



**PROFESSIONAL
INSURANCE
AGENTS**

25 CHAMBERLAIN ST.
P. O. BOX 997
GLENMONT, NY 12077-0997
(800) 424-4244
FAX: (888) 225-6935
WEB: www.pia.org
E-MAIL: pia@pia.org

STATEMENT RE: **S.B. 530**
“An Act establishing a state natural catastrophe fund.”

TO: Insurance and Real Estate Committee

BY: Professional Insurance Agents
of Connecticut Inc.

ON: Feb. 9, 2009

The Professional Insurance Agents of Connecticut Inc. (PIACT), an association representing more than 500 member independent insurance agencies who employ over 3,500 people throughout the state are exceedingly concerned about proposed S.B. 530, which would create a state-funded natural catastrophe fund to act as a reinsurance mechanism for private insurers. We support the general concept of a public/private approach. This would necessarily involve the federal government at very high levels of loss and provide favorable tax treatment so traditional insurers could reserve correctly for low-frequency, high-severity events. Further, we believe substantial loss mitigation efforts should be undertaken as an integral part of any such plan.

State-level funding plans also might eventually be a part of this overall scheme. That said, we caution lawmakers who may be considering a strictly state-based catastrophe-funding mechanism against taking this step before a federally approved framework is in place.

We believe such a stand-alone, state-level fund would create a false sense of security, yet could fail to provide adequate cash in the event of a major hurricane or man-made disaster (some of these bills include funds for terrorist attacks). PIACT believes only the federal government has the means to set up an adequate funding mechanism for the type of major catastrophe loss that could occur in Connecticut or any similar jurisdiction.

Connecticut should be prepared to consider a state-level fund only in the context of qualifying for a pre-existing federal plan that might require states to establish corresponding, lower-level funds to gain eligibility for the federal backstop. Several proposals of this sort have been introduced in Congress over the years including H.R.3355, which passed the U.S. House of Representatives on Nov. 8, 2008. However, no such plan has been approved to date.

Lawmakers should look at alternative proposals that might improve insurers' ability to beef up their reserves against low-frequency, high-severity losses like major hurricanes. Connecticut lawmakers also should urge the state's congressional delegation to enact federal tax changes that would allow tax-deferred treatment for such reserves.

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In short, we believe the downsides to the various state catastrophe funding proposals are many, and that they would have potentially ruinous consequences to insurers and the consumers who rely on them. All these bills leap in one abrupt step to adopt an untried approach that would cut off consideration of better alternatives. State policymakers who seriously are interested in exploring solutions to Connecticut's catastrophe risk would do well to move away from single-state catastrophe fund proposals and undertake a major study of the various perils that could result in catastrophic loss and how each can be managed and insured most effectively.

For these reasons, we urge lawmakers to oppose S.B. 530 and not to support any particular Connecticut or regional catastrophe funding bill at this time.

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