REPORT ON THE ADVISABILITY OF ENTERING INTERSTATE COMPACTS WITH OTHER STATES CONCERNING CERTAIN PERILS AFFECTING THE COST OF PROPERTY AND CASUALTY INSURANCE

Pursuant to H.C.R. No. 4, H.D. 1 (2005)
REQUESTING THE INSURANCE COMMISSIONER TO INVESTIGATE THE ADVISABLITY OF ENTERING INTO INTERSTATE COMPACTS WITH OTHER STATES CONCERNING CERTAIN PERILS AFFECTING THE COST OF PROPERTY AND CASUALTY INSURANCE

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REPORT ON THE ADVISABILTY OF ENTERING INTERSTATE COMPACTS WITH OTHER STATES CONCERNING CERTAIN PERILS AFFECTING THE COST OF PROPERTY AND CASUALTY INSURANCE PURSUANT TO H.C.R. NO. 4, H.D. 1 (2005)

H.C.R. No. 4, H.D. 1 (2005), requested the Insurance Commissioner to investigate the advisability of entering into interstate compacts with other states concerning perils affecting the cost of property and casualty insurance. The Concurrent Resolution requested the Insurance Commissioner to submit his findings and recommendations to the Legislature no later than 20 days prior to the convening of the Regular Session of 2006.

Because of the State of Hawaii's small and relatively isolated insurance market, there are a number of reasons to consider joining with other states in an interstate compact to address property and casualty insurance issues. An interstate compact may provide uniformity of regulation with other states, thus attracting more companies to do business in Hawaii. Some perils, such as hurricanes, may cause extensive damage that is beyond the capacity of our insurance market. An interstate compact may provide access to additional coverage for losses and may reduce premium costs due to the pooling of risks from several states. The key is to closely analyze the details of the structure and operation of any other proposed interstate compact to see if these desired goals can be achieved.

The Insurance Division is aware that a number of states have been discussing interstate compacts concerning perils affecting the cost of property and casualty insurance in existence in the U.S. at this time. In particular, California and Florida have discussed an interstate compact for catastrophic perils that may cause damage beyond the market capacity of any individual state. They have not as yet come up with a detailed plan.

In recognition that states need to be better prepared for major catastrophes, insurance commissioners from California, Florida, New York, and Illinois met at a National Catastrophe Insurance Summit at Burlingame, California, from November 15-16, 2005. The focus of this summit was on federal legislation for a national catastrophe plan.

At this summit, the commissioners agreed to a basic framework for a national catastrophe insurance program. The main objectives of the plan would be to protect consumers by ensuring affordability and availability of insurance against the financial consequences of natural catastrophic events; spreading catastrophic risk broadly among individual insureds, insurers, reinsurers, states, and the federal government in a public-private partnership; and rewarding the mitigation of hazards. To accomplish these objectives, the commissioners proposed eliminating the National Flood Insurance Program, developing state catastrophe funds similar to Florida's Hurricane Catastrophe Fund, creating a federal backstop for insurers, providing tax deferments for insurers to help build a fund earmarked for catastrophes, and developing a national commission that would help to determine premiums based on actuarial data.

While this plan is still in its preliminary stages, there is agreement among the participating commissioners that there is a problem and that this problem is not limited to their states. There will continue to be discussion of a national catastrophe insurance program at the state and federal level. The Insurance Division will continue to monitor the progress of this and any similar proposals introduced in the U.S. Congress.

In summary, the Insurance Division will continue to monitor and discuss with other states the viability of interstate compacts and other alternative approaches to addressing the costs of covering perils in property and casualty insurance.