

**Statement of Paul Tetrault, Northeast State Affairs Manager  
To the Joint Legislative Committee on Financial Services  
Regarding Property Insurance Legislation Considered on  
September 13, 2011**

I am pleased to present the views of the National Association of Mutual Insurance Companies regarding property insurance related bills being considered by the Committee. NAMIC is the largest and most diverse national property/casualty insurance trade and political advocacy association in the United States. Its 1,400 member companies write all lines of property/casualty insurance business and include small, single-state, regional, and national carriers accounting for 50 percent of the automobile/ homeowners market. Over 100 NAMIC member companies do business in Massachusetts, and NAMIC members provide coverage to approximately 40 percent of the state's homeowners insurance market.

The proper functioning of the nation's property insurance markets is a critical issue for NAMIC members, and NAMIC has been engaged for many years in public policy discussions relating to legislative and regulatory responses to changes in the coastal property market in several states and at the federal level. In Massachusetts, NAMIC previously submitted comments to this Committee regarding the several recommendations of the Special Commission to Review the Current State of the Homeowners Insurance Market in the Commonwealth and related legislative proposals in February of 2008 and March of 2010.

It is important to recognize at the outset that several of the bills under consideration are responsive to market conditions that arose in 2004 and subsequent years when insurers' understanding of the nature of their exposure to loss from coastal storms changed significantly, prompting many companies to reduce their writings in coastal areas or take other measures to manage that exposure. The first significant point to emphasize relative to these legislative proposals is that market conditions have changed significantly. Insurance is a cyclical business and indications suggest that the market tightening that occurred is not continuing and has in fact subsided.

With that context in mind, for each bill under consideration, we would urge Committee members to consider two things: whether the proposal would in fact achieve its intended goal, and what the unintended consequences of the proposal would be. In NAMIC's view, several of the initiatives advanced as solutions would fail to achieve their intended goal and in fact would result in adverse consequences, including potentially exacerbating the conditions they are meant to address. It is NAMIC's belief that a properly functioning market is the best and most efficient means of providing protection against catastrophic loss. If legislation is called for, then, it would be more appropriate therefore to focus on measures that enhance the proper functioning of the market rather than those that would interfere with its functioning.

Turning from general comments to some of the specific measures advanced in the legislation under consideration, the following comments address the issues of exposures management, transparency of catastrophe models, the creation of a catastrophic event fund, changes to the state's FAIR Plan, and increased consumer education.

Proposals such as S-448 seeking to force insurers to accept or retain business would interfere with insurers' efforts to manage their exposure to loss in a responsible manner in the interest of policyholders and ultimately the public. As a result, they would actually tend to have an impact that is the opposite of what is intended. If insurers are not assured they can cede business in a state or area as changing market conditions dictate, they will be less likely to write business in that state or area. Therefore, rather than encouraging insurers to write more business in the state or more business in coastal areas, these proposals would discourage insurers from doing so, thereby potentially making market conditions worse, not better.

Regarding the issue of transparency of catastrophe models, addressed in bills such as H-311, it should be noted that much of what goes into models can be generally disclosed and has been on a number of occasions, and the leading modeling companies have indicated a willingness in various contexts to disclose all of their processes to public officials pursuant to appropriate nondisclosure agreements. Moreover, insurers in many cases are more than willing to explain how they utilize models in their business plans to evaluate their books of business in a responsible fashion.

Regarding the creation of a catastrophic event fund as proposed in as proposed in S-1856, it is NAMIC's opinion that the private market is best suited to respond to all but the most extreme instances of natural disasters. Consequently, NAMIC does not support the creation of state catastrophe funds meant to perform a function that is now being performed by the private market.

Regarding proposed changes to the state's FAIR Plan, it should be noted at the outset that the FAIR Plan has served the consumers of Massachusetts exceptionally well during a challenging time. The Plan has served a vital role in the marketplace, far beyond the role that was envisioned when it was established, and it has done so in a commendable fashion. Given the significant movement of business to the FAIR Plan, it may make sense to consider whether its operating structure and practices could be improved for the benefit of consumers, but any changes that may be considered should be done in a manner that does not hamper the continued functioning of the FAIR Plan. NAMIC does not believe that changes in its board structure are warranted.

NAMIC fully supports the goal of enhancing consumer education regarding insurance products, the marketplace and coverage options. Consumers dealing with the consequences of market developments would benefit from having a solid understanding of matters such as coverage options, insured values, replacement cost and deductibles in order to make informed decisions. Consumers faced with rising premiums should have the opportunity to understand what they can do to make the best choices for their specific situation.

Thank you for your consideration of NAMIC's views. I would be happy to provide additional information that might be helpful to the Committee's review of this important subject

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