

September 13, 2023

The Honorable Sherrod Brown
Chair
Senate Banking Committee
503 Hart SOB
Washington, D.C. 20515

The Honorable Tim Scott
Ranking Member
Senate Banking Committee
104 Hart SOB
Washington, D.C. 20515

Dear Chair Brown and Ranking Member Scott:

SmarterSafer is a national coalition made up of a diverse chorus of voices who champion a united front for environmentally responsible and fiscally sound approaches to natural catastrophe mitigation and the promotion of public safety. SmarterSafer wishes to comment on the Senate Banking Committee's recent hearing focused on property and casualty insurance markets and policyholders.

We wholeheartedly champion the idea of public/private partnerships and private market participation as means to effectively manage the risks associated with natural disasters while ensuring the financial stability of communities and protecting the environment. Private reinsurance plays a crucial role in this equation. It offers an additional layer of financial support that can be instrumental in helping communities recover from catastrophic events without resorting to overwhelming public funds. As such, we are concerned by any conversation that would displace a vibrant private market with a federal reinsurance program for natural disaster risks, which we believe can have detrimental consequences. Our opposition to the establishment of any such reinsurance backstop revolves around what we view are inherent risks with such a concept.

Firstly, a federal reinsurance program can unintentionally incentivize risky behavior by obscuring the true cost of risk, which private reinsurance reflects. A federal reinsurance program ignores the underlying issues of overbuilding in high-risk areas, inflation, forward looking climate change impacts on severity and frequency of extreme weather and can encourage new development in environmentally sensitive and high-risk areas, putting both the environment and the safety of our communities at risk.

Secondly, establishing a federal reinsurance program would come with significant federal cost (billions) paid for by all taxpayers. A federal reinsurance program also does nothing to address the uninsured that rely on limited federal disaster assistance in the aftermath of natural disasters.

Displacing private insurance and reinsurance with a federal reinsurance program will supersede state-based insurance regulation, providing dual regulation, by adding the federal government as a regulator of property insurance markets across the country and encouraging additional, state-government programs to assume property risk.

SmarterSafer has strong concerns that efforts to establish a federal reinsurance program for natural disaster risks fail to effectively address the challenges posed by such disasters and could

incentivize risky behavior, as noted, in addition to shifting financial burdens from the private sector to federal taxpayers, and ultimately hinder the pursuit of more responsible solutions.

We are strong advocates for means-tested assistance in addressing affordability concerns. Moreover, we firmly believe that the ultimate solution lies in reducing risk through proactive mitigation efforts, improving building codes and enforcement, and discouraging construction in hazard-exposed and environmentally sensitive areas. By emphasizing the importance of risk reduction and responsible land use planning, we can not only minimize the need for subsidies and a federal reinsurance program but also promote long-term sustainability and fiscal responsibility.

Furthermore, it is crucial to encourage states to transition to private insurance systems based on risk-based rates, an approach that aligns with the principles of risk-based insurance. This transition ensures that sufficient premiums are collected to cover claims without relying on additional federal taxpayer dollars. In areas where there are affordability concerns, we are strong advocates for means-tested financial assistance, that does not “mask” risk-based rates as they provide important signals of increasing risk.

While the global reinsurance markets have faced certain profitability challenges in recent years, they remain highly solvent. Global reinsurers have had to manage the cover they provide against catastrophic property insurance risks after several years of large catastrophe losses, particularly as prices have failed to keep pace with weather-related losses. Insurers and reinsurers are only able to attract additional investment capital if they are able to offer investors an adequate rate of return. The historically elevated catastrophe and claims activity since 2017 has created doubts on the part of re/insurers and investors, which slowed the capital supply response. However, reinsurers are still offering ample cover for severe catastrophes.¹ While global reinsurance capital in 2022 contracted by \$87 billion, by the first quarter of 2023, global reinsurer capital increased by five percent (\$30 billion) to \$605 billion.² Additionally, by the end of the first half of this year, reinsurance capital grew 13% to \$709 billion (close to the \$725 billion peak in 2021).

The challenges facing reinsurers reflect the challenges facing the larger society. Losses from natural catastrophes, inflation and other factors are increasing exponentially for everyone, including reinsurers, and thus require long-term solutions to reduce future losses. SmarterSafer stands ready to collaborate with you and the Senate Banking Committee to explore alternative, more responsible solutions to the pressing issues surrounding natural disaster policy. We urge the Committee to consider our positions as we collectively work to protect both taxpayers, communities, and the environment.

Thank you for the opportunity to comment. We look forward to future discussions on this important issue.

¹ <https://www.fitchratings.com/research/insurance/global-reinsurers-pull-back-from-natural-catastrophe-cover-24-08-2023>

² <https://www.aon.com/getmedia/5bd28313-9c37-461c-b665-69a910bf0a6a/20230628-midyear-rmd.pdf>

Sincerely,

The SmarterSafer Coalition

MEMBERS

Environmental Organizations

American Rivers
Center for Climate and Energy Solutions (C2ES)
ConservAmerica
Defenders of Wildlife
National Wildlife Federation
Natural Resources Defense Council (NRDC)
The Nature Conservancy
Surfrider Foundation

Consumer and Taxpayer Advocates

Coalition to Reduce Spending
National Taxpayers Union
R Street Institute
Taxpayers for Common Sense
Taxpayers Protection Alliance

Insurer and Reinsurer Interests

American Property Casualty Insurance Association (APCIA)
Association of Bermuda Insurers and Reinsurers (ABIR)
Chubb
Liberty Mutual Group
National Association of Mutual Insurance Companies (NAMIC)
National Flood Association
Reinsurance Association of America
Swiss Re
USAA

Mitigation Interests

Natural Hazard Mitigation Association

Housing

Habitat for Humanity
National Housing Conference
National Leased Housing Association

ALLIED ORGANIZATIONS

Allianz of America
American Conservation Coalition
American Consumer Institute
Center for Clean Air Policy
CoreLogic

Friends of the Earth
Institute for Liberty
Zurich North America