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Lawmakers call for formation of national catastrophic fund

- Hearing addresses issue of skyrocketing insurance premiums

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WASHINGTON — A campaign to create a national catastrophic insurance fund got a boost at a Capitol Hill hearing Tuesday.

"Congress cannot wait for the market to completely collapse before we decide to act," Rep. Ginny Brown-Waite, R-Fla., said at a House Financial Services subcommittee hearing.

Hoping to curb skyrocketing premiums and the retreat of insurers from high-risk areas like the nation's coasts, Florida lawmakers and other House members, including Reps. Gene Taylor, a Democrat, and Republican Bobby Jindal of Louisiana, have introduced several proposals that would increase the federal role in the insurance industry.

But Taylor, who testified on the need to reform the insurance industry, said before the hearing that he differs with the backers of a national catastrophic insurance fund because it still would give private insurers a major role in high-risk areas.

Taylor, who represents south Mississippi's 4th District, and Jindal have sponsored legislation that would expand the federal flood insurance program - which covers thousands of homeowners who live in flood plains - to include wind damage.

"The private insurance market does not want to cover (wind damage) anymore," Taylor said.

Insurers are resisting those efforts based on concerns the government would unfairly compete for their business or impose new regulations that would make it difficult for the industry to turn a profit.

"I am here today to urge appropriate restraint as this committee sorts through the various federal legislative proposals," American Insurance Association President Marc Racicot said at the hearing. "The reality is

there are no quick fixes or easy answers to the very difficult challenges we face."

Except for its flood insurance program, the federal government does not have much to do with the insurance industry, leaving most regulation up to the states.

Under one new proposal, the federal government would be the financial safety net for claims that reach catastrophic proportions, like those created by Hurricane Katrina. The theory is insurance companies would charge lower premiums - and would be more willing to write policies in high-risk areas - if they knew their losses were capped.

"We have a national problem that demands a national and comprehensive solution," Florida Insurance Commissioner Kevin M. McCarty said. "We're the only industrialized nation in the world not to have a national catastrophic plan."

Congressional focus on the insurance industry was touched off by a sharp increase in homeowner's premiums in Florida and disputes between thousands of Katrina victims and insurers that resulted in lawsuits.

While some Democratic leaders are sympathetic to efforts to reform the insurance industry, the effort faces an uphill struggle.

Many lawmakers, mostly Republican, are resisting giving federal officials a greater role in the industry. They say homeowners and taxpayers who don't live in high-risk areas would unfairly shoulder the costs of some of the new proposals.

"We should not force rural and middle America to pick up the tab," said Rep. Spencer Bachus, R-Ala.