

October 20, 2018

To: NAR Insurance Committee
From: 2018 Insurance Committee Leadership
Subject: Natural Disaster Insurance Whitepaper

At the May 2018 meeting, Milliman presented actuarial research to help the committee evaluate an all-natural-catastrophe-perils federal insurance program. The study raises a number of policy considerations for discussion.

The Issue: Standard property insurance policies cover most natural disasters, except floods and earthquakes. Property owners can buy a supplemental policy through government-backed programs but it is often expensive. Adding “all catastrophe perils” to the property insurance could help bring down the cost for high-risk properties but not without charging more of the low-risk properties. How much more was the subject of Milliman’s study.

Potential Benefits:

- Adding all perils to property insurance creates a reliable pool of funding so households would not have to rely on federal disaster aid, take out loans, draw down savings, or divert spending to rebuild after an event.
- Shifts the burden from taxpayers to policyholders since more insureds means less disaster relief.
- Provides more disaster assistance up to the building/contents value as opposed to smaller relief payments.
- Is simpler, negates the need for separate policies, and ensures that property owners are covered regardless of any incorrect assumptions about the risk or whether they are already insured under the standard policy.
- Eliminates legal disputes between insurers and the government over the cause of damage (wind or water).

Prospects and Concerns:

- According to Milliman, only 2 percent of property owners would see a cost savings under an all-perils policy, and the average savings would be modest (\$300) relative to the homeowners-plus-NFIP policy.
- The other 98 percent would pay an average of \$600 more for property insurance to offset these savings.
- Forty-one states would cross subsidize the rest if earthquakes/floods were added to property insurance.
- This assumes that the Federal government would subsidize all-perils coverage, yet every major legislative proposal in the past decade calls for non-subsidized premium rates.
- Under actuarial ratings, the statewide average premium would increase from 49 to 346 percent in 10 states.
- Even if subsidized, average property insurance rates would still increase in every state by at least 20 percent.
- For this approach to work, the largest property insurers would have to participate, which is unlikely without a universal federal mandate and state flexibility to adjust rates/coverage as insurers gain claims experience.
- NFIP is also more than an insurance program; without hazard-mapping, building-standard and mitigation components, an all-perils program may not provide as many consumer benefits.

Current NAR policy states: “The goal of any federal natural disaster program should be the promotion of available and affordable insurance for residential and commercial properties in disaster-prone areas.”

Discussion Question:

1. Does NAR policy provide sufficient direction to the staff regarding all-catastrophe-perils insurance?
2. Would the Committee support a broad federal mandate and cross subsidization to make it work?
3. What if each low-risk policyholder had to pay more than a nominal surcharge to keep rates reasonable for the higher risks? How much of a surcharge could the Committee support: \$50 per policy? \$500? \$5,000?
4. Would the Committee support replacing, preempting, or displacing the current system of state insurance programs/regulations with a mandatory, uniform national “all perils” program for property insurance?
5. Is the federal government better positioned than the states to insure, regulate, and protect consumers?
6. Should the goal instead be to encourage the private insurance market to cover all perils by supporting accurate hazard mapping, adequate building standards and increased federal mitigation investments to help guide new development and rebuilding out of harm’s way?