

September 19, 2017

**TO:** NAR Insurance Committee  
**FROM:** Donna Smith, Chair, Disaster Policy Work Group  
**SUBJECT:** Disaster Insurance Research Proposal

From 2005-2015, the U.S. government spent \$14 billion on disaster assistance to repair uninsured property damage due to natural disasters, including floods, earthquakes and windstorms. The Work Group believes that the U.S. could have spent less if it had pooled the risk, charged a nominal fee on homeowners' policies, and built up an insurance fund to pay for these losses. However, no actuarial research has been conducted to determine the size of the fund or fees needed to cover the cost.

**Recommendation:** The Work Group recommends that NAR fund actuarial research to determine the cost and benefits of establishing a federal disaster insurance fund and support the development of NAR policy. The current cost of this research is \$174,000 based on catastrophe modeling by [Risk Modeling Solutions](#) (RMS). However, CoreLogic recently introduced competing models, which may bring down the cost; NAR staff is in process of obtaining a second rate quote.

**Initial Findings & Conclusions:**

- Private natural catastrophe coverage can be very expensive for properties.
- Due to the unpredictable nature of the risk, insurers must set rates that exceed losses in most years in order to build reserves to cover the potential of anticipated catastrophic years.
- Without some level of government involvement, it may not be possible for private catastrophic loss insurers to provide coverage at a premium level most property owners would be able to pay.
- While not reducing the cost to insure high-risk properties, an all-perils approach could bring down the price for some by expanding the policyholder base over which to spread the cost.
- Given low voluntary purchase rates for flood insurance (1% in low-risk areas) and earthquake insurance (10% across CA), a mandatory purchase requirement would need to be considered.
- At its core, insurance is about spreading risk among insureds. If there is a way to charge some policyholders less without charging others too much, such an approach is worth exploring.
- On the other hand, how much a new federal insurance program would have to charge in order to cover the cost of multiple natural disasters and how it would distribute those charges across policyholders are empirical questions that would require groundbreaking research.

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