



March 15, 2011

The Honorable Judy Biggert  
Chair, US House Committee on Financial Institutions' Subcommittee on Insurance, Housing and  
Community Opportunity  
US House of Representatives  
Washington, DC

Subject: Draft Legislation National Flood Insurance Program (NFIP)

Dear Chair Biggert:

On behalf of the 22 members of the Association of Bermuda Insurers and Reinsurers (ABIR) we offer these comments in support of the draft legislation filed in advance of the March 11 Subcommittee hearing on reauthorization of the National Flood Insurance Program (NFIP). Bermuda's reinsurers are the largest providers of natural disaster reinsurance to US insurers. ABIR members are regulated by the Bermuda Monetary Authority which has in place a robust prudential regulation framework for its market leading internationally active insurance groups; and is one of only two jurisdictional candidates for first wave equivalence under all three equivalency elements of Europe's Solvency II prudential regulation framework. Twenty of ABIR's 22 members also have US subsidiary insurance companies and we employ 15,000 people in the US. These companies are subject to regulation by the state insurance departments. Sixteen of these companies are traded on US stock exchanges and thus subject to SEC regulation.

#### Support for US Insurance Markets

ABIR members at yearend 2010 wrote an estimated \$61 billion in global gross written premiums on a group capital base of nearly \$90 billion. The United States is an important market for us and we are committed to providing reinsurance capacity for natural disaster events in the US. In 2010 we provided more than 60% of the reinsurance to support Florida's stand alone home insurance industry; and paid 30% of the claims for 2005 US Hurricanes Katrina, Rita and Wilma (\$22 billion for US hurricanes in 2004 and 2005). In 2008, Bermuda's reinsurers paid 66% of the Hurricane Ike reinsurance claims submitted by the Texas Windstorm Insurance Association (TWIA) and we are major providers of reinsurance to other such state-based property residual market pools in the Gulf and Atlantic Coast states. Bermuda reinsurers also provided 37% of the reinsurance capacity purchased in 2009 by the California Earthquake Authority. During the past decade Bermuda's reinsurers have provided nearly \$30 billion in property catastrophe claims payments to our US customers. Despite record setting loss events, we know of no instances of reinsurance claims going unpaid by a Bermuda reinsurer as a result of

catastrophic US natural disasters. The record also clearly indicates a stable and growing supply of global reinsurance support for US markets. For example, reinsurance capacity per client in 1992 was estimated at less than \$500 million, as of 2011 that available capacity for a client had grown to \$3.5 billion. These large loss events demonstrate the value of reinsurance in supporting local insurance markets and preventing taxpayers from being assessed to pay the claims of state supported property insurance pools.

### Support for Global Insurance Markets, the Benefits of Pooling

Large loss events (man-made and natural) also underscore the important role Bermuda (re)insurers play in distributing large losses into global reinsurance markets. ABIR members and the Bermuda (re)insurance market have developed in such a way as to provide large amounts of capacity to North American, South American, European and Asia/Pacific customers. Bermuda's reinsurers provide more than 40% of the broker placed property catastrophe reinsurance provided to US and European insurers. Let's look at four 2010 large loss events from around the world to illustrate our commitment to global property catastrophe insurance markets. According to published reports, ABIR members and other Bermuda (re)insurers have:

- \*37% of the reported claims liabilities for Europe's 2010 Windstorm Xynthia;
- \*38% of the reported claims liabilities for Chile's 2010 earthquake;
- \*25% of the reported claims liabilities for the US's 2010 Gulf of Mexico oil spill; and
- \*51% of the reported claims liabilities for New Zealand's 2010 earthquake.

We do not yet have published reports on the great 2011 Northeast Japan Earthquake and Tsunami. Our business scope is global and as a result such pooling (often using affiliated reinsurance for company groups) and diversification of risk allows these reinsurers to offer more capacity with their available capital at better prices than otherwise would be the case. Efforts to impose a punitive tax on foreign affiliated reinsurance (as proposed in the President's budget) will impede this pooling and limit future diversification of risk; as a result it will damage the US insurance market, limit capacity and create additional costs for US consumers (estimated at \$11-13 billion annually in higher consumer insurance premiums).

### Support for Reinsurance for the NFIP

ABIR members and other market leading reinsurers are well capitalized and able to provide additional capacity to support US markets. As a result we support initiatives in the draft legislation which would authorize the NFIP to purchase reinsurance. We support the comments Frank Nutter, of the Reinsurance Association of America, made at the March 11 hearing with regard to reinsurance market provisions in the legislation. Such reinsurance would serve to transfer risk to the willing private reinsurers and serve to reduce the potential for future federal deficits. In the US we already provide reinsurance for commercial insurance flood exposures and for flood risk on high valued homes insured in specialty US insurance markets. Around the world we also provide flood insurance and reinsurance. We know how to underwrite this risk and we have the appetite and capital to support business growth in this area. ABIR provided oral and written statements in support of the US Federal Emergency Management Agency's (FEMA) outreach effort on privatization options for the NFIP. A number of Subcommittee members at Friday's hearings encouraged NFIP's utilization of private reinsurance and it's appropriate that

you receive a commendation for allowing the reinsurance issue to be debated via the provisions included in the draft legislation.

ABIR is also a member of the Smarter Safer Coalition and supports the comments they have made to you on principles for NFIP reform. We support the provisions in the draft legislation that would improve risk management in the NFIP, reduce insurance subsidies in the NFIP that have unwisely provided incentives for development in environmentally sensitive areas, support updated flood risk maps and support measures to encourage hazard mitigation. We believe the NFIP draft legislation is a good start and pledge to work with you and the Committee as it advances legislation through the 2011 Congress. We commend you for the leadership you have shown in advancing a substantive reform bill that will provide value to US taxpayers and make a measured contribution to reduction of future US budget deficits.

Sincerely,

A handwritten signature in cursive script that reads "Bradley L. Kading".

Bradley L. Kading  
President and Executive Director