



Association of Bermuda Insurers and Reinsurers

XL House
One Bermudiana Road
Hamilton HM 08 Bermuda
Tel: 441-294-7221
Fax: 441-296-4207

1445 New York Avenue, N.W.
7th Floor
Washington, DC 20005
Tel: 202-783-2434
Fax: 202-638-0936

September 22, 2010

Honorable Christopher Dodd, Chair
Senate Committee on Banking, Housing and Urban Affairs
534 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Richard Shelby
Ranking Member,
Senate Banking, Housing and Urban Affairs Committee
Russell Senate Office Building, SR-304
Washington, DC 20510-0103

Subject: Sept. 22 Hearing, National Flood Insurance Program

Dear Chair Dodd:

I'm writing on behalf of the 22 members of the Association of Bermuda Insurers and Reinsurers (ABIR). ABIR represents 22 insurers and reinsurers with significant underwriting operations in Bermuda. At year end 2009 ABIR members wrote \$61 billion in global gross written premium on a capital base of \$84 billion. Bermuda is now the center of the global catastrophe reinsurance market and ABIR members write an estimated 40 % share of the US and European property catastrophe reinsurance. Bermuda's insurers and reinsurers contributed \$17 billion in claims payments to US customers following hurricane Katrina; and have paid nearly \$30 billion in catastrophe claims payments to US customers in the period 2001-2009.

ABIR members employ 15,000 people in the United States and 20 of our 22 members also have US subsidiary insurance companies.

In addition to providing reinsurance protection against hurricane wind damage, earthquake shake and fire damage, and wind and hailstorm protection, ABIR members and other private sector insurers and reinsurers provide substantial amounts of commercial flood insurance protection in the United States. The National Flood Insurance Program (NFIP) provides residential and small commercial insurance protection, but insurance for larger commercial risks and flood insurance for excess of NFIP residential property limits is written in the private commercial insurance market. ABIR members are active underwriters of the commercial flood insurance risk in the US. ABIR members also actively underwrite flood insurance coverage in Europe and elsewhere

in the world. ABIR members specialize in this natural disaster coverage and often provide coverage for risks which will not be offered by other US based insurance carriers.

We offer these comments on the ability of private commercial insurers and reinsurers to underwrite flood insurance:

1. Private sector insurers can underwrite this risk given flexibility: to design forms for coverage, charge rates that reflect the actual risk being insured; and pool the risk insured across political boundaries. The freedom to underwrite policies, pool risk and charge rates established by the private sector is an essential ingredient of attracting capital to support this risk in the US. Insurers need to be free of regulatory red tape in order to successfully underwrite this risk. The NFIP historically has underpriced its coverage and as a result substantially displaces the private insurance market.
2. Land use planning and hazard mitigation techniques are essential foundations upon which successful insurance underwriting can take place. Those policyholders that can demonstrate utilization of effective loss reduction measures would be viewed as more attractive risks and the private sector coverage would reflect that reduced loss exposure. Local governments that can demonstrate effective land use planning and hazard mitigation measures provide a benefit to their citizens in the increased availability of insurance that will follow. The NFIP can do more to promote land use and hazard mitigation in the US flood insurance arena. Governments—federal, state and local—should play the central role in hazard mitigation, protecting environmentally sensitive land and keeping people safe from natural disasters.
3. The NFIP has failed to perform its original mission. Its well intentioned efforts to promote loss reduction, encourage land use planning, promote risk based pricing and eliminate repetitive losses have been undermined by those which had a self interest in promoting land development in flood plains and in environmentally sensitive areas. It's unfortunate that the NFIP has been forced to operate in such a way that it became a liability to US taxpayers rather than a positive force for change in promoting hazard mitigation and providing essential coverage to those in need of flood insurance protection.
4. Restoring a private residential market for flood insurance will not be easy, given a 40 year experience with the current NFIP. However, we would encourage the Congress to allow the private market to be tested for its appetite to underwrite residential and small business flood insurance coverage in a manner which allows the insurers the freedom to base prices on risk, to write coverage forms and to pool risk across jurisdictional boundaries. ABIR members have demonstrated their interest in assuming this risk in the US commercial insurance markets and in our business in Europe and Asia. We believe the experience in the US commercial insurance markets provides the evidence of what action needs to be taken to encourage private sector risk bearing. We'd recommend a dialogue with the private sector on what needs to be done to attract the capital that could

be deployed to underwrite some of the risk in the US that is currently being written in the NFIP.

ABIR is a member of the Smarter Safer Coalition and we endorse the statement of flood insurance principles that has been submitted by that Coalition to the Committee. We appreciate the opportunity to present these views.

Sincerely,

A handwritten signature in black ink that reads "Bradley L. Kading". The signature is written in a cursive style with a large, stylized initial 'B'.

Bradley L. Kading
President and Executive Director, the Association of Bermuda Insurers and Reinsurers

Cc: Beth_Cooper@banking.senate.gov
Jim_Johnson@banking.senate.gov
Alan_Hanson@shelby.senate.gov
Anne_Caldwell@shelby.senate.gov