

**TESTIMONY**

**OF**

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**MANAGING OCEAN AND WILDLIFE  
RESOURCES IN A DYNAMIC  
ENVIRONMENT:  
PRIORITIES FOR THE NEW  
ADMINISTRATION AND THE 111<sup>TH</sup>  
CONGRESS**

**BEFORE**

**U.S. HOUSE OF REPRESENTATIVES  
COMMITTEE ON NATURAL RESOURCES  
SUBCOMMITTEE ON INSULAR AFFAIRS,  
OCEANS AND WILDLIFE**

My name is Frank Nutter and I am President of the Reinsurance Association of America (RAA). The RAA is a national trade association of property and casualty reinsurers doing business in the U.S. Its membership is diverse, and includes reinsurance underwriters and intermediaries licensed in the U.S. and those that conduct business on a cross-border basis. It is a pleasure to appear before you today at this hearing on “Managing Ocean and Wildlife Resources in a Dynamic Environment.” In particular, I will address the reinsurance perspective on managing risk by promoting the conservation of our natural resources and through risk mitigation efforts along our densely populated coastlines.

### **U.S. Reinsurance Market’s Interest in Oceans and Wildlife Resources**

First, let me provide a brief background on reinsurance. In simple terms, reinsurance is insurance for insurance companies. Reinsurance is critical to the insurance marketplace because it reduces the volatility experienced by insurers and improves insurers’ financial performance and security. It is widely recognized that reinsurance performs at least four primary functions in the marketplace: to limit liability on specific risks; to stabilize loss experience; to provide transfer for insurers of major natural and man-made catastrophe risk; and to increase insurance capacity. I cannot emphasize enough the important role that reinsurance plays in the insurance marketplace. Reinsurers have assisted in the recovery from every major U.S. catastrophe over the past century. By way of example, 60% of the losses related to the events of September 11 were absorbed by the global reinsurance industry and 61% of Hurricanes Katrina, Rita and Wilma in 2005 were ultimately borne by reinsurers.

Reinsurers have a keen interest in managing risk as a means to reduce economic loss. The insurance industry's financial interest is inter-dependent with climate and weather. It is the risk of natural events that drives the demand for insurance coverage, yet if not properly managed, can threaten the financial health of an insurer if it is over-exposed in high risk areas. An insurance company's financial viability rests on its ability to estimate the economic consequences of future events.

### **Increasing Exposure to our Nation's Coastlines and Wildlife Resources**

According to AIR Worldwide, a catastrophe modeling firm, insured property values along the Gulf and Atlantic coasts have doubled every decade. At year-end 2007, Gulf and Atlantic coast insured property values equaled \$9 trillion. Globally, the economic losses due to extreme weather have also risen dramatically over time: 1950-59—\$53B; 1960-69—\$93B; 1970-79—\$162B; 1980-89—\$263B; 1990-99—\$778B; 2000-2008—\$620B.<sup>1</sup> Interestingly, between 1970 and 2004, storms and floods accounted for 90% of those losses. In 2005, Hurricanes Katrina, Rita, and Wilma resulted in \$87B in insured losses and an additional \$20B of losses due to flood that were ultimately covered by the National Flood Insurance Program. Since 2001, nine out of the top 20 costliest natural disasters have occurred in the U.S.

There are two principal socio-economic factors driving these increased losses—the degree of urbanization and value at risk (i.e., higher property values in higher risk areas).<sup>2</sup> With 30% of the U.S. population living in coastal counties that are exposed to extreme events—such as hurricanes and storm surge—global climate change will only increase this exposure and potential

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<sup>1</sup> Data from Munich Reinsurance Company

<sup>2</sup> The Wharton School

losses because of its affects on the intensity and frequency of extreme atmospheric events and storm surge. According to Dr. Dennis Miletti, author of “Disasters by Design,” “we are putting more property of greater value in harms way.”

### **Mitigation Works to Save our Coastlines and Wildlife**

Congress should help people living in hurricane-prone coastal areas take proactive mitigation steps to protect their property, rather than encourage further development in these high-risk, environmentally-sensitive locales by creating taxpayer-funded programs to subsidize homeowners’ insurance. The RAA has partnered with other diverse interest groups to create the Americans for Smart Natural Catastrophe Policy Coalition to promote environmentally-responsible, fiscally-sound approaches to natural catastrophe policy in the interest of public safety. Our environmental allies and coalition partners are particularly interested in protecting our oceans, coastal ecosystems, and wildlife. They include American Rivers, Defenders of Wildlife, Environmental Defense Fund, Friends of the Earth, National Wildlife Federation, Republicans for Environmental Protection, Association of Bermuda Insurers and Reinsurers, American Consumer Institute, Americans for Prosperity, Competitive Enterprise Institute, Council for Citizens Against Government Waste, and the National Association of Professional Insurance Agents. The Coalition’s guiding principles are as follows:

#### **Principles for Natural Disaster Mitigation and Assistance**

- **Build Smart:** Properties in coastal areas and other high-hazard areas should be built, replaced or repaired according to the most modern building standards and codes reflecting exposure to natural disasters and effective loss-reduction measures. Based on

the continuing scientific assessment of the effects and consequences of a changing climate, property and infrastructure development in coastal and other high-hazard areas have placed people in harm's way and property at significant risk of loss from natural catastrophic events.

- **Encourage Safety:** Government incentives should promote risk-avoidance and proactive mitigation measures to protect the public from a broad range of natural disasters, including wind, flood, wildfires and earthquakes.
- **Use Nature:** To protect both the public and ecosystems that provide natural "buffers" to storms, renewed efforts should be made to preserve coastal areas consistent with effective state and federal laws, using uniform, objective standards.
- **Insure Based On Risk:** Private and public property insurance premiums should be established on the basis of risk exposure, including catastrophic risk, subject to state law that risk premiums should be neither excessive nor inadequate.
- **Assume Responsibility:** Responsibility for state insurance and reinsurance programs that pool natural disaster risks should remain with those states which have established such programs, rather than shifting the financing to the federal government through such means as federal loans or reinsurance.
- **Target Government Assistance:** Programs should focus on people and not on insurance companies:
  - Extend tax credits, loans and grants for measures designed to protect the property from natural disasters – rather than for programs designed to support artificially low insurance rates.
  - Provide means-based assistance, focused on low and fixed income residents – rather than wealthy individuals with expensive beach front or vacation homes.

- Discourage development in coastal areas and other high-risk areas – federal assistance should not subsidize new property development in coastal areas vulnerable to catastrophic storms, or other high-risk areas.

While Coalition members have differing priorities, we all agree that certain actions being considered by Congress will have a detrimental impact on oceans, coastal ecosystems, and wildlife. During the last Congress, proposals to expand the National Flood Insurance Program (NFIP) to include wind damage were considered in both the House and Senate. We believe adding wind as a covered peril would:

1. Overwhelm the NFIP. The program already has an \$18 billion deficit and is struggling to resolve flood claims, manage fraud arising from Hurricane Katrina payouts, and prevent insolvency. Adding wind insurance will distract from the program’s mission and substantially undermine efforts to stabilize the program.
2. Encourage further development in unsafe or environmentally sensitive areas. Supporting wind insurance that encourages unwise construction in high risk areas sends the wrong message to communities regarding the environmental impact and danger of living in hazard-prone coastal areas and floodplains—areas that may be increasingly vulnerable given the potential impacts of climate change.
3. Cost taxpayers billions. Experience with the NFIP shows, and the American Academy of Actuaries confirms, that adding federally-backed wind insurance will not be actuarially sound despite language the contrary. Taxpayers nationwide will be left to pay the cost of wind damage, which would more than triple the government’s exposure under NFIP.
4. Discourage the provision of wind insurance by the private market.

Similar problems apply to the creation of new federal natural catastrophe programs that would require the federal government to provide loans intended to bail out state natural disaster catastrophe funds or require the federal government to provide government reinsurance for a state's property and casualty insurance program.

### **Positive Steps to Protect Our Coastlines and Wildlife**

There are many steps we can take to mitigate losses and protect our ocean, coastal and wildlife resources. Among them:

1. Incorporating climate change in risk assessments and risk mitigation. The scientific community should be encouraged to translate the localized impacts of climate change for planning purposes—flood, shoreline and inundation maps should reflect local climate change impact assessment, including scenario assessments.
2. Requiring risk-based land use planning. This would include the integration of natural hazards into land use planning with goal of protecting development and wildlife from extreme weather and erosion.
3. Designing infrastructure to consider natural hazards and climate change.
4. Strengthening ecosystems as part of risk mitigation strategies. Coastal wetlands, barrier islands and natural coastal vegetation serve as buffers from ocean-driven extreme events. Make them part of an adaptation strategy.
5. Insisting that insurance for properties in coastal zones be risk-based as a means to set more appropriate risk-based costs for building in environmentally sensitive or high risk areas, such as along our nation's coastlines.

## **Additional Considerations**

The RAA is also part of the Building Code Coalition whose goal is to enact legislation to amend the Stafford Act. This legislation would enhance existing mitigation programs by encouraging states to adopt nationally-recognized model building codes for residential and commercial structures. With billions of dollars paid by the federal government and the private sector for disaster relief and rebuilding of communities, legislation that would enhance FEMA's ability to "prepare for, prevent, respond to and recover from disasters" is critically important.

There are several other statutes that are not traditional areas of expertise of the insurance industry where there may be opportunities to adopt legislative changes and move them closer to implementation. For example, during this year's consideration of the economic stimulus package, many members of our Coalition supported an increase in funding to FEMA's Pre-Disaster Mitigation (PDM) program. This program provides funds to states for community-based hazard mitigation activities identified in a State Mitigation Plan such as increasing building elevations, flood-proofing, improving the survivability of existing and new buildings, and relocating willing sellers from natural disaster prone areas. In addition, we advocated for an effort to ensure that infrastructure projects funded through federal appropriations consider, and incorporate measures to reduce, the risks of the potential impacts of natural disasters, such as windstorms and floods, particularly in light of the anticipated effects of global climate change. Our Coalition also supported a tax credit proposal that would have provided homeowners with a credit of up to \$1500 for actions taken to make their homes more structurally sound to protect them against risks posed by natural disasters.



Hazard mitigation programs are well-established as a cost-effective means to reduce the impact of natural disasters. For example, in 2007, the Congressional Budget Office found that projects funded through the Pre-Disaster Mitigation program between 2004 and June 2007 resulted in a reduction of future disaster spending of approximately three dollars for every dollar spent on these projects. Similarly, in 2005, a Congressionally-mandated study by the Multihazard Mitigation Council (an advisory body of the National Institute of Building Sciences) concluded that cost-effective mitigation saves an average of four dollars for every dollar spent.

Land-use planning, largely the purview of local governments, is also key to reducing development in environmentally-sensitive, high-risk coastal areas. Our Coalition supports the Coastal Barrier Resources System which prevents structures proposed for construction in undeveloped, environmentally-pristine areas from purchasing federal flood insurance. The Coastal Zone Management Act could provide a tool – essentially a climate adaptation tool – to ensure states are planning for the potential risks posed by the impacts of climate change. If blended with the State Hazard Mitigation Plans already required by the Stafford Act and approved by FEMA, the combination provides states with the planning tools they need to develop and implement a climate adaptation plan.

## **Conclusion**

I would like to commend the Committee for recognizing the importance of risk management to the conservation of our ocean, coastal ecosystems, and wildlife resources in an increasingly dynamic and unpredictable environment. Clearly all stakeholders must work together to ensure environmentally-sound and fiscally responsible policy that will ultimately reduce the costs borne by federal and state governments, insurers/reinsurers, and the American taxpayers, as well as save lives, protect habitats, and ensure our coastal areas thrive for generations to come.

Thank you.