

# Bill seeking financial recovery after catastrophe gets Clinton economist's support

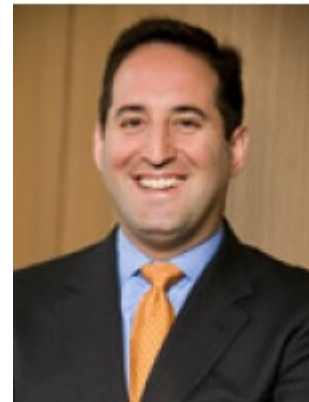
By [Bob Graham](#)

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A bill before Congress to deal with financial devastation following major natural catastrophes has garnered the support of a former economic advisor to President Bill Clinton.

Jonathan Orszag, former economic advisor to Clinton, and Doug Fontaine, a California-based economist, co-authored a report on the Homeowners' Defense Act of 2009 (HR 2555), which they call "an effective vehicle" for restoring homes after catastrophes, saying its provisions would alleviate any shock to the U.S. economy following an incident. The report was sponsored by ProtectingAmerica.Org, a nonprofit organization of first responders and disaster response groups, businesses including insurers, as well as more than 300 other organizations and 20,000 individual members.



"The inevitable occurrence in the future of massive hurricanes like Katrina, Rita, Andrew, Ivan and Ike, or a replay of earthquakes like those that emanated from Northridge, San Francisco or across the American heartland from New Madrid, Missouri, make it imperative that the nation, in order to protect American families, move as quickly as possible to enact a comprehensive, integrated program that is economically sound and marshals the resources of the private and public sectors," said Orszag, a senior managing director of Compass Lexecon, a world-renowned economic consulting firm, in a statement.

The bill, sponsored by Rep. Ron Klein (D-Fla.) gives state-sponsored insurance funds the ability to voluntarily bundle their catastrophic risk with one another through a National Catastrophe Risk Consortium, which could, with states' approval, issue financial instruments linked to the catastrophe risks insured or reinsured through its members. The bill also provides a federal backstop, guaranteeing state funds' bond obligations, and creates the Federal Natural Catastrophe Reinsurance Fund, which will collect premiums from the sale of contracts for reinsurance coverage. Premiums for reinsurance are based on expected losses.

Orszag noted in the 30-page report that a major catastrophe could pose a serious threat to the U.S. economy, especially as it recovers from a recession.

"The Homeowners' Defense Act of 2009 would leverage public and private resources and mandate more comprehensive prevention and mitigation. As such, the proposed

legislation represents an economically sound solution to address the inefficiencies that plague the current system of disaster relief,” Orszag said.

The Orszag-Fontaine report notes that the current after-the-fact system of catastrophe relief relies on ad hoc government intervention that leads to the financing of relief efforts through taxpayer-funded bailouts. These bailouts are inequitable insofar as people who reside in areas not susceptible to catastrophic events are called upon to share in the financial burden created by a major catastrophe. Moreover, from an economic perspective, the current system distorts the incentives of residents in exposed areas to take prudent actions to lessen the potential damage to their properties or families, according to the report.

“The more than \$400 billion in capital that some have claimed the insurance industry has at its disposal to cover losses for future catastrophes is, upon close inspection, not available for those purposes,” Orszag said. “Other proposals such as the use of catastrophe bonds and insurance derivatives may play a supplemental role, but are not sufficient in and of themselves to address effectively the shortcomings of the current system.”