

Testimony of Charlie Crist, Governor of Florida
Senate Committee on Banking, Housing and Urban Affairs
An Examination of the Availability and Affordability of Property and
Casualty Insurance in the Gulf Coast and Other Coastal Regions
April 11, 2007

Chairman Dodd, Ranking Member Shelby and Members of the Committee, I thank you for the opportunity to testify here today regarding the availability and affordability of property and casualty insurance. I applaud you for your leadership on this critical issue.

I want to thank my friends Bill Nelson and Mel Martinez for their leadership on this issue. A few weeks ago, our senators introduced an array of legislative options addressing insurance reforms. I believe they call it a Legislative Six Pack. I am so proud to work with Senators Nelson and Martinez, along with our Florida members in the House to move towards the creation of a national catastrophic insurance fund.

The role of the federal government in protecting the American homeowner from skyrocketing homeowners insurance has been debated for many years. Conceptually, the idea remains the same; however, the debate now focuses on the millions of Americans impacted by increased property insurance. Traditional insurance market mechanisms are not adequately managing catastrophic risk, and the financial strain on consumers can be felt from coast-to-coast. Hurricane Katrina reminded us all of what a natural disaster can do, not only to a specific region, but to our nation as a whole. No specific area of our country is immune to natural disasters or exempt from paying for the recovery costs. In the past, Congressional action created a bridge to homeowners in the form of national flood insurance. Congress has the opportunity, once again, to provide homeowners relief in the form of a national catastrophic insurance plan.

During my campaign for governor, I traveled our great state listening to the concerns of the people of Florida. Floridians are being forced to choose between paying skyrocketing insurance premiums or selling their homes. I've heard from many Floridians who are worried that soaring premiums are threatening their chance to raise a family in a Florida home. This is not the American dream.

The hurricane seasons of 2004 and 2005 produced 8 named hurricanes that hit Florida, costing the state \$33 billion in property loss. As a result, the number of carriers providing property insurance coverage has been on the decline and market concentration has diminished as well. Florida now relies on a greater number of carriers – often smaller, recently formed domestic insurers – to provide coverage, rather than a handful of nationally known insurers.

The dramatic increased cost of reinsurance increased projected cost of building materials and labor and the projection of future catastrophes have all contributed

to significant premium increases paid by Florida policyholders. Commensurate with these issues, Florida's Office of Insurance Regulation has received a substantial increase in the number of rate change requests from insurance providers.

Floridians understand the risk of living in our beautiful state. Our state has made immense progress in reinforcement efforts and stricter building codes to protect our citizens when the next storm comes. However, these efforts are not enough to convince the insurance industry that Floridians are a worthy risk.

As Florida's new governor, I have heard directly from our people that immediate insurance relief was needed. The people of Florida cried out for help and we answered their call. Earlier this year the Florida Legislature met in special session, seeking solutions to runaway property insurance rates. We worked together in a bipartisan way. We focused on results – not on politics or process. Together we achieved a momentous step forward in reducing property insurance rates for our citizens. Our Legislature passed meaningful property insurance reform, providing much needed relief to the people of Florida.

The work of the Florida State Legislature has begun to address the insurance crisis in our state, but federal action is also necessary. I implore Congress to take the next step to ensure the affordability and availability of property insurance. I know that each of you has chosen to serve the people of your state with the end goal of improving their lives and well being. Like me, you want your citizens to have the opportunity to own a home without the worry of losing it to out-of-control insurance rates.

Let me be clear, this crisis is not an issue exclusive to Florida. Many other states are also facing insurance crisis. In February, I had the privilege of working with my fellow Southern Governors, including Governors Barbour, Riley and Kaine, in drafting a resolution urging the Congress to create a national catastrophic fund. Governors throughout our nation deal first hand with the impact natural disasters have on our state economies and industry. I am also pro-actively working with Governor Schwarzenegger, Governor Spitzer and Governor Perry to advance a national fund proposal. Governors understand the need for such a program and look forward to working with you as you formulate legislation.

The problem of insurance availability and affordability in the Gulf Coast areas has been widely publicized, but it is a problem that is now affecting other states as well. Mr. Chairman, as you may know, the Connecticut Department of Insurance recently conducted a study of its homeowner's insurance market and determined that insurance availability within 1,000 feet of the shore is difficult to find in the traditional market. Coverage that is available is typically two to three times more expensive and often available only through the specialty market. Similar problems are being felt from Cape Cod to the Carolinas.

The response from insurers is aimed at coastal exposure, but it ignores the very real possibility that the next major catastrophe will not touch a coastline. Our country has a relatively brief history, but in that time virtually every region of the country has experienced some form of catastrophic event. The hurricanes in the Gulf are only our most recent reminder of the risk from natural disasters, but we would be naïve to think they are the last. We are all vulnerable to natural disasters. Most of the states you represent have been impacted by hurricanes, tornadoes, wildfires, blizzards and drought. Whether you live in Connecticut, Alabama, New York, Hawaii, Colorado, Ohio, Kentucky or North Carolina; we are all at risk. That is why it is time for Congress to move forward and listen to the American people and create this national fund.

A federal catastrophe fund would provide protection for American homeowners throughout the nation. A national program would spread the risk across the country, thus strengthening our insurance markets. Capital for the plan could come from a portion of the property insurance premiums already collected by insurance companies. The funds could grow tax-free, provide the financial capability to cope with the catastrophic risk and allow affected regions the ability to recover more quickly from natural disasters. This federal backstop for insurers is an essential step to addressing the insurance crisis.

This situation is not just an issue of lowering insurance rates for our citizens. It is also an issue of using taxpayers' dollars in the most efficient manner. Our current policy for managing the devastating effects of catastrophic natural disasters relies heavily on the Federal government. Consider the \$110 billion allocated so far 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.

The subject we are discussing today is not new. What are new are the insurance industry's record profits – to the tune of \$68 billion in 2006, according to a report from *Wall Street Journal*, January 23, 2007. The insurance industry as a whole has enjoyed lavish prosperity in recent years. I believe it is time for the American people to participate in that prosperity by way of reasonable insurance costs.

Our nation's response to natural disasters is one of defense. Mr. Chairman, the committee has a unique opportunity to play offense by changing the mindset within the federal government. This change can be made by creating a national catastrophe fund that will ultimately protect our bosses – the American people. The time is now to bring all stakeholders to the table to do what is right. I ask you to refocus our national effort, away from large-scale funded recovery after a disaster, to proactive prevention. A national catastrophe fund will create this transition.

Clearly, this practice makes the issue a national one, not only a local or regional problem. For example, it is estimated that the Great Lakes and Plains states will

contribute approximately \$26 billion to Katrina initiatives. However, these tax dollars are not risk-based, and they will leave little legacy that guarantees relief for the next natural catastrophe, regardless of where it strikes.

A national plan would also raise the bar for disaster preparedness and recovery. By encouraging states to adopt stronger building codes and emergency response capabilities in order to participate in the plan, we would undoubtedly mitigate future economic damages, while developing a culture of preparedness that will create a safer environment for all citizens of the United States.

Today, we must ask ourselves, "What will make insurance more available and more affordable for the people we serve?" I believe a national catastrophe fund will achieve this goal.

I thank you for holding this hearing, for inviting me here today, and for your continued interest and leadership on this crucial issue. I look forward to working with Congress to solve the insurance crisis facing our citizens today.

Thank you for your time and attention today. I would request my full statement be included in the record, and I am happy to respond to any questions that you may have.