A Resolution Relating to Residual Markets and Reinsurance Funds

WHEREAS, some states have established government-run reinsurance programs ("catastrophe funds") in an attempt to reduce insurance premiums;

WHEREAS, some states have established government-run residual homeowners' insurance markets, including "beach plans," and "wind pools," and "insurers of last resort" intended to provide high-premium coverage for those unable to obtain coverage otherwise in the private market;

WHEREAS, government-imposed price controls on insurance products make it difficult for many private companies to offer insurance and still meet obligations to shareholders and policyholders;

WHEREAS, state-run insurance companies that offer subsidized insurance products oftentimes fail to meet standards of actuarial adequacy;

WHEREAS, government subsidies and price controls relating to homeowners' insurance may encourage development in environmentally sensitive locations where it otherwise would not take place;

WHEREAS, the potential liabilities of catastrophe funds and government-run insurance programs imperil the fiscal future of some states, and in the long term states will need to increase taxes or cut services in order to meet these insurance and reinsurance liabilities;

WHEREAS, the current liability in one state alone, Florida, is approaching $36 billion;

WHEREAS, the recent collapse of municipal debt markets throughout the United States makes it unlikely that states could sell any significant amount of bonds to provide pre-or post-event financing for any event;

WHEREAS, the House of Representatives has passed legislation calling for a national catastrophe fund;

WHEREAS, a national fund would create taxpayer liability exceeding $100 billion, and would further displace productive private insurance and reinsurance industry;

WHEREAS, such a system would ultimately create "payer" and "payee" states, since funds would be collected from the states, pooled by the national government, and redistributed, leading to some states subsidizing others;

WHEREAS, the Emergency Economic Stabilization Act has created a mechanism through which the federal government could provide emergency liquidity to private insurers and reinsurers if truly massive catastrophe or series of catastrophes in close conjunction were to bankrupt the entire insurance industry;

THEREFORE, BE IT RESOLVED, The American Legislative Exchange Council (ALEC) believes risk-based rates for homeowners’ insurance determined by market forces and accepted actuarial practice offer the best environment for the mitigation and management of risk.

BE IT FURTHER RESOLVED, ALEC opposes any federal takeover of the reinsurance
BE IT FURTHER RESOLVED, ALEC opposes the use of state residual market insurance plans to provide subsidized coverage intended to compete with the private market.

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