



October 19, 2009

Dear Mr. President:

We represent a diverse group of environmental, taxpayer, and consumer interests. We've seen the letter that Rep. Gene Taylor recently wrote to you regarding his desire that the federal government begin a taxpayer-backed wind insurance program through an expansion of the National Flood Insurance Program (NFIP). In response, we wish to deliver a simple message: your administration's policies on this issue are right while Rep. Taylor's proposals are wrong. We recognize that Rep. Taylor does seek to confront some real and serious problems; however, we believe that his proposal is simply the wrong policy course for taxpayers, the environment, and the communities of America's hurricane-prone regions. Moreover, alternative policies aimed at helping communities better prepare for natural disasters offer better protection at lower cost.

Quite simply, the federal wind plan insurance that Rep. Taylor has proposed could add tens of billions to the national debt and has no prospect of actually saving money for taxpayers. While Rep. Taylor cites a number of statistics— ranging from the cost of FEMA trailers to the total losses from Katrina— he leaves out one vital piece of data: the current \$19 billion debt of National Flood Insurance Program that his proposal seeks to expand. The NFIP, all observers agree, has no reasonable way to pay off this debt. Expanding NFIP coverage to include wind, as Rep. Taylor wishes to do, would almost certainly increase NFIP's debt load. In fact, if it hopes to break even, the proposal Rep. Taylor makes will have to charge higher rates than those charged in the private market. This will happen because, rather than spreading risk across the globe the way that private reinsurance markets do (for example: pooling Miami's hurricane risk with Tokyo's risk of earthquakes), Rep. Taylor's proposal would concentrate risk within the borders of the United States. This narrower risk pool, all other things being equal, will have to charge higher rates than those already extended within the private market. Of course, a national wind insurance program could only attract customers if it charged rates lower than those in the private market. Thus, the program would either fail to attract any customers or stick the taxpayers with billions of dollars in new liabilities.

Federal wind insurance also poses a threat to the environment. If it undercuts the private market rates

as Rep. Taylor wishes it to, such taxpayer-subsidized wind insurance would encourage development in environmentally sensitive wetlands, coastal areas, and river banks. As you recently said in New Orleans, these ecosystems are our “first line of defense”. Federal policies should encourage protecting and restoring these floodplain areas’ natural and beneficial uses rather than subsidizing additional development. In light of the prospects of global climate change, many of us believe that the need to preserve these areas as a buffer against more severe storms and rising sea levels will become ever more important.

Finally, Rep. Taylor's proposals would hurt the very communities he seeks to help. While the private insurance industry has made mistakes, the insurance system we currently have represents a success story. In response to Hurricane Katrina, private companies paid out almost \$17 billion and settled over 95 percent of claims within a year. The federal government simply doesn't have the infrastructure or expertise to do this. The "indeterminate loss" issue Rep. Taylor raises— the difficulty of assessing the difference between wind and water damage— does need further investigation, and regulatory changes may be in order to help deal with it. But simply displacing private wind insurance would also displace a system that, for the most part, works well.

If enacted, Rep. Taylor's proposal would do nothing to make people and communities safer. In our view, federal policy should focus on improving community resilience to hurricanes. Fortunately, much can be done to make buildings better able to withstand damage from hurricanes and other natural disasters.

A recent study by The University of Pennsylvania's Wharton Risk Management Center found that homeowners in residences built using the most up-to-date wind resistant standards experienced 60 percent fewer damage claims. Even when wind damage could not be avoided, wind-resistant building practices reduced the damages by more than 40 percent. The Institute of Business and Home Safety has estimated that every dollar invested in mitigation yields four to seven times that amount in savings. Furthermore, a recent study by the Multihazard Mitigation Council reinforced these findings, showing that each dollar spent on mitigation saves society an average of four dollars, with positive benefit-cost ratios for all hazard types studied.

Reducing risks is the best way to lower insurance costs in communities subject to natural catastrophes such as hurricanes. Rep. Bennie Thompson has introduced a package of bills that would help homeowners and communities to prepare for and reduce the risk of natural catastrophe. We believe that measures like these represent the right kind of thinking about natural disasters.

Your administration has taken the correct position concerning Rep. Taylor's bill. Federally-backed wind insurance is a bad idea. You should stick with your position. Risk reduction and mitigation represent better approaches to help communities.

Yours truly,

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