometimes experienced a doubling or tripling of the reinsurance rates. For some areas in Florida, insurance companies could not obtain reinsurance at any price. As you may suspect, an increase in reinsurance costs are passed directly to policyholders.

There have been some positive developments. During 2007, reinsurance rates began to stabilize, and preliminary reports in 2008 have indicated that reinsurance rates could decrease by 10-15%. While this is an improvement, it does not return the marketplace to rates during the pre-2004 to 2005 storm cycle.

Current State of the Property Insurance Market

Despite record catastrophe losses in 2004 and 2005, nationwide the property and casualty insurance market for individuals and businesses is healthy and competitive. In fact, the industry has achieved record profits.

While the industry itself is performing well, there are some coastal regions of the country where the insurance market is in crisis. This is due to a combination of a reluctance of insurers to insure property in these areas, combined with the high prices of reinsurance for properties in these areas. Therefore, in characterizing the health of insurance markets for the coastal states we must make another important distinction between "coastal states" and coastal regions within those states.

Most coastal states have a relatively healthy property and casualty market for the vast majority of the state. In Alabama, only two of the 67 counties are having insurance issues, and even within those counties, the problems are largely limited to property within a few miles of the coast. In Mississippi, six of its 82 counties are experiencing problems. Louisiana, which felt the brunt of hurricane Katrina, only has experienced problems in its 24 coastal parishes while its remaining 38 parishes have a competitive market.

Elsewhere, the impact has been dramatic. In North Carolina, the state's residual market "Beach Plan" has seen its policy count rise by over 32% between 2005 and 2007. The plan also has increased its exposure by over 55%, to $64 billion as of September, 2007. In South Carolina, the state's residual market "Beach Plan" has experienced a policy increase of over 38% from 2006 to 2007 while simultaneously increasing its exposure

41% to $16 billion. According to its officials, the Texas Windstorm Association's exposure to hurricane loss was expected to be almost $65 billion by the end of 2007.

Interestingly, insuring against hurricane risk is not confined to the Gulf Coast region. In Massachusetts, the state's FAIR Plan writes one-third of the policies on the Cape, the area most exposed to hurricanes. Some insurers have even recognized a potential problem in New York, even though this state along with Massachusetts has not had a substantial tropical storm in decades.

It does appear that Florida has had the most significant problems in handling hurricane risk in recent years. In Florida, the states' residual market, Citizens Property Insurance Corporation, experienced an increase of nearly 500,000 policies from 2005 to 2006 becoming the largest insurer in the state.

For all states affected by the rising costs associated with storm damage risk, it is difficult to estimate the total economic impact. An increase in insurance premiums affects household budgets. I have even heard from citizens who have had to choose between paying for health care, prescriptions, or property insurance. While these costs are real, it is impossible to calculate the number of home purchases that did not occur due to a lack of affordable insurance, or the number of businesses that rethought their expansion or relocation plans due to the cost or lack of availability of insurance.

Florida has certainly experienced a dramatic downturn in its real estate market, and real estate property values. Florida is also one of the leading states in the nation in the number of property foreclosures. We have experienced a slackening of retail sales, and some areas are actually experiencing migration away from our state. Admittedly, it is difficult to disentangle the direct impact of property insurance rates with other factors affecting our economy like interest rates, and problems in the subprime mortgage industry. However, it is safe to conclude that the property insurance crisis in Florida has had a substantially negative impact on our economy.

Commercial Marketplace

While the media, and even policymakers have focused primarily on the homeowners' market and the average Floridian, problems in our insurance markets have also affected commercial businesses and public entities. During 2006, Florida experienced a serious shortage in commercial property insurance. A substantial part of this market is served by insurers, known as surplus lines companies, whose insurance contracts and rate structures are not subject to review or approval by the Florida Office of Insurance Regulation. Yet even in this market which did not have any rate regulation, we experienced a surge of policy non-renewals. It was not uncommon to hear from a business that had their insurance policy cancelled mid-term. As a result, I had no choice but to activate a residual market mechanism to offer relief to this segment of the marketplace.

Initiatives Undertaken by the State of Florida

Prior to the 2007 Florida Legislative reforms, Floridians were experiencing substantial increases in insurance costs, less availability, while more and more citizens were being forced to find coverage in Florida's residual market, the Citizens Property Insurance Corporation. During the 2006 election cycle, Floridians demanded rate relief prompting the new governor and legislature to meet in special session in January 2007 to address the insurance crisis.

The Florida Legislature passed comprehensive legislation that had several facets:

1.) It expanded the Florida Hurricane Catastrophe Fund (the Cat Fund) to give the industry up to $12 billion in more inexpensive reinsurance;
2.) It changed the Citizens Insurance Corporation rates to be more affordable; and
3.) It provided Floridians incentives to strengthen their homes, thus minimizing future storm damage.

The insurance industry stated the primary culprit for the rise in insurance premiums was the rise in reinsurance costs. At the request of the insurance industry, the legislature expanded coverage offered by the Florida Hurricane Catastrophe fund (the Cat fund); the Cat Fund offered retention to private insurers below the normal industry retention, and expanded the upper level of reinsurance up to $12 billion above the Cat Fund's normal upper limit. Insurers responded, and purchased virtually all of the new upper level of "reinsurance" from the Cat Fund.

While the Cat Fund now accepts more premiums from the insurance industry, in the event the Cat Fund's reserves are not sufficient, it will be paid by assessments on most property insurance lines written in the state. Put another way, the risk was removed from the insurers' portfolio and is now being supported by the people of Florida. The trade-off for assuming this risk was that the cost savings was to be passed through to the policyholders. We are currently in the middle of verifying that process.

The Florida Legislature also addressed the issue of premiums for policyholders in Florida's residual market, the Citizens Property Insurance Corporation. The Florida Legislature changed the methodology used by Citizens' Corporation from being above the market-based rate, to rates that were actuarially based. The practical effect was to lower premiums for people with these types of policies. Contrary to the initial concerns, from the end of 2006 to the end of 2007, Citizen's policy count grew by less than one half of one percent.

The Florida Legislature also passed initiatives to strengthen Florida's building codes, and encourage Floridians to employ mitigation measures to lessen the damage caused by storm events. More recently, the Florida Building Commission has adopted a "code plus" standard allowing buildings within 2,500 feet of the coast to withstand a one in five hundred year storm making it the most stringent building code in the country.

A National Catastrophe Plan

Insuring national catastrophes may be beyond the resources of any state. The United States is one of the only industrialized nations in the world without a comprehensive national catastrophe plan. While Hurricane Andrew and Hurricane Katrina caused tremendous catastrophic loss, these pale in comparison to potential national disasters. A repeat of the 1906 San Francisco Earthquake could cause $400 billion in damage; the 1938 New York hurricane could cause $300 billion in damage; Even last week featured tornados that ripped through four Southern states causing loss of life and millions of dollars in damage.

While natural disasters clearly affect our national economy, there is a stark difference in how risk events are covered through the private sector, and/or state and federal programs. Wind events, including tornados and hurricanes, are considered a basic covered peril in the vast majority of homeowner's insurance policies in the United States. Flood, on the other hand, is written only rarely by the private insurance industry for residential property; since 1968 the National Flood Insurance Program (NFIP) has been the public solution to managing this risk.

Seismic events, particularly earthquakes, are not considered a standard covered peril, and aside from the California Earthquake Authority (CEA), there is no public mechanism to underwrite this risk; therefore, coverage is optional, where available, in the private insurance market. It also is worth noting that that when coverage is offered (via the CEA) it is somewhat limited (the standard policy carries a 15 percent deductible and offers $5,000 for contents coverage and $1,500 for additional living expenses due to loss of use).

Substantial differences in how catastrophic events are covered, and the fact that many of these are "optional" coverage, create economic problems. If the next natural catastrophe is a significant flood event, the ability of the affected areas to recover is dependent on the number of policyholders with flood insurance. Data from 2004 and 2005 suggest that many property owners were uninsured; either they were outside the mandatory flood plains or they were in the mandated flood zones but were uninsured anyway. A recent study by the Rand Corporation shows that only five percent of homeowners outside flood zones purchase flood insurance, while only 75 percent within flood zones purchase flood insurance.

Interestingly, the National Flood Insurance Program has not historically benefited Florida relative to other states. Florida participates heavily in the National Flood Insurance program (NFIP). From 1978 to 2005 Florida paid 33% of the total premium collected by the NFIP, but only received 12% of all claims payments paid by the NFIP. The reason is that most Floridians' major water damage risk is from wind driven rain not covered by the NFIP.

If the next natural catastrophe is an earthquake, the ability of the affected regional economy to recover will depend on the degree of disaster relief that comes from the federal government. The reason is quite simple: the majority of residential property in earthquake prone areas is not insured for this risk. In California, for example, it is estimated that only 12 percent of residents have any kind of earthquake coverage.

Both within the U.S. and across other developed economies, a variety of programs have been created to manage the economic consequences of catastrophic events. These programs differ in their structure based on underlying premises regarding the nature of the risk. As such, the resulting roles of the private insurance market and government entities vary considerably across programs. The Government Accountability Office (GAO) report, "U.S. and European Approaches to Insure Natural Catastrophe and Terrorism Risks," GAO-05-199 published in February 2005, provides a thorough description of these various approaches.

As you can see, our current system lacks a comprehensive approach to managing the devastating effects of catastrophic natural disasters. Our current policy relies heavily on the Federal government. The federal government has allocated $110 billion, over and above insured loss payments, to facilitate recovery and rebuilding following Hurricane Katrina. As generous and compassionate as the American people are, this current system leaves much to be desired. Although our current reliance on federal payments for large-scale disaster spreads the cost of these events across a broad pool – the American taxpaying public – it is ineffective and inefficient.

The solution is not a large federal insurance program, but the United States does need to think more proactively and strategically about natural disasters. As I stated previously, I supported H.R. 3355, "The Homeowners Defense Act," passed by this committee in

November, 2007. The voluntary nature of the programs offered in the bill eliminates the concern that a federal backstop will be subsidized by all other taxpayers.

Thank you for holding this hearing, for inviting me here today to participate, and for your continued interest and leadership on this crucial issue. I am pleased to answer any questions that you may have.

Independent Insurance Agents
& Brokers of America, Inc.

STATEMENT OF ALEX SOTO
ON BEHALF OF THE
INDEPENDENT INSURANCE AGENTS & BROKERS OF AMERICA

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATION

COMMITTEE ON FINANCIAL SERVICES

UNITED STATES HOUSE OF REPRESENTATIVES

February 11, 2008

Good afternoon Chairman Watt, Ranking Member Miller and Members of the Committee. My name is Alex Soto, and I am pleased to be here today on behalf of the Independent Insurance Agents & Brokers of America (IIABA) to provide my association's perspective on efforts to reform how our nation insures against natural disasters. I am the immediate past President of IIABA and have served on our national association's Executive Committee for several years. I am also President of InSource, Inc., an independent agency based in Miami, FL which offers a broad array of insurance products to consumers and commercial clients in South Florida and beyond.

IIABA is the nation's oldest and largest trade association of independent insurance agents and brokers, and we represent a nationwide network of more than 300,000 agents, brokers, and employees. IIABA represents independent insurance agents and brokers who present consumers with a choice of policy options from a variety of different insurance companies. These small, medium, and large businesses offer all lines of insurance – property, casualty, life, health, employee benefit plans, and retirement products. It is from this unique vantage point that we understand the capabilities and challenges of the insurance market when it comes to insuring against catastrophic risks.

Background

Whether it is the possibility of earthquakes on the West Coast or along the New Madrid Fault or threats posed by hurricanes, just about every corner of the United States is subject to the effects of a devastating natural catastrophe. And just when Hurricane Andrew was starting to pass from our collective memory, Hurricane Katrina and the other storms of 2004 and 2005 reminded us, with devastating effect, of the deadly and sweeping impact that such catastrophes can impose on a society and economy. Although Katrina was an unprecedented event in many ways, the reality is that similar and even more powerful storms will inevitably strike the Atlantic and Gulf Coasts.

This unfortunate and regrettable certainty has created a property insurance crisis in my home state of Florida, and it also affects nearly every other coastal state to some degree. I have seen the effects firsthand.

By many measures, the insurance industry is a highly competitive one. There are multiple distribution channels, and purchasers can typically buy coverage from many different direct, captive, or independent agent options. But, coastal regions of this country do not have a vibrant or competitive homeowners insurance marketplace today, and the commercial marketplace is facing some of the same challenges. It is important to point out that, after two years of relatively calm hurricane seasons, the homeowners' insurance market has yet to stabilize in many parts of the United States.

Like Trusted Choice independent agencies nationwide, I represent and have the ability to provide my customers with insurance policies from many different companies. My agency sells a wide variety of insurance policies – from personal lines products such as auto and homeowners insurance to commercial lines insurance for businesses, and from life insurance to employee benefits – and, overall, we represent 50 different companies.

Unfortunately, there are only a handful of insurers that are able or willing to provide catastrophe coverage in my community, and communities throughout the Southeast face similar difficulties. Consumers today find it incredibly difficult and in many cases impossible to secure affordable insurance coverage for their homes and businesses. As an independent agent, I cannot serve my clients if I do not have insurance company partners willing to provide coverage, and that is the challenge I face today.

There are hundreds of companies providing property and casualty insurance in other lines and in other parts of the country – and actively competing with one another for business – but the brand of vibrant competition that exists elsewhere does not exist in South Florida and other areas today. In my area – as elsewhere – the situation has been a crisis for a number of years.

In order to fully appreciate the crisis we face today, I believe it can be helpful to look at a few of what may be the root causes. Consider the following:

- Seven of the nine costliest hurricanes in our nation's history occurred in 2004 and 2005, and experts expect this trend to continue. Respected meteorologists believe the frequency and intensity of hurricanes will continue to grow over the next 15 to 20 years.

- Despite now two years of relatively low hurricane frequency, homeowners insurance has yet to stabilize in many parts of the Gulf Coast.

- In its report on Natural Disasters published in November 2007, the Government Accountability Office (GAO) estimated that the federal government made about $26 billion available to homeowners who lacked adequate insurance in response to the 2005 Hurricanes Katrina, Rita, and Wilma.

- There has been unprecedented population growth and significant development in coastal and disaster-prone areas in recent decades, and total property exposures have increased dramatically. According to AIR Worldwide, a leading risk modeling and technology firm, in 2004 the value of insured coastal properties in the 18 East Coast and Gulf states exposed to hurricanes totaled $6.9 trillion, or 16 percent of insurers' total exposure to loss in the United States. Not unlike other disaster-prone areas, AIR also estimates that property values in coastal areas of the United States have doubled over the last decade.

- Wall Street firms and agencies that rate insurer financial stability have changed their evaluations and more heavily consider the effects of Probable Maximum Loss and Total Insured Value on the financial strength of insurers. This reality is forcing insurers to reduce catastrophe exposures.

- Insurance companies purchase reinsurance to help manage their catastrophe exposures, and reinsurers have increased the premiums they charge insurers to cover catastrophe claims. However, the prices and terms of property insurance offered by insurers remain highly regulated, and insurance companies are unable to pass along those costs. This reality has further decreased the amount of catastrophe risk insurers can accept.

National Problem

I would particularly like to stress that this issue is not simply a Gulf Coast problem – it is a national problem. Our members live across the country, serving and living in a wide variety of communities – large and small – and so many of them have been impacted by natural disasters. Certainly, the most devastating natural disasters in recent years have resulted from hurricanes, which have had the greatest impact on the homeowners' insurance market. However, hurricanes are only one of the many catastrophic risks our nation faces. According to the Insurance Information Institute, tornadoes, earthquakes, mudslides, blizzards, and other catastrophe events combined have accounted for over half of the U.S. catastrophe losses in the last 20 years. The 3rd most costly natural disaster on record was the Northridge Earthquake in 1994, with $16.5 billion in losses. Whether it is tornadoes in the Midwest, earthquakes in California, or ice storms in the Northeast, we all face some risk of natural disaster, and it often takes only one or two events in a particular area for the homeowners' insurance market to be dramatically affected.

Two important developments that illustrate just how national in scope this crisis is are the decisions by Allstate and Cameron Mutual to completely withdraw over time from the residential and commercial earthquake market along the New Madrid Fault line, which would encompass all earthquake policies in Missouri, Iowa, and Arkansas. Cameron Mutual is the largest regional writer of homeowner insurance coverage for independent agents in these earthquake areas, and as many as 70,000 customers could be affected by their decision alone.

In some cases, of course, states have set up entities in an effort to prevent insurance availability crises, such as the California Earthquake Authority (CEA) and the Florida Hurricane Catastrophe Fund (FHCF). The CEA was created in 1996 to offer a basic level of residential earthquake coverage to Californians. The FHCF was created in November 1993 after Hurricane Andrew to protect and advance the state's interest in maintaining insurance capacity in Florida. These programs are certainly useful, but ultimately, even if they are carefully constructed and managed they may not be enough to handle the particularly severe events. For example, even with the CEA, an A.M. Best 2006 study shows that only 12 percent of Californians bought residential earthquake insurance in 2005. Meanwhile, AIR Worldwide estimates that if there were a 7.9 Magnitude quake in San Francisco, CA, the losses could top $100 billion.

The plain truth is that some natural disasters will exceed the financial capacity of state catastrophe funds – only a program that is national in scope will be able to generate enough capacity to cover the most devastating events.

This issue is national in scope in another regard as well, and that is its impact on the U.S. Treasury. As mentioned, GAO estimates that the U.S. Government spent $26 billion in 2005 alone on homeowners' who lacked adequate insurance. They speculated that many consumers go without adequate natural disaster insurance because "they may not believe the risk justifies the expenditure." With homeowners' insurance considerably more expensive than pre-2005, there is a real possibility even more consumers are underinsured, which in turn will make the next mega-catastrophe even more expensive for U.S. taxpayers.

Put simply, insuring against natural disasters is a national problem that requires a national solution. Despite our longstanding position that the insurance market is best served by limited federal involvement, we believe that a federal solution to the issue of natural catastrophe insurance is necessary to help provide capacity and fill a void that the private market cannot and will not service. However, it is important that the day-to-day regulation of insurance remain at the state level, where state insurance departments are best equipped to serve the special needs of local consumers in local markets. As such, given the absence of affordable coverage and the exposure that both consumers and taxpayers face, we believe that there is a very limited and appropriate role for the federal government, and we are open to supporting proposals that increase insurance availability and affordability in catastrophe-prone areas.

IIABA is comprised of thousand of small businesses and as such, we always prefer market –driven solutions to problems and are suspect of new government programs. In short, we do not adopt a position like this lightly. We do so only because we so no other available course of action to resolve this availability crisis. There is currently a clear case of market failure.

IIABA Perspective on the Homeowners Defense Act of 2007

As a Floridian, I first would like to thank Representatives Ron Klein and Tim Mahoney for their efforts to address this natural disaster crisis. I'd also like to thank the House of Representatives for passing the Homeowners Defense Act of 2007 and providing momentum that this issue so desperately needs. The IIABA is extremely grateful for all of your work on this issue and for the opportunity to share its views on what we feel is a matter of critical importance.

Our members approach the issue of natural disaster insurance from a very simple perspective: we are here to serve consumers' needs, whether it is helping them secure coverage to protect their families, their homes, and their businesses prior to an event, or assisting consumers after an event to ensure that claims are paid quickly and fully. As the intermediaries between consumers and their insurers, our members cannot and will not walk away from consumer needs as long as they demand coverage for these risks. We strongly believe our industry must come together with policymakers to find a common solution that will encourage participation in at-risk markets.

In short, we welcome all proposals and support any and all reasonable ideas and plans that lead us to a healthy and competitive insurance marketplace in which consumers have choices and companies are vying for their business.

We believe the Homeowners Defense Act provides a number of provisions that could have a positive impact on the availability and affordability of natural disaster insurance.

The creation of a National Catastrophe Risk Consortium would create an organization that states can voluntarily join for the purposes of transferring catastrophe risk. The risk transfer would be achieved through the issuance of risk-linked securities or through reinsurance contracts. The goal of the consortium seems to be to offer both states and private market participants an opportunity to benefit from a pooling of catastrophic risk diversified by type of peril and geographic region.

If a number of states elect to participate in this Consortium, and if the private market determines that the risk-linked securities are an attractive investment, there is the possibility that the Consortium could offer reinsurance contracts to private participants at a lower cost than is currently available. However, the IIABA does have concerns that some states that may not consider themselves to be high-risk may decline to participate in the Consortium, which would diminish the diversity of the risk-linked securities and negatively impact their value to potential buyers.

The creation of a National Homeowners' Insurance Stabilization Program, meanwhile, would potentially provide for a mechanism for liquidity loans and catastrophic loans for state and regional reinsurance programs, which could provide for a level of stability for such programs that is absent at this time. The loans would come in three distinct categories, Liquidity Loans, Catastrophic Loans, and Catastrophic Loans to States without Qualified Reinsurance Programs. Perhaps most encouraging about this proposal is that it seems to offer an incentive for more states to adopt their own reinsurance CAT programs in order to be considered "qualified programs," which states would have to have in order to receive the catastrophic loans after an initial 5 year transition period.

Finally, during House consideration of the bill, a provision was added that would create a federal reinsurance fund for state catastrophe funds. The IIABA has supported a federal reinsurance fund for natural disaster insurance for a number of years, and we are encouraged that Congress is seriously considering such a solution. However, we do feel that a federal reinsurance fund may be more effective if it is a federal fund that auctions off reinsurance to state funds, private carriers, and reinsurers as opposed to the current proposal that is only available to state funds. The Homeowners' Insurance Availability Act (H.R. 330), sponsored by Rep. Brown-Waite (R-FL) utilizes this approach. The legislation would allow private insurers to purchase, at auction, reinsurance contracts directly from the U.S. Treasury to cover natural disasters that are equal to or greater than a one-in-100-year event. We believe this is a strong proposal because it will encourage more companies to enter at-risk markets, thus increasing availability and market stability, while limiting federal involvement to only the most devastating catastrophes.
In fact, the November 2007 GAO report states that one of the "disadvantages" of the Federal Reinsurance for State Catastrophe Funds is that "Federal reinsurance could compete with private reinsurance sector." By allowing the private insurers and reinsurers to purchase federal reinsurance at auction, we believe the federal reinsurance fund could avoid displacing the private market, and we encourage Congress to examine this possibility.

Other Solutions

The strength of the Homeowners' Defense Act of 2007 lies in its attempt to have a plan in place to encourage greater availability of reinsurance for the private markets (through the Consortium) <u>before</u> a storm hits as well as its attempt to have a line of stability available to state catastrophe reinsurance funds in the event of liquidity problems <u>after</u> a catastrophic disaster. These goals are consistent with the Big "I's" long-standing belief that the best solution is for a program to be in place before the events happen – to have a clear, well-structured mechanism that encourages the private sector to handle as much of the risk as possible, and only trigger federal involvement as a last resort upon private marketplace failure. We believe that it is important to have such a structure in place to protect both consumers and taxpayers living in all areas across the country – especially when history has proven that more tax dollars are going to be spent on disaster assistance without such a structure to encourage the private sector to take on additional risk.

IIABA is also looking beyond federal reinsurance proposals to other possible solutions, and in that vein we are encouraged by the introduction of H.R. 164, the Policyholder Disaster Protection Act, introduced by Rep. Bobby Jindal (R-LA). This bill would permit insurers to create tax-free reserve funds for natural disaster claims. We support the goal of this legislation, which is to build up insurance capacity in at-risk markets.

Congressional Attention Is Needed

Achieving a consensus within the insurance market for a solution to this growing problem has proven elusive, which has complicated public and private efforts to address this issue. However, Members such as Representatives Klein and Mahoney have made a concerted and responsible effort to achieve the difficult to reach consensus, and we applaud them for their efforts.

There seems to be a growing recognition that a solution is needed, and needed now. Private insurers are thankfully proposing plans on natural disasters, and we'd like to especially applaud Travelers', Allstate, and Nationwide for each spending considerable time and resources to attempt to propose a solution. The IIABA plans on working with each of these companies, and welcomes any other that would like to come to the table and work on a solution that can benefit both consumers and the industry.

We thank this Committee and the Members of Congress mentioned above for their leadership on these issues, and we look forward to continuing to work with this Committee on legislative proposals to the problem of natural disaster insurance.

In conclusion, we commend you for convening today's hearing, and we hope that the Committee will continue its thorough examination of legislative solutions for the catastrophe insurance availability crisis.

The Big "I" is committed to an open dialogue with all interested parties in the public and private sector to to address these important issues that consumers face. We stand ready to assist your efforts in any way we can.

VILLAGE OF WELLINGTON

February 11, 2008

Ms. Felicia Goldstein, District Director
Office of Congressman Ron Klein
Palm Beach County District Office
625 N. Flagler Drive, Suite 402
West Palm Beach, FL 33401

RE: Filed Hearing Testimony

Dear Ms. Goldstein,

Attached is my proposed testimony for the February 12, 2008 field hearing on the costs to states and the insurance industry associated with providing relief from natural disasters.

Very truly yours,

Thomas M. Wenham, Mayor
Village of Wellington

Village Council
Village Manager
Village Attorney

14000 Greenbriar Boulevard • Wellington, Florida 33414 • (561) 791-4000 • Fax (561) 791-4045
http://www.ci.wellington.fl.us

VILLAGE OF WELLINGTON

STATEMENT OF THE VILLAGE OF WELLINGTON

**SUBMITTED TO THE
FINANCIAL SERVICES COMMITTEE SUBCOMMITTE ON OVERSIGHT AND INVESTIGATIONS**

UNITED STATES HOUSE OF REPRESENTATIVES

BY

**THOMAS M. WENHAM
MAYOR
VILLIAGE OF WELLINGTON, FLORIDA**

February 11, 2008

Mr. Chairman and members of the subcommittee:

On behalf of the Village of Wellington, I am pleased to submit this statement for the record providing information on the homeowners insurance crisis and its impact on communities, homeowners and the economy.

Impacts on the Village of Wellington

Since 2004 the Village of Wellington has been hit by three hurricanes, Frances and Jeanne in 2004 and Wilma in 2005. Public costs for each event were:

Storm	Recovery Costs	Damage to Public Facilities
Frances & Jeanne	$ 6,200,000	$ 2,270,000
Wilma	$ 5,860.000	$ 3,753,000

Estimated damage to homes and business were:

Storm	Residential Damage	Business Damage
Frances & Jeanne	$ 6,700,000	$ 1,108,000
Wilma	$ 50,440,450	$ 7,753,000

Wellington was fortunately in the financial position to cover un-reimbursable costs; however we like all of south Florida have experienced skyrocketing insurance costs as a result of hurricane activity. The rates that the Village paid for property insurance have gone up as follows:

2003/2004	2004/2005	2005/2006	2006/2007
$175,000	$ 161,077	$356,498	$ 719,000

While the Village does not maintain records on the cost of property insurance for individual homes and businesses, we do know that the average home price in the Village today is $ 353,000 with an average annual insurance cost of $ 5,300. In 2000 that cost was about $ 1000. At the same time insurance rates have been increasing, windstorm deductibles have been introduced and now instead of the small non-windstorm deductible, the average Wellington home will pay a $ 7060 deductible (2% of the home value).

Perhaps one of our biggest problems is that to date we have not been able to agree on final reimbursement numbers with FEMA.

Wellington was fortunate in that we are a relatively young community and most of the construction within our Village was subject to more stringent building codes. Because of that we wonder why our insurance rates have gone so high.

PRESS ADVISORY

VILLAGE OF WELLINGTON
14000 GREENBRIAR BLVD.
WELLINGTON, FL 33414

For further information contact:
Mireya McIlveen, Dep Dir of Admin & Financial Svcs
Phone: 561-791-4113

Date: January 25, 2008

FOR IMMEDIATE RELEASE

Wellington Recovers Additional $3m in Hurricane Reimbursement from FEMA

We are very pleased to announce that through the efforts of Village staff and the assistance of a previous FEMA employee, working diligently on behalf of the Village, the Village has now received additional revenues in the amount of $3,136,496 as of January 2008 for the reimbursement of hurricane related expenditures. This reimbursement was initially denied by both FEMA and by the Village's insurance and was therefore unanticipated and unbudgeted.

As the result of being directly impacted by hurricanes Frances and Jeanne in 2004 and the devastating effects of Hurricane Wilma in 2005, the Village incurred millions of dollars in costs associated with debris removal and emergency measures, as well as permanent repairs and replacement of public buildings and infrastructure. In order to be recognized and gain eligibility for grants, a great deal of administrative effort, documentation and perseverance had to be expended so as to achieve a successful outcome. These reimbursements are to cover many of the expenditures associated with cleanup efforts, debris removal, repairs, reforestation and reconstruction programs.

Mayor Tom Wenham, Vice Mayor Bob Margolis, along with Council Members Lizbeth Benacquisto, Laurie Cohen and Dr Carmine Priore, are pleased to bring exciting and innovative programs to the Village, always looking for ways to improve services for all its residents. For information on Village programs, events, and activities, please visit the website or watch Channel 18 for the latest Village happenings.

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Thomas M. Wenham, Mayor
Village of Wellington, Florida

- Resident of Wellington since 1981
- Served on Acme Improvement District Committees from 1986-1994
- Elected Acme Improvement District Supervisor 1994-1996
- Elected to first Wellington Village Council March 1996
- Village of Wellington Councilman 1996-2000
- Village of Wellington Council Mayor 2000-2003
- Village of Wellington first elected mayor 2003 to present
- Capital Projects/Facilities Manager, Palm Beach County Fire Rescue, 1995 to present
- Former Assistant Palm Beach County Property Appraiser
- Graduate of Northeastern University, Boston, MA
- Awarded Certified Florida Public Manager designation, Florida State University
- Served with 8th Bomb Squadron, 3rd Bomb Group, during the Korean War

Memo

To: Sanders Adu

From: Chris Bailey

Date: April 11, 2008

Re: February 11th, 2008 Hearing of the House Oversight and Investigations Subcommittee of the Financial Services Committee

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QUESTIONS FOR THE RECORD

The House Oversight and Investigations Subcommittee of the Financial Services Committee appreciates your participation in the hearing entitled, "The Homeowners' Insurance Crisis and its Impact on Communities, Homeowners and the Economy." Please provide written responses to these additional follow-up questions for the hearing record within 30 days.

Honorable Kevin McCarty, Florida Commissioner of Insurance

1. Do you support H.R. 3355 (The Homeowners' Defense Act) recently passed by the House? If the bill were to become law, how would it assist the overall national disaster insurance market?

> Yes. The legislation would make disaster insurance more readily available without the huge swings in price that currently devastate markets.

a. Can you recommend other national solutions to fostering a stable homeowners' insurance market?

> Tax deferred catastrophic reserve; consumer catastrophe savings accounts.

2. How have insurance companies regulated by the State of Florida explained how they achieved record profits in the last few years despite record hurricane activity, insurance payouts and rising reinsurance rates?

3. Has Florida been able to quantify the impact of the Florida Hurricane Catastrophe Fund (FHCF) Fund on insurance rates and availability?

> Expansion of the cat Fund was estimated to lower rates by an average of 24%. Availability of insurance is improving as takeout companies are taking business out of Citizens Property Insurance Corporation.

QUESTIONS FOR THE RECORD

The House Oversight and Investigations Subcommittee of the Financial Services Committee appreciates your participation in the hearing entitled, "The Homeowners' Insurance Crisis and its Impact on Communities, Homeowners and the Economy." Please provide written responses to these additional follow-up questions for the hearing record within 30 days.

Mr. Alex Soto, Past President, Independent Insurance Agents and Brokers of America

1. Do you support H.R. 3355 (The Homeowners' Defense Act) recently passed by the House? If the bill were to become law, how would it assist the overall national disaster insurance market?

Answer) As a Floridian, I first would like to thank Representatives Ron Klein and Tim Mahoney for their efforts to address this natural disaster crisis. I'd also like to thank the House of Representatives for passing the Homeowners Defense Act of 2007 and providing momentum that this issue so desperately needs.

The IIABA welcomse all proposals and support any and all reasonable ideas and plans that lead us to a healthy and competitive insurance marketplace in which consumers have choices and companies are vying for their business.

While we have not taken a formal board position on the legislation, we believe the Homeowners Defense Act provides a number of provisions that could potentially have a positive impact on the availability and affordability of natural disaster insurance.

The creation of a National Catastrophe Risk Consortium would create an organization that states can voluntarily join for the purposes of transferring catastrophe risk. The risk transfer would be achieved through the issuance of risk-linked securities or through reinsurance contracts. The goal of the consortium seems to be to offer both states and private market participants an opportunity to benefit from a pooling of catastrophic risk diversified by type of peril and geographic region.

If a number of states elect to participate in this Consortium, and if the private market determines that the risk-linked securities are an attractive investment, there is the possibility that the Consortium could offer reinsurance contracts to private participants at a lower cost than is currently available. However, the IIABA does have concerns that some states that may not consider themselves to be high-risk may decline to participate in the Consortium, which would diminish the diversity of the risk-linked securities and negatively impact their value to potential buyers.

The creation of a National Homeowners' Insurance Stabilization Program, meanwhile, would potentially provide for a mechanism for liquidity loans and catastrophic loans for state and regional reinsurance programs, which could provide for a level of stability for such programs that is absent at this time. Perhaps most encouraging about this proposal is that it seems to offer an incentive for more states to adopt their own reinsurance CAT programs in order to be considered "qualified programs," which states would have to have in order to receive the catastrophic loans after an initial 5 year transition period.

Finally, during House consideration of the bill, a provision was added that would create a federal reinsurance fund for state catastrophe funds. The IIABA has supported a federal reinsurance fund for natural disaster insurance for a number of years, and we are encouraged that Congress is seriously considering such a solution. However, we do feel that a federal reinsurance fund may be more effective if it is a federal fund that auctions off reinsurance to state funds, private carriers, and reinsurers as opposed to the current proposal that is only available to state funds. The Homeowners' Insurance Availability Act (H.R. 330), sponsored by Rep. Brown-Waite (R-FL) utilizes this approach. The legislation would allow private insurers to purchase, at auction, reinsurance contracts directly from the U.S. Treasury to cover natural disasters that are equal to or greater than a one-in-100-year event. We believe this is a strong proposal because it will encourage more companies to enter at-risk markets, thus increasing availability and market stability, while limiting federal involvement to only the most devastating catastrophes.
In fact, the November 2007 GAO report states that one of the "disadvantages" of the Federal Reinsurance for State Catastrophe Funds is that "Federal reinsurance could compete with private reinsurance sector." By allowing the private insurers and reinsurers to purchase federal reinsurance at auction, we believe the federal reinsurance fund could avoid displacing the private market, and we encourage Congress to examine this possibility.

a. Can you recommend other national solutions to fostering a stable homeowners' insurance market?

Answer) The strength of the Homeowners' Defense Act of 2007 lies in its attempt to have a plan in place to encourage greater availability of reinsurance for the private markets (through the Consortium) before a storm hits as well as its attempt to have a line of stability available to state catastrophe reinsurance funds in the event of liquidity problems after a catastrophic disaster. These goals are consistent with the Big "I's" long-standing belief that the best solution is for a program to be in place before the events happen – to have a clear, well-structured mechanism that encourages the private sector to handle as much of the risk as possible, and only trigger federal involvement as a last resort upon private marketplace failure. We believe that it is important to have such a structure in place to protect both consumers and taxpayers living in all areas across the country – especially when history has proven that more tax dollars are going to be spent on disaster assistance without such a structure to encourage the private sector to take on additional risk.

As stated, the IIABA has formally endorsed the Homeowners' Insurance Availability Act (H.R. 330). We are also working closely with our company partners on other initiatives aimed at created a level of federal reinsurance protection. IIABA is also looking beyond federal reinsurance proposals to other possible solutions, and in that vein we are encouraged by the introduction of H.R. 164, the Policyholder Disaster Protection Act, introduced by former Rep. Bobby Jindal (R-LA). This bill would permit insurers to create tax-free reserve funds for natural disaster claims. We support the goal of this legislation, which is to build up insurance capacity in at-risk markets.

2. You testified that "only a handful" of insurers are able or willing to provide catastrophe insurance in your community. Why? How does this affect the Independent Insurance Agents and Brokers operating in Florida and their clients?

Answer) Compared to the universe of property casualty insurance companies doing business in the United States, the number of companies willing to write single family dwellings with windstorm coverage is but a small fraction of the whole, especially in Florida. Furthermore, many of the companies are small in nature, recently organized and with a high concentration of business in the state of Florida. The other predominant choice is Citizen Insurance Company which is under funded and overwhelmed with work. Obviously, all of the above translates into the Independent Insurance Agents offering their client fewer and less attractive choices than other insured have in most other states.

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