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Attention: Legislative Director

Principles for Windstorm Insurance: A Joint Statement
Signed by Individuals from The Competitive Enterprise Institute, Americans for Tax Reform, The American Consumer Institute, FreedomWorks, and the American Enterprise Institute

The United States has entered a period of heavy hurricane activity. Much of the focus in the public policy debate has centered on insurance against flood damage. A federal program already covers nearly all flood risks. The following letter focuses on insurance for wind damage.

Over the past decade, wind insurance rates have risen significantly in all hurricane-prone areas. Nearly everyone who has studied the problem agrees that governments, business, and individuals should act.

As Congress considers legislation to expand the federal role in windstorm insurance, we urge significant caution. We are speaking, in particular, about the “Multiple Peril Insurance Bill” (**H.R. 920**), which has been incorporated into the “Flood Insurance Reform and Modernization Act” (**H.R. 3121**). In essence, the bill adds windstorm coverage to the existing National Flood Insurance. Before rushing to further politicize the critical insurance sector, we suggest that Congress keep the following in mind:

The National Flood Insurance Program has severe fiscal and practical problems: Although designed to be self-sufficient, the NFIP has used its borrowing authority to add billions of dollars to the national debt.

It’s unlikely that any government-run insurance program will both maintain actuarially adequate rates and attract a significant number of policy-holders: Although initially intended to charge actuarially adequate rates for almost all policyholders, NFIP has argued that almost nobody would purchase government insurance at these rates. On that basis, Congress and the program’s administrators ordered a series of rate cuts that brought rates well below levels of actuarial adequacy. For roughly 20 percent of properties in NFIP—so called “non-conforming properties”—rates have remained well below levels of actuarial adequacy.

Private insurance mechanisms—given time to build experience and revenues—have greater potential to manage risk than does a government-run pool: A government-run pool will likely include only people at the greatest risk for

hurricane activity. The federal government has a very limited ability to invest premiums received and, unlike private insurance companies, cannot reduce portfolio risk by writing policies for risks that do not correlate with hurricane activity. Thus, actuarially adequate rates may prove higher than those the in the private sector.

Nature causes hurricanes; human activity results in hurricane damage: We have sustained significant hurricane damage in large part because a variety of political factors—most prominently local zoning codes and the NFIP—have served to encourage development in hurricane-prone areas. Although the bill will strengthen zoning codes, the probability is high that the proposed legislation will ultimately encourage additional coastal development and thus, increase hurricane damage.

Signed:

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