

FEDERAL DISASTER INSURANCE

HEARINGS
BEFORE A
SUBCOMMITTEE OF THE
COMMITTEE ON BANKING AND CURRENCY
UNITED STATES SENATE
EIGHTY-FOURTH CONGRESS
SECOND SESSION
ON
S. 2768, S. 2862, and S. 3137
BILLS TO PROVIDE INSURANCE AND REINSURANCE
AGAINST FLOOD DAMAGE, AND FOR
OTHER PURPOSES

PART 2

FEBRUARY 16, 17, 21, 23, AND 27, 1956

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FEDERAL DISASTER INSURANCE

THURSDAY, FEBRUARY 16, 1956

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
SUBCOMMITTEE ON SECURITIES,
Washington, D. C.

The subcommittee met, pursuant to recess, in room 301, Senate Office Building, at 11 a. m., Senator Herbert H. Lehman (chairman of the subcommittee) presiding.

Present: Senators Lehman, Robertson, and Bush.

Senator LEHMAN. Gentlemen, before I call the first witness, Mr. Meistrell, I want to read a short statement with regard to the hearings which are now to be resumed on disaster-insurance legislation.

This is a hearing of the Securities Subcommittee of the Banking and Currency Committee on the subject of disaster-insurance legislation.

The legislation that has been introduced on this subject has been referred to this subcommittee, following the broader hearings held during the recess by the Banking and Currency Committee as a whole, over which I was privileged to preside as acting chairman. These hearings were held in Washington, D. C., New York City, Goshen, N. Y., Boston, Mass., Hartford, Conn., Providence, R. I., and Raleigh, N. C., between October 31 and December 19 of last year.

These hearings covered the entire field of catastrophic disaster, with special reference to the impact of the flood disasters of last summer and early autumn. Our special field of exploration was into the possibility of some form of insurance to protect businessmen and homeowners against the risk of financial loss from these disasters.

Upon the request and urging of some members of this committee, including Senator Bush and myself, the committee chairman, Senator Fulbright, instructed the staff to prepare a staff study of disaster insurance. That study, a most excellent and useful one, prepared under the direction of a committee counsel, Mr. McKenna, was completed and has been printed as a committee document.

There were some legislative proposals before the Banking and Currency Committee during its hearings last fall, but they were largely informal and tentative.

The committee at that time—and I will not rehash that matter extensively now—did not have the specific recommendations of the administration on the pending matter. It slowed us up. The administration's original bill was introduced on January 5, and then a substitute version was introduced on January 18. Wanting to have the full benefit of the administration's legislative formulations, I, for instance, was slowed up in the redrafting of my own bill which I completed and introduced on February 6.

Now these two bills, as well as all other pending legislation on the subject, have been referred to this subcommittee. These will be, of course, legislative hearings, with the aim and purpose of reporting out an effective bill on this subject.

The bills before us now are: The administration bill, introduced by Senator Bush, S. 2862, and an amendment to that bill in the nature of a substitute; a bill S. 3137, introduced by me along with 10 cosponsors, including Senator Kennedy, Senator Morse, who is a member of this subcommittee, and Senator Sparkman who is a member of the full committee; and finally the original Kennedy-Saltonstall bill, S. 2768.

All these bills; a sectional analysis of S. 3137; a sectional analysis of S. 2862; a comparative analysis of the differences in the bills; and a critique of S. 2862 will be inserted in the record at this point.

(The material referred to follows:)

[S. 2768, 84th Cong., 2d sess.]

A BILL To provide for national flood insurance and reinsurance, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "National Flood Insurance Act of 1956".

DECLARATION OF PURPOSE

SEC. 2. It is the purpose of this Act to promote the national welfare by alleviating the widespread economic distress suffered from time to time within the United States, its Territories and possessions, as a result of floods, and the attendant impairment of the free flow of interstate and foreign trade and commerce, by providing direct governmental insurance of certain flood risks or by making insurance of such risks available through private insurance companies by means of governmental reinsurance.

FUNCTIONS

SEC. 3. (a) To carry out the purposes of this Act, the head of whichever executive department or agency is designated by the President to administer this Act (hereinafter referred to as "the Administrator") is authorized to provide, upon the payment of such premiums and subject to such terms and conditions as he may establish, either insurance or reinsurance, or both insurance and reinsurance, against damage to or loss of privately owned real property, including commercial, industrial, and residential property and privately owned business inventories, due to any flood as defined by the Administrator (including damage due to hurricane-driven tides and tidal waves, and other high-water damage from either salt or fresh water) occurring within the limits of the United States, its Territories and possessions, with such general exceptions as the Administrator may deem advisable, whenever in the opinion of the Administrator such insurance or reinsurance cannot be obtained at reasonable rates or upon reasonable conditions from approved companies authorized to do insurance business in any State, Territory, or possession of the United States: *Provided*, That such program of insurance shall be so administered as not to serve as an inducement for unwarranted acquisition of facilities in areas which are subject to recurring floods.

(b) The Administrator shall from time to time prescribe (1) premium rates for each type of insurance and of reinsurance which he shall make available under authority of this Act for each type or class of property to be insured, and (2) the terms and conditions under which and the areas and subdivisions thereof within which such rates shall be applicable. All such rates shall be based upon a practicable upon consideration of the risks involved and shall to the extent feasible be adequate to cover all administrative expenses arising under this Act as well as reserves for possible losses. The Administrator may receive from or exchange with any State or the Federal Government, or with any private corporation or association engaged in the writing of insurance against property loss within

the United States such loss experience and other information as may be necessary for the establishment of such premium rates.

(c) The Administrator shall by regulation provide for the determination of (1) the types and location of property with respect to which insurance and/or reinsurance shall be granted, (2) the nature and limits of loss or damage in any area or subdivision thereof which may be covered by such insurance or reinsurance, (3) rates, terms, and conditions of such insurance or reinsurance, and (4) such other matters as may be necessary to carry out the purposes of this Act. The Administrator may decline such applications and risks and may establish from time to time such regulations with respect to the classification, limitation, and rejection of applications and risks as he shall deem advisable in order to carry out the purposes of this Act.

(d) In providing insurance and/or reinsurance, the Administrator may by contract arrange for the financial participation of any person or company authorized to do insurance business in any State of the United States in the underwriting of risks assumed, and for their proportionate participation in premiums and in any profits or losses realized or sustained. The Administrator shall utilize the facilities and services of private insurance companies, established insurance agents and brokers, and established insurance adjustment organizations to the fullest extent possible, consistent with minimum cost of providing insurance protection.

(e) The aggregate amount of insurance issued by the Administrator covering the loss of or damage to any single piece of real property shall not exceed \$250,000. No claim shall be approved in an aggregate amount which exceeds the actual cash value or the cost of replacing, repairing, or rebuilding the damaged property with material of like kind and quality (less depreciation at the time of damage), whichever is lower: *Provided*, That the approved amount of any claim shall be reduced by \$300 plus 10 per centum of the remainder, or by such larger amount or percentage as may be prescribed by the Administrator in the insurance contract. The Administrator shall prescribe such regulations applicable to reinsurance as he may deem appropriate to give effect to the intent of the limitations in this subsection. The Administrator may from time to time prescribe such regulations regarding coverage available to subsidiary and affiliated corporations as he shall deem appropriate to effectuate the purpose of this subsection.

(f) The Administrator, on and after the first day of the sixth month following the enactment of this Act, may provide insurance or reinsurance in an aggregate amount not to exceed \$500,000,000 outstanding and in force at any one time, which limit may be increased, with the approval of the President, by further amounts of \$500,000,000 each on July 1, 1957, and July 1, 1958.

FINANCING

Sec. 4. (a) To carry out the functions authorized by this Act, there is authorized to be established in the Treasury of the United States a National Flood Insurance Fund (referred to hereinafter as the "Fund"). The capital of the Fund shall consist of such amounts as may be advanced to it from appropriations. Such sums as may be required are authorized to be appropriated without fiscal year limitations for the purposes of the Fund.

(b) Advances shall be made to the Fund from the appropriations made therefor only when requested by the Administrator, with the approval of the President. The Administrator shall pay into miscellaneous receipts of the Treasury, at the close of each fiscal year, interest on such advances at a rate determined by the Secretary of the Treasury, taking into consideration the average rate on outstanding interest-bearing marketable public-debt obligations of the United States.

(c) Premiums paid to the Administrator for insurance and reinsurance under this Act, interest earned on investments of the Fund, and receipts from any other operations under this Act, including salvage operations, shall be credited to the Fund. The Fund shall be available for the payment of liabilities under such insurance and reinsurance and for payment of all expenses of the Administrator under this Act.

(d) Whenever any capital in the fund is determined by the Administrator to be in excess of its current needs, such capital shall be credited to the appropriation from which advanced where it shall be held for future advances. After liquidation of all outstanding advances, any cash in excess of current needs may be invested or reinvested by the Administrator in interest-bearing obligations of

the United States or in obligations guaranteed as to interest and principal by the United States. The proceeds from the sale or redemption of the obligations held by the Administrator pursuant to this Act shall be credited to the Fund.

PAYMENT OF CLAIMS

SEC. 5. Under such regulations as the Administrator may prescribe, he shall adjust and pay valid claims either directly or through agents for losses covered by insurance and reinsurance under this Act. The Administrator shall collect from participating insurance companies such amounts as they may be obligated to contribute toward such losses.

COORDINATION WITH OTHER PROGRAMS

SEC. 6. (a) In carrying out the functions authorized in this Act, the Administrator shall consult with other agencies of the Federal Government and Interstate, State, and local agencies having responsibilities for flood-control and flood-damage prevention in order to assure that the insurance facilities offered are consistent with the programs of such agencies, and shall utilize the facilities and services of these and other public agencies to the fullest extent possible.

(b) No insurance or reinsurance shall be issued (1) for risks eligible for insurance provided by other Federal programs, or to the extent that coverage is available on reasonable terms from other private or public sources, or (2) for properties whose use is in conflict with State or local flood zoning laws.

(c) Any department or agency of the Federal Government engaged in making direct loans or advances, or in participating in, insuring, or guaranteeing loans made by private lending institutions, for the construction, modernization, repair, or purchase of property eligible for insurance under this Act may require as a condition for such future financial assistance that such property be insured against flood damage to the extent such insurance is available.

INSURANCE ADVISORY COMMITTEE

SEC. 7. The Administrator shall appoint an advisory committee, consisting of not less than six individuals experienced in the writing of insurance against property loss, to advise him with respect to the execution of his functions pursuant to this Act.

[S. 2862, 84th Cong., 2d sess.]

A BILL To provide for an experimental national flood indemnity and reinsurance program, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "National Flood Indemnity Act of 1956".

CONGRESSIONAL FINDINGS AND DECLARATION OF PURPOSE

SEC. 2. The Congress hereby finds and declares that the recurrence of disastrous floods in the United States interferes with the production of goods and furnishing of services, impairs the free flow of interstate and foreign trade and commerce, causes widespread hardship and economic distress, and has a general adverse effect on the Nation's welfare. The Congress hereby further finds and declares that at present there is not generally available to the people of the United States any program through private enterprise which is adequate to provide reimbursement for damage to and loss of property as a result of such floods. It is therefore the purpose of this Act to promote the national welfare by (1) making available, in cooperation with the various States, a program of indemnities with respect to certain types of property damaged or lost as a result of floods and (2) making available a program of reinsurance by the Federal Government of private insurers who underwrite certain flood risks.

DEFINITIONS

SEC. 3. As used in this Act the term—

(a) "Administrator" means the Housing and Home Finance Administrator;

(b) "Person" means an individual or group of individuals, corporation, partnership, association, or any other organized group of persons, including State and local governments and agencies thereof;

(c) "Real property" means land, interests in land, and improvements on land which are permanently affixed to the land;

(d) "Insurable interest" means any right, title, interest, or other property right, legal or equitable, in and to property and any other interest, benefit, or advantage with respect to property which, in the determination of the Administrator, is an insurable interest for the purpose of this Act by reason of being of such nature that any loss or destruction of or damage to such property would result in an immediate and direct pecuniary loss to the person having such other interest, benefit, or advantage; and

(e) "United States", when used in a geographical sense, means the several States, the District of Columbia, the Territories of Alaska and Hawaii, the Commonwealth of Puerto Rico, and all other territories of the United States.

(f) "State" includes the several States, the District of Columbia, the Territories of Alaska and Hawaii, the Commonwealth of Puerto Rico, and all other Territories of the United States.

TITLE I—INDEMNITIES

Sec. 101. Subject to the provisions of this Act and such terms and conditions as the Housing and Home Finance Administrator may prescribe, the Administrator is hereby authorized to issue indemnity contracts obligating the United States to indemnify persons for damage to or loss of real property, business inventories, stored agricultural commodities, household effects, and such other personal property as he may determine, as a result of floods occurring within the limits of the United States. For purposes of this Act, the term "flood" shall include rising water caused by tide, wind, or rain and shall have such further meaning as prescribed by regulation of the Administrator.

Sec. 102. Indemnity contracts issued under this Act shall be subject to the payment of fees established by the Administrator. Such fees shall be based on consideration of the risks involved and the desirability in the public interest of providing indemnity protection at reasonable cost, and shall be uniform throughout the United States for similar risks: *Provided*, That in establishing such fees the Administrator shall set up "estimated rates" which would be necessary to provide adequate reserve to pay all claims for losses over a reasonable period of years: *And provided further*, That no indemnity contract shall be issued for a fee less than 60 per centum of such "estimated rate", nor unless the State, in which the property covered by the indemnity contract is located, has paid into the Federal Flood Indemnity Fund (hereinafter created), to the extent of such contract, an amount equal to 50 per centum of the difference between the fee so charged and the "estimated rate". The United States shall pay into such fund an amount equal to the State's contribution, for each indemnity contract issued, appropriations for which are hereby authorized. All administrative expenses of the Federal Government under this Act shall be paid from funds appropriated by the Federal Government as authorized in section 304.

Sec. 103. The Administrator shall, by regulation, provide for the determination of (1) the types and location of property with respect to which indemnities shall be provided; (2) the nature and limits of losses or damage which may be covered by such indemnity contracts; (3) the fees, terms, and conditions of such indemnity contracts; and (4) such other matters as may be necessary to carry out the purposes of this Act. The Administrator may decline any application or risk and may issue from time to time such regulations with respect to the classification, limitation, and rejection of risks, and such regulations regarding coverage available to joint owners and subsidiary and affiliated corporations as he shall deem appropriate to effectuate the purposes of this Act.

Sec. 104. No indemnity shall be provided under this Act, (1) to any person without an insurable interest in the property covered; or (2) if insurance covering such property from the risk of floods is obtainable at reasonable rates and upon reasonable conditions from companies authorized to carry on insurance business in any State or if such insurance is provided by any public program.

Sec. 105. No indemnity contract or contracts shall be issued to any person obligating the United States in excess of \$250,000 in the aggregate. The approved amount of any claim under an indemnity contract shall be reduced by \$300, plus 10 per centum of the remainder, or by such larger amount or percentage as may be prescribed in the indemnity contract.

Sec. 106. The aggregate amount of obligations under indemnity contracts outstanding and in force at any one time under this title shall not exceed \$1,900,000,000, except that, with the approval of the President, such aggregate

amount may be increased by not to exceed \$1,000,000,000. Within the limitations herein prescribed, the Administrator shall from time to time determine the aggregate amount of such obligations which may be outstanding and in force under this title, at any one time, in particular geographical areas of the United States, taking into account the needs of persons in such areas for such indemnity protection.

TITLE II—REINSURANCE

SEC. 201. The Administrator is authorized to provide reinsurance of insurance companies, under any plan or plans of reinsurance, as he determines will best effectuate the purpose of this Act, against loss on account of insurance issued by such companies against damage to or loss of real or personal property, due to floods occurring within the United States, as may be necessary to enable such companies to provide such insurance where it would otherwise be unavailable.

SEC. 202. The Administrator shall prescribe premium rates for the reinsurance he makes available under authority of this Act and the terms and conditions under which, and the areas and subdivisions thereof within which, each rate shall be applicable. All such rates shall be based upon consideration of the risks involved and shall be adequate, in the judgment of the Administrator, to cover all claims for losses under reinsurance agreements over a reasonable period of years. All such rates shall be uniform throughout the United States for similar risks.

SEC. 203. The Administrator may by regulation provide for the determination of (1) the types of property with respect to which reinsurance will be granted, (2) the maximum premium rate permissible to be charged for any policy of insurance reinsured under the provisions of this Act, (3) the nature and limits of losses or damage which may be covered by such policies; (4) provisions which must be contained in such policies, and (5) such other matters as may be necessary to carry out the purposes of this title.

SEC. 204. Reinsurance shall be provided by the Administrator under this Act only to the extent that it is not otherwise available at reasonable rates and upon reasonable conditions from private sources.

SEC. 205. The aggregate amount of reinsurance outstanding and in force at any one time under this title shall not exceed \$100,000,000.

TITLE III—ADMINISTRATION AND FINANCING

FEDERAL FLOOD INDEMNITY ADMINISTRATION

SEC. 301. (a) There is hereby established a Federal Flood Indemnity Administration as a constituent unit in the Housing and Home Finance Agency at the head of which shall be a Commissioner, appointed by the Administrator, who shall be paid at the same basic rate of compensation established for the Commissioners of the other constituents of the Housing and Home Finance Agency.

(b) Section 101 of the Government Corporation Control Act, as amended, is hereby amended by inserting the words "Federal Flood Indemnity Administration," after the words "Federal Housing Administration".

(c) In the performance of, and with respect to, the functions, powers, and duties vested in him by this Act, the Administrator, notwithstanding the provisions of any other law, shall maintain an integral set of accounts which shall be audited annually by the General Accounting Office in accordance with the principles and procedures applicable to commercial transactions as provided by the Government Corporation Control Act, as amended, and no other audit shall be required: *Provided*, That such financial transactions of the Administrator as the issuing of indemnity contracts and the making of reinsurance agreements, and vouchers approved by the Administrator in connection with such financial transactions, shall be final and conclusive upon all officers of the Government.

FINANCING

SEC. 302. (a) To carry out the functions authorized by this Act, the Administrator shall establish a Federal Flood Indemnity Fund and a Federal Flood Reinsurance Fund. All indemnity fees and all payments by the Federal Government and by States pursuant to section 102 of this Act shall be deposited in the Federal Flood Indemnity Fund. All reinsurance premiums collected under section 202 of this Act shall be deposited in the Federal Flood Reinsurance Fund. Moneys in

both such funds may be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States. Such obligations may be sold and the proceeds reinvested as provided herein if deemed advisable by the Administrator. Income from such investment and proceeds from properties acquired under this Act shall be deposited in the respective funds.

SEC. 303. In order to finance activities under this Act, the Administrator is authorized to issue to the Secretary of the Treasury, from time to time, notes and other obligations in an amount not exceeding \$500,000,000 outstanding at any one time. Such obligations shall be in such forms and denominations, have such maturities, and be subject to such terms and conditions, as may be prescribed by the Administrator with the approval of the Secretary of the Treasury. Such notes or other obligations shall bear interest at a rate determined by the Secretary of the Treasury, taking into consideration the current average rate on outstanding marketable obligations of the United States of comparable maturities as of the last day of the month preceding the issuance of such notes or obligations. The Secretary of the Treasury is authorized and directed to purchase any notes and other obligations of the Administrator to be issued hereunder and for such purpose the Secretary of the Treasury is authorized to use as a public debt transaction the proceeds from the sale of any securities issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under such Act as amended, are extended to include any purchase of such notes and obligations. The Secretary of the Treasury may at any time sell any of the notes or other obligations acquired by him under this section. All redemptions, purchases, and sales by the Secretary of the Treasury of such notes or other obligations shall be treated as public debt transactions of the United States. Funds borrowed under this section shall be deposited in such proportions as the Administrator deems advisable in the Federal Flood Indemnity Fund and the Federal Flood Reinsurance Fund.

SEC. 304. Moneys in the Federal Flood Indemnity Fund and in the Federal Flood Reinsurance Fund may be used for the following purposes as deemed necessary by the Administrator: (1) to pay from the Federal Flood Indemnity Fund approved claims for losses under indemnity contracts and other expenses incurred under title I of this Act, and (2) to pay from the Federal Flood Reinsurance Fund approved claims under reinsurance agreements and other expenses incurred under title II of this Act, and (3) to pay to the Secretary of the Treasury sums borrowed from him, with interest, in accordance with the provisions of section 303 of this title: *Provided*, That no administrative expenses of the Federal Government shall be paid from either of such funds. There is hereby authorized to be appropriated such sums as may be necessary for administrative expenses of the Federal Government under this Act.

SEC. 305. In the event that the Administrator is unable to pay any valid claim under any indemnity contract or any reinsurance agreement, the Secretary of the Treasury shall pay the amount thereof which is hereby authorized to be appropriated out of any money in the Treasury not otherwise appropriated.

TITLE IV—GENERAL PROVISIONS

PARTICIPATION BY PRIVATE COMPANIES AND PUBLIC AGENCIES

SEC. 401. The Administrator shall encourage the maximum participation of private companies in providing indemnities and reinsurance under this Act. Notwithstanding the provisions of any other law, the Administrator is authorized and directed to utilize the facilities and services of other public agencies or private insurance companies and of established insurance agents and brokers and established insurance adjustment organizations to the maximum extent which he shall deem practicable and consistent with providing such protection at minimum cost and he may arrange and contract for payment of reasonable compensation for such services. The Administrator is hereby authorized to enter into agreements with private companies prescribing their respective rights and obligations and providing for any such company to act as underwriting agent or claim agent or both on behalf of the Administrator.

SEC. 402. The Administrator shall from time to time consult with representatives of the insurance industry and shall make continuing studies and investigations for the purpose of developing methods for expanding the reinsurance program and for facilitating the ultimate assumption of all flood risks by private insurance carriers.

SEC. 403. On or before January 3, 1961, the Administrator shall transmit a report to the President, for submission to the Congress, on the functions, organization, and accomplishments under this Act, including information on the extent to which private insurance companies have participated in the indemnity and reinsurance programs established under the Act. This report shall contain such recommendations as the Administrator deems appropriate including, however, either (1) a recommendation for such legislation as may be necessary for the termination of the Government programs under this Act and an assumption of flood risks by private insurance companies or (2) an explanation as to why such legislation at that time would not be feasible or desirable.

PAYMENT OF CLAIMS

SEC. 404. (a) Under such regulations as the Administrator may prescribe he shall adjust, compromise, and pay claims, either directly or through agents, for losses covered by indemnity contracts and reinsurance agreements under this Act. No claim shall be approved in an aggregate amount which exceeds the actual cash value of the damaged or lost property or the cost of replacing, repairing, or rebuilding the said property with material of like kind and quality (less depreciation at the time of damage or loss), whichever is lower.

(b) Upon disallowance of any claim or upon refusal of a claimant to accept the amount allowed by the Administrator, the claimant, within one year after the date of mailing notice of disallowance or partial disallowance by the Administrator, may institute an action against him on such claim in the United States District Court for any district in which the property covered or a part thereof is situated. The Administrator shall appoint one or more agents within the jurisdiction of each United States District Court upon whom service of process can be made in any action instituted under this section. Exclusive jurisdiction is hereby conferred upon such courts, sitting without juries, to hear and determine such actions without regard to the amount in controversy.

COORDINATION WITH OTHER PROGRAMS

SEC. 405. (a) In carrying out the functions authorized in this Act, the Administrator may consult with other agencies of the Federal Government and interstate, State, and local public agencies having responsibilities for land-use and flood control and for flood-zoning and flood-damage prevention in order to assure that the indemnity and reinsurance facilities offered are consistent with the programs of such agencies. Where the program of the Administrator may affect existing or proposed flood control works under the jurisdiction of agencies of the Federal Government these agencies shall cooperate with the Administrator in coordinating their respective programs. The Secretary of Agriculture and the Administrator shall coordinate the administration of their respective programs relating to flood indemnities, insurance, and reinsurance for agricultural commodities.

(b) The Administrator may receive from, or exchange with, any State insurance commission or agency or any private corporation or association experienced in the problems of indemnities, insurance, or reinsurance, such information as may be helpful in the establishment of indemnity fees and reinsurance premiums and the administration of the programs authorized under the provisions of this

ADDITIONAL POWERS

SEC. 406. For the purpose of carrying out functions under this Act the Administrator may—

(a) sue or be sued;

(b) notwithstanding the provisions of any other law and without regard to sections 3648 and 3709 of the Revised Statutes, as amended (31 U. S. C. 529 and 41 U. S. C. 5), and section 322 of the Act of June 30, 1932 (47 Stat. 412, as amended (40 U. S. C. 278a)), enter into and perform contracts, leases, cooperative agreements, or other transactions, on such terms as he may deem appropriate, with any agency or instrumentality of the United States, or with any State or agency or political subdivision thereof, or with any person, firm, association, or corporation and consent to modification thereof, and make advance or progress payments in connection therewith;

(c) notwithstanding the provisions of any other law and without regard to sections 3648 and 3709 of the Revised Statutes, as amended (31 U. S. C. 529 and 41 U. S. C. 5), and section 322 of the Act of June 30, 1932 (47 Stat. 412, as amended (40 U. S. C. 278a)), by purchase, lease, or donation

acquire such real and personal property and any interest therein, make advance or progress payments in connection therewith, and hold, use, maintain, insure against loss, sell, lease, or otherwise dispose of such real and personal property as the Administrator deems necessary to carry out the purposes of the Act;

(d) appoint, pursuant to civil service laws and regulations, such officers, attorneys, and employees as may be necessary to carry out the purposes of this Act; fix their compensation in accordance with the provisions of the Classification Act of 1949, as amended; define their authority and duties; require bonds from such of them as may be necessary; and delegate to them and authorize successive redelegations by them of such of the powers vested in him by this Act as he may determine;

(e) notwithstanding the numerical limitation in section 505 of the Classification Act of 1949, as amended, the Administrator may establish and place one position in grade GS-17 and two positions in grade GS-16 in carrying out the functions vested in him by this Act, which positions shall be in addition to any positions presently allocated to the Housing and Home Finance Agency under said section 505;

(f) conduct researches, surveys, and investigations relating to flood indemnities and reinsurance and assemble data for the purpose of establishing fees and premiums for flood indemnities and reinsurance under this Act;

(g) issue such rules and regulations as he deems necessary to carry out the purposes of this Act; and

(h) exercise all powers specifically granted by the provisions of this Act and such incidental powers as are necessary to carry out the purposes of this Act.

EXEMPTIONS OF CLAIMS FROM LEVY

Sec. 407. Claims under any indemnity contract or reinsurance agreement under this Act shall not be liable to attachment, levy, garnishment, or any other legal process before payment to the insured, or to deduction on account of the indebtedness of the insured or his estate to the United States except claims of the United States arising under this Act.

RESERVATION OF RIGHTS IN REAL ESTATE ACQUIRED

Sec. 408. The acquisition by the Administrator of any real property pursuant to this Act shall not deprive any State or political subdivision thereof of its civil or criminal jurisdiction in and over such property or impair the civil rights under the State or local law of the inhabitants on such property.

TAXATION

Sec. 409. Nothing in this Act shall be construed to exempt any real property, acquired and held by the Administrator in connection with the payment of any claim under this Act, from taxation by any State or political subdivision thereof, to the same extent, according to its value, as other real property is taxed.

SEPARABILITY OF PROVISIONS

Sec. 410. If any provision of this Act or the application of such provision to any person or circumstances, shall be held invalid, the remainder of the Act and the application of such provision to any person or circumstance other than those to which it is held invalid shall not be affected thereby.

[S. 2862, 84th Cong., 2d sess.]

AMENDMENT (in the nature of a substitute) intended to be proposed by Mr. Bush to the bill (S. 2862) to provide for an experimental national flood indemnity and reinsurance program, and for other purposes, viz: Strike out all after the enacting clause and insert in lieu thereof the following:

That this Act may be cited as the "National Flood Indemnity Act of 1956".

CONGRESSIONAL FINDINGS AND DECLARATION OF PURPOSE

Sec. 2. The Congress hereby finds and declares that the recurrence of floods in the United States impairs the free flow of interstate and foreign trade and commerce, causes widespread hardship and economic distress, and has a gen-

eral adverse effect on the Nation's welfare. The Congress hereby further finds and declares that at present there is not generally available to the people of the United States any program through private enterprise which is adequate to provide reimbursement for damage to and loss of property as a result of such floods. It is therefore the purpose of this Act to promote the national welfare by (1) making available, in cooperation with the various States, a program of indemnities with respect to certain types of property damaged or lost as a result of floods and (2) making available a program of reinsurance by the Federal Government of private insurers who underwrite certain flood risks.

DEFINITIONS

SEC. 3. As used in this Act the term—

- (a) "Administrator" means the Housing and Home Finance Administrator;
- (b) "Person" means an individual or group of individuals, corporation, partnership, association, or any other organized group of persons, including State and local governments and agencies thereof;
- (c) "Real property" means land, interests in land, and improvements on land which are permanently affixed to the land;
- (d) "Insurable interest" means any right, title, interest or other property right, legal or equitable, in and to property and any other interest, benefit, or advantage with respect to property which, in the determination of the Administrator, is an insurable interest for the purpose of this Act by reason of being of such nature that any loss or destruction of or damage to such property would result in an immediate and direct pecuniary loss to the person having such other interest, benefit or advantage;
- (e) "United States", when used in a geographical sense, means the several States, the District of Columbia, the Territories of Alaska and Hawaii, the Commonwealth of Puerto Rico and other Territories and possessions of the United States; and
- (f) "State" includes the several States, the District of Columbia, the Territories of Alaska and Hawaii, the Commonwealth of Puerto Rico and other Territories and possessions of the United States.

TITLE I—INDEMNITIES

SEC. 101. (a) Subject to the provisions of this Act and such terms and conditions as he may prescribe, the Administrator is hereby authorized to issue indemnity contracts obligating the United States to indemnify persons for damage to or loss of real property, business inventories, stored agricultural commodities, household effects and such other personal property as he may determine, as a result of floods occurring within the limits of the United States. For purposes of this Act, the term "flood" shall include rising water caused by tide, wind, or rain and shall have such further meaning as prescribed by regulation of the Administrator.

(b) Indemnity contracts shall be issued only with respect to property in those States which participate in the program as hereinafter provided.

SEC. 102. An indemnity contract shall be issued under this Act only upon the payment of a fee by the person indemnified and the payment of a contribution, to the extent hereinafter required, by the State in which the property is located. Such fees shall be established by the Administrator and shall be based on consideration of the risks involved and the desirability in the public interest of providing indemnity protection at reasonable cost, and shall be uniform throughout the United States for similar risks. In establishing such fees the Administrator shall set up "estimated rates" which would be necessary in his judgment to pay all claims for probable losses over a reasonable period of years: *Provided*, That no indemnity contract shall be issued for a fee less than 60 per centum of such "estimated rate", nor unless the State, in which the property covered by the indemnity contract is located, has paid into the Federal Flood Indemnity Fund (hereinafter created) an amount equal to 50 per centum of the difference between the fee so charged and the "estimated rate". The Administrator shall pay into such fund an amount equal to the State's contribution, for each indemnity contract issued. All administrative expenses of the Federal Government under this Act shall be paid from funds appropriated by the Federal Government.

SEC. 103. The Administrator shall, by regulation, determine (1) the types and location of property with respect to which indemnities shall be provided; (2) the nature and limits of losses or damage which may be covered by such indem-

nity contracts; (3) the fees, terms, and conditions of such indemnity contracts; and (4) such other matters as may be necessary to carry out the purposes of this Act. The Administrator may decline any application or risk and may issue from time to time such regulations with respect to the classification, limitation, and rejection of risks, and such regulations regarding coverage available to joint owners and subsidiary and affiliated corporations as he shall deem appropriate to effectuate the purposes of this Act. In exercising authority under this section, the Administrator shall give consideration to any possible inducement which the indemnity program may have to the acquisition, maintenance or location of property in areas which are subject to frequently recurring floods.

Sec. 104. No indemnity contract shall be issued under this Act, (1) if flood coverage, for the property involved, is obtainable at reasonable rates and upon reasonable conditions from private insurance companies or under any public program, or (2) to any person unless he has an insurable interest in the property to be covered.

Sec. 105. No indemnity contract or contracts shall be issued to any person in excess of \$250,000 in the aggregate. No claim under any indemnity contract shall be approved in an aggregate amount which exceeds the actual cash value of the damaged or lost property or the cost of replacing, repairing, or rebuilding the said property with material of like kind and quality (less depreciation at the time of damage or loss), whichever is lower: *Provided*, That the approved amount of any claim under an indemnity contract shall be reduced by \$300, plus 10 per centum of the remainder, or by such larger amount or percentage as may be prescribed in the indemnity contract.

Sec. 106. The aggregate amount of obligations under indemnity contracts outstanding and in force at any one time under this title shall not exceed \$1,900,000,000, which limit may be increased, with the approval of the President, by further amounts not to exceed \$1,000,000,000 in the aggregate. Within the limitations herein prescribed, the Administrator shall from time to time determine the aggregate amount of such obligations which may be outstanding and in force under this title, at any one time, in any State, taking into account the needs of persons in such States for such indemnity protection.

TITLE II—REINSURANCE

Sec. 201. The Administrator is authorized to provide reinsurance of insurance companies, under any plan or plans of reinsurance, as he determines will best effectuate the purpose of this Act, against loss on account of insurance issued by such companies against damage to or loss of real or personal property, due to floods occurring within the United States, as may be necessary to enable such companies to provide such insurance where it would otherwise be unavailable.

Sec. 202. The Administrator shall prescribe premium rates for the reinsurance he makes available under authority of this Act and the terms and conditions under which, and the areas and subdivisions thereof within which, each rate shall be applicable. All such rates shall be based upon consideration of the risks involved and shall be adequate, in the judgment of the Administrator, to cover all claims for losses under reinsurance agreements over a reasonable period of years. All such rates shall be uniform throughout the United States for similar risks.

Sec. 203. The Administrator may by regulation provide for the determination of (1) the types of property with respect to which reinsurance will be granted, (2) the maximum premium rate permissible to be charged for any policy of insurance reinsured under the provisions of this Act, (3) the nature and limits of losses or damage which may be covered by such policies, (4) provisions which must be contained in such policies, and (5) such other matters as may be necessary to carry out the purposes of this title.

Sec. 204. Reinsurance shall be provided by the Administrator under this Act only to the extent that it is not otherwise available at reasonable rates and upon reasonable conditions from private sources.

Sec. 205. The aggregate amount of reinsurance outstanding and in force at any one time under this title shall not exceed \$100,000,000.

TITLE III—ADMINISTRATION AND FINANCING

Sec. 301. (a) To assist in carrying out the functions, powers, and duties vested in him by this Act, the Administrator may appoint a Commissioner, and the basic rate of compensation of such position shall be the same as the basic

rate of compensation established for the Commissioners of the constituents of the Housing and Home Finance Agency.

(b) The provisions of the Government Corporation Control Act, as amended, shall apply to the functions vested in the Administrator by this Act, to the same extent as applicable to wholly owned Government corporations.

Sec. 302. There are hereby established a Federal Flood Indemnity Fund and a Federal Flood Reinsurance Fund for use by the Administrator in carrying out the functions authorized by this Act. All indemnity fees and all payments by the Administrator and by States pursuant to section 102 of this Act shall be deposited in the Federal Flood Indemnity Fund. All reinsurance premiums collected under section 202 of this Act shall be deposited in the Federal Flood Reinsurance Fund. Moneys in each fund, not needed for the current operations of the Administrator under this Act, may be invested or reinvested by the Administrator in all obligations which are lawful investments for fiduciary, trust, and public funds of the United States: *Provided*, That there are no borrowings from the Secretary of the Treasury, as authorized in section 303 of this Act, outstanding, with respect to the fund from which the investment or reinvestment is made. Income from such investments and proceeds from properties acquired under this Act shall be deposited in the respective funds.

Sec. 303. In order to finance activities under this Act, the Administrator is authorized to issue to the Secretary of the Treasury, from time to time, notes and other obligations in an amount not exceeding \$500,000,000 outstanding at any one time: *Provided*, That not more than \$100,000,000 of such obligations shall be issued prior to July 1, 1957, without the approval of the President. Such obligations shall be in such forms and denominations, have such maturities, and be subject to such terms and conditions, as may be prescribed by the Administrator with the approval of the Secretary of the Treasury. Such obligations shall bear interest at a rate determined by the Secretary of the Treasury, taking into consideration the average rate on outstanding interest-bearing marketable public debt obligations of the United States. The Secretary of the Treasury is authorized and directed to purchase any notes and other obligations of the Administrator to be issued hereunder and for such purpose the Secretary of the Treasury is authorized to use as a public debt transaction the proceeds from the sale of any securities issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under such Act, as amended, are extended to include any purchase of such notes and obligations. The Secretary of the Treasury may at any time sell any of the obligations acquired by him under this section. All redemptions, purchases, and sales by the Secretary of the Treasury of such obligations shall be treated as public debt transactions of the United States. Funds borrowed under this section shall be deposited in such proportions as the Administrator deems advisable in the Federal Flood Indemnity Fund and the Federal Flood Reinsurance Fund.

Sec. 304. Moneys in the Federal Flood Indemnity Fund and in the Federal Flood Reinsurance Fund may be used for the following purposes as deemed necessary by the Administrator: (1) to pay from the Federal Flood Indemnity Fund approved claims for losses under indemnity contracts and other expenses incurred under title I of this Act, and (2) to pay from the Federal Flood Reinsurance Fund approved claims under reinsurance agreements and other expenses incurred under title II of this Act, and (3) to pay to the Secretary of the Treasury sums borrowed from him, with interest, in accordance with the provisions of section 303 of this title: *Provided*, That no administrative expenses of the Administrator shall be paid from either of such funds.

Sec. 305. There is hereby authorized to be appropriated such sums as may be necessary to carry out the purposes of this Act.

TITLE IV—GENERAL PROVISIONS

PARTICIPATION BY PRIVATE COMPANIES AND PUBLIC AGENCIES

Sec. 401. The Administrator shall encourage the maximum participation of private companies in the administration of the indemnity and reinsurance programs under this Act. Notwithstanding the provisions of any other law, the Administrator is authorized and directed to utilize the facilities and services of other public agencies or private insurance companies and of established insurance agents and brokers and established insurance adjustment organizations to the maximum extent which he shall deem practicable and consistent with providing such protection at minimum cost and he may arrange and contract for payment

of reasonable compensation for such services, which shall be paid out of funds appropriated for administrative expenses. The Administrator is hereby authorized to enter into agreements with private companies prescribing their respective rights and obligations and providing for any such company to act as underwriting agent or claim agent or both on behalf of the Administrator.

Sec. 402. The Administrator may from time to time consult with representatives of the various States to the extent he deems necessary to effectuate the purposes of this Act. He may also from time to time consult with representatives of the insurance industry and shall make continuing studies and investigations for the purpose of facilitating the ultimate assumption of all flood risks by private insurance carriers.

Sec. 403. On or before January 3, 1961, the Administrator shall transmit a report to the President, for submission to the Congress, on the functions, organization, and accomplishments under this Act, including information on the extent to which private insurance companies have participated in the indemnity and reinsurance programs established under the Act. This report shall contain such recommendations as the Administrator deems appropriate including, however, either (1) a recommendation for such legislation as may be necessary for the termination of the Government programs under this Act and an assumption of flood risks by private insurance companies or (2) an explanation as to why such legislation at that time would not be feasible or desirable.

PAYMENT OF CLAIMS

Sec. 404. (a) Under such regulation as the Administrator may prescribe he shall adjust, compromise, and pay claims, either directly or through agents, for losses covered by indemnity contracts and reinsurance agreements under this Act.

(b) Upon disallowance of any claim or upon refusal of a claimant to accept the amount allowed by the Administrator, the claimant, within one year after the date of mailing notice of disallowance or partial disallowance by the Administrator, may institute an action against him on such claim in the United States district court for any district in which the property covered or a part thereof is situated. The Administrator shall appoint one or more agents within the jurisdiction of each United States district court upon whom service of process can be made in any action instituted under this section. Exclusive jurisdiction is hereby conferred upon such courts, sitting without juries, to hear and determine such actions without regard to the amount in controversy.

COORDINATION WITH OTHER PROGRAMS

Sec. 405. (a) In carrying out the functions authorized in this Act, the Administrator may consult with other agencies of the Federal Government and interstate, State, and local public agencies having responsibilities for land use and flood control and for flood zoning and flood-damage prevention in order to assure that the indemnity and reinsurance programs are consistent with the programs of such agencies. Where the program of the Administrator may affect existing or proposed flood-control works under the jurisdiction of agencies of the Federal Government these agencies shall cooperate with the Administrator in coordinating their respective programs. The Secretary of Agriculture and the Administrator shall coordinate the administration of their respective programs relating to flood indemnities, insurance and reinsurance for agricultural commodities.

(b) The Administrator may receive from, or exchange with, any State insurance commission or agency or any private corporation or association experienced in the problems of indemnities, insurance, or reinsurance, such information as may be helpful in the establishment of indemnity fees and reinsurance premiums and the administration of the programs authorized under the provisions of this Act.

ADDITIONAL POWERS

Sec. 406. For the purpose of carrying out functions under this Act the Administrator may:

(a) sue or be sued;

(b) without regard to sections 3648 and 3709 of the Revised Statutes, as amended (31 U. S. C. 529 and 41 U. S. C. 5) and section 322 of the Act of June 30, 1932 (47 Stat. 412, as amended (40 U. S. C. 278a)), enter into and perform contracts, leases, cooperative agreements, or other transactions, on such terms as he may deem appropriate, with any agency or instrumentality of the United States, or with any State or agency or political subdivision

thereof, or with any person, firm, association or corporation and consent to modification thereof, and make advance or progress payments in connection therewith;

(c) without regard to sections 3648 and 3709 of the Revised Statutes, as amended (31 U. S. C. 529 and 41 U. S. C. 5) and section 322 of the Act of June 30, 1932 (47 Stat. 412, as amended (40 U. S. C. 278a)), by purchase, lease, or donation acquire such real and personal property and any interest therein, make advance or progress payments in connection therewith, and hold, use, maintain, insure against loss, sell, lease, or otherwise dispose of such real and personal property as the Administrator deems necessary to carry out the purposes of the Act;

(d) appoint, pursuant to civil service laws and regulations, such officers, attorneys, and employees as may be necessary to carry out the purposes of this Act; fix their compensation in accordance with the provisions of the Classification Act of 1949, as amended; define their authority and duties; require bonds from such of them as may be necessary; and delegate to them and authorize successive redelegations by them, of such of the powers vested in him by this Act as he may determine;

(e) conduct researches, surveys, and investigations relating to flood indemnities and reinsurance and assemble data for the purpose of establishing fees and premiums for flood indemnities and reinsurance under this Act;

(f) issue such rules and regulations as he deems necessary to carry out the purposes of this Act;

(g) exercise all powers specifically granted by the provisions of this Act and such incidental powers as are necessary to carry out the purposes of this Act.

RESERVATION OF RIGHTS IN REAL ESTATE ACQUIRED

SEC. 407. The acquisition by the Administrator of any real property pursuant to this Act shall not deprive any State or political subdivision thereof of its civil or criminal jurisdiction in and over such property or impair the civil rights under the State or local law of the inhabitants on such property.

TAXATION

SEC. 408. Nothing in this Act shall be construed to exempt any real property, acquired and held by the Administrator in connection with the payment of any claim under this Act, from taxation by any State or political subdivision thereof, to the same extent, according to its value, as other real property is taxed.

SEPARABILITY OF PROVISIONS

SEC. 409. If any provision of this Act or the application of such provision to any person or circumstances, shall be held invalid, the remainder of the Act and the application of such provision to any person or circumstance other than those to which it is held invalid shall not be affected thereby.

SECTIONAL ANALYSIS OF S. 2862, NATIONAL FLOOD INDEMNITY REINSURANCE BILL

Section 1—Short title

This section provides that the act may be cited as the "National Flood Indemnity Act of 1956."

Section 2—Congressional findings and declaration of purpose

In this section Congress makes a finding that the recurrence of disastrous floods interferes with production, impairs the flow of commerce and causes widespread economic distress. The Congress further finds that there is not available through private sources any program to provide reimbursement for the losses resulting from such floods. The Congress therefore proposes to promote the general welfare by making available 2 programs—(1) a program of flood indemnities in cooperation with the various States, and (2) a program of reinsurance of private insurers who insure against flood risks.

Section 3—Definitions

This section defines the term "Administrator" to mean the Housing and Home Finance Administrator and the term "person" to mean an individual or group of individuals, corporation, partnership, association, or any other organized

group of persons, including State and local governments and agencies thereof. The section also defines the terms "real property," "insurable interest," "United States," and "State" as used in the act.

TITLE I—INDEMNITIES

Section 101

This section authorizes the Administrator to issue indemnity contracts to persons for damage to or loss of real property, business inventories, stored agricultural commodities, household effects, and such other personal property as he may determine, resulting from floods. Floods are to be defined by the Administrator; the term shall include, however, rising water caused by tide, wind, or rain.

Section 102

This section provides for the payment of a fee by the person indemnified. In general, the fees shall be established on consideration not only of the risks involved but also the desirability of providing such protection at reasonable cost. The fees shall be uniform throughout the United States for similar risks.

In establishing fees for indemnity contracts, the Administrator is required to set up a schedule of "estimated rates," for different types of contracts, which would be sufficient to establish an adequate reserve for the payment of claims (but not administrative expenses). The fee charged the person indemnified cannot be less than 60 percent of the "estimated rate." The Administrator may not issue any indemnity contract unless the State in which the property is located has paid into the Federal Flood Indemnity Fund an amount equal to 50 percent of the difference between the fee charged and the "estimated rate." The United States is required to match all State contributions for every indemnity contract issued. Appropriations are authorized for the Federal contributions. This section also provides that all administrative expenses of the Federal Government shall be paid out of funds appropriated by the Federal Government.

Section 103

This section authorizes the Administrator to determine by regulation the types and location of property and the nature and limits of damage or loss which may be covered by indemnity contracts, as well as the fees, terms, and conditions of such contracts. It also authorizes the Administrator to classify, limit, and reject risks and to issue regulations concerning coverage available to joint owners, and subsidiary, and affiliated corporations.

Section 104

This section provides that no indemnity contract shall be provided if (1) the person to be insured does not have an insurable interest in the property; or if (2) similar coverage is obtainable at reasonable rates and upon reasonable conditions from private companies or is obtainable under any other public program.

Section 105

This section provides that the maximum coverage in favor of any one person (as defined in the act), under one or more indemnity contracts, shall be \$250,000. Each indemnity contract shall be subject to a co-insurance provision under which the amount of any valid claim would be reduced by \$300 plus 10 percent of the remainder of the claim or by such larger amount and/or percentage as the Administrator may determine.

Section 106

This section provides that the liability of the United States under indemnity contracts in force at any one time shall not exceed \$1,900 million. The President may increase this amount by not to exceed \$1 billion. The Administrator may determine the aggregate amount which may be in force at any time in particular geographical areas.

TITLE II—REINSURANCE

Section 201

This section authorizes the Administrator to reinsure private insurance companies against loss on account of insurance, issued by such companies against flood risks, covering real or personal property. The Administrator is authorized

to select the plan or plans of reinsurance which he believes will best effectuate the purposes of the act. Reinsurance is to be provided only where such insurance would not otherwise be available.

Section 202

This section authorizes the Administrator to prescribe premium rates for reinsurance made available under the act. The premium rates shall be based on the risks involved and must be adequate, in the judgment of the Administrator, to establish a reserve for all losses. No consideration shall be given to administrative expenses in establishing such rates. The rates shall be uniform throughout the United States for similar risks.

Section 203

This section authorizes the Administrator to issue regulations pertaining to reinsurance. He is given specific authority to determine by regulation the terms and conditions of policies of insurance against flood risks, which are to be issued by private companies who are reinsured under the act, including (1) the types of property to be covered, (2) the maximum premium rate to be charged, and (3) the nature and limits of losses to be covered.

Section 204

Under this section the Administrator is prohibited from providing reinsurance when it is available at reasonable rates and upon reasonable terms from private sources.

Section 205

This section provides that reinsurance in force at any one time shall not exceed \$100 million.

TITLE III—ADMINISTRATION AND FINANCING

Section 301—Federal Flood Indemnity Administration

Subsection (a) establishes in the Housing and Home Finance Agency a new constituent unit to be known as the Federal Flood Indemnity Administration. The new unit is to be headed by a Commissioner appointed by the Administrator, who is to receive the same rate of compensation as the commissioners of other constituents of this Agency.

Subsection (b) makes the Federal Flood Indemnity Administration subject to the Government Corporation Control Act, as amended, in the same manner as wholly owned corporations.

Subsection (c) provides that the Administrator, in carrying out his functions under the act, shall maintain an integral set of accounts which shall be audited annually by the General Accounting Office in accordance with the principles and procedures applicable to commercial transactions, as provided by the Government Corporation Control Act, as amended. It provides further that no other audit shall be required. Certain financial transactions of the Administrator, such as the issuance of indemnity contracts, and the making of reinsurance agreements, and the approval of vouchers by the Administrator in connection with such financial transactions are made final and conclusive on all officers of the Government.

Section 302—financing

This section authorizes the Administrator to establish a Federal flood indemnity fund and a Federal flood reinsurance fund. Indemnity fees and State and Federal contributions under section 102 of the act are to be deposited in the Federal flood indemnity fund and reinsurance premiums are to be deposited in the Federal flood reinsurance fund. The Administrator is authorized to invest the moneys in such funds, and the income from these investments, together with the proceeds from any properties acquired under either the indemnity or reinsurance programs, shall be deposited in the respective funds.

Section 303

This section authorizes the Administrator to borrow from the Secretary of the Treasury an amount not exceeding \$500 million at any one time; to finance the activities under the act, by the issuance of notes and other obligations. The terms of such obligations are to be prescribed by the Administrator with the approval of the Secretary of the Treasury. Provision is also made for the interest rate on such notes or obligations. Funds borrowed under this subsection are to be deposited in the Federal flood indemnity fund and the Federal flood reinsurance fund in such proportions as the Administrator deems feasible.

Section 304

The Federal Flood Indemnity Fund is to be used to pay approved claims for losses under indemnity contracts as well as other expenses (excluding administrative expenses) incurred under title I of the act. The Federal Flood Reinsurance Fund is to be used to pay approved claims under reinsurance agreements and other expenses (excluding administrative expenses) incurred under title II of the act. The respective funds are also to be used to repay sums borrowed from the Secretary of the Treasury. This section also authorizes the appropriation of moneys for administrative expenses of the Federal Government under the act.

Section 305

This section provides that the Secretary of the Treasury shall pay any valid claim under either an indemnity contract or a reinsurance agreement if the Administrator is unable to pay the same and authorizes money to be appropriated for this purpose out of any money in the Treasury not otherwise appropriated.

TITLE IV—GENERAL PROVISIONS

Section 401—Participation by private companies and public agencies

Under this section the Administrator, in providing indemnities and reinsurance under this act, is authorized and directed to use the facilities and services of private insurance companies, established insurance agents and brokers, established insurance adjustment organizations and other public agencies insofar as practicable, consistent with minimum cost of providing such protection. He is authorized to pay reasonable compensation for such services.

Section 402

This section directs the Administrator to develop means of expanding the reinsurance program and facilitating the assumption of flood risks by private carriers. In performing this function he shall consult with representatives of the insurance industry and make necessary studies and investigations.

Section 403

This section provides that on or before January 3, 1961, the Administrator is required to make a report to the President for submission to the Congress concerning all operations under the act, including the extent to which private insurance companies have participated in the indemnity and reinsurance programs, and to make such recommendations as he considers appropriate. The report must contain either a legislative proposal for the termination of the Government indemnity and reinsurance program and for the assumption of flood risks by private carriers, or an explanation as to why such legislation would not be feasible or desirable.

Section 404—Payment of claims

Subsection (a) authorizes the Administrator to adjust, compromise, and pay claims (under indemnity contracts and reinsurance agreements), either directly or through agents. Claims shall not be approved in excess of the actual cash value of the damaged or lost property or the cost of replacing, repairing, or rebuilding the property with material of like kind and quality (less depreciation at the time of damage or loss) whichever is lower.

Subsection (b) permits the claimant to sue the Administrator if a claim is disallowed in whole or in part. The suit must be brought within 1 year after the date of mailing the notice of disallowance. Suits must be brought in the United States District Court for any district in which the property or a part thereof is located. The Administrator is required to appoint agents upon whom service of process may be made. The United States District Courts are given exclusive jurisdiction to determine such actions without regard to the amount in controversy. The courts shall sit without juries in such cases.

Section 405—Coordination with other programs

Subsection (a) authorizes the Administrator to consult with Federal interstate, State, and local agencies having responsibilities for land use, flood control, flood zoning, and flood damage prevention, for the purpose of coordinating the respective programs. The Secretary of Agriculture and the Administrator are directed to coordinate the administration of their respective programs concerning indemnities, insurance, and reinsurance on agricultural commodities.

Under subsection (b) the Administrator is authorized to receive from or exchange with State insurance commissions and private insurance companies information pertaining to the problems of indemnities and reinsurance.

Section 406—Additional powers

Under subsection (a) the Administrator may sue or be sued. Subsection (b) authorizes the Administrator to enter into and perform contracts, leases, or other transactions on such terms as he deems appropriate, with Federal agencies or with any State or agency or political subdivision thereof and with private persons, firms, or corporations. He may consent to the modification of such agreements and make progress payments in connection therewith. Subsection (c) authorizes the Administrator to acquire real and personal property by purchase, lease, or donation, and to make advance or progress payments in connection therewith. He is also authorized to sell, lease, or otherwise dispose of such property and to use, maintain, and insure such property. Subsection (d) authorizes the Administrator to appoint, pursuant to civil service regulations and laws, officers, attorneys, and employees and to fix their compensation; define their authority and duties; to require bonds of them and to delegate to them and authorize successive redelegation by them of the powers vested in him by the act. Subsection (e) authorizes the Administrator to establish 1 position in grade 17 and 2 in grade 16, in carrying out his functions under this act. These positions are in addition to any position presently allocated to the Housing and Home Finance Agency under section 505 of the Classification Act of 1949. The Administrator is authorized under subsection (f) to make necessary investigations, surveys, and researches pertaining to flood indemnities and reinsurance. Subsection (g) authorizes the Administrator to issue such rules and regulations as he deems necessary. Under subsection (h) the Administrator is authorized to exercise all powers specifically granted and such incidental powers as are necessary to carry out the purposes of the act.

Section 407—Exemption of claims from levy

This section provides that all claims under either indemnity contracts or reinsurance agreements for losses shall not be liable to attachment, levy, or garnishment or any other legal process or to deduction because of any indebtedness of the insured or his estate to the United States, except claims of the United States under the act.

Section 408—Reservation of rights in real estate acquired

Under this section any State or political subdivision shall not be deprived of its civil or criminal jurisdiction concerning real property acquired by the Administrator under this act nor shall such acquisition impair the civil rights of the inhabitants concerning such property under State and local laws.

Section 409—Taxation

This section provides that nothing in the act shall be construed to exempt property, acquired by the Administrator in connection with claims under indemnity contracts and reinsurance agreements, from local taxation.

Section 410—Separability of provisions

This section contains the usual separability clause.

[S. 3137, 84th Cong., 2d sess.]

A BILL To provide insurance against flood damage, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Federal Flood Insurance Act of 1956".

FINDINGS AND DECLARATION OF PURPOSE

SEC. 2. (a) The Congress finds that in the case of recurring natural disasters, including recurring floods, insurance protection against individual and public loss is not always practically available through private or public sources. With specific reference to insurance against flood loss, the Congress finds that insurance against certain losses resulting from this peril is not so available. Since preventive and protective means and structures against the effects of these disasters can never wholly anticipate the geographic incidence and infinite variety of the de-

structive aspects of these forces, the Congress finds that the safeguards of insurance are a necessary adjunct of preventive and protective means and structures.

Inasmuch as these disasters impede interstate and foreign commerce, hamper national defense, and cause widespread distress and hardship adversely affecting the general welfare, without regard to State boundary lines, and in the absence of insurance protection from private or public sources, the Congress ought to provide for such protection in the case of flood, and study the feasibility and need for similar programs in the case of other forms of natural disaster against which insurance protection is not generally and practically available.

(b) (1) It is the purpose of this Act to authorize and direct the establishment of a program of Federal insurance and reinsurance against the risks of loss resulting from flood as hereinafter defined, and to require a study and report on insurance and reinsurance against still other natural disaster perils hereinafter defined and specified, to the extent that such insurance or reinsurance is not available on reasonable terms and conditions from other public or private sources; and

(2) It is the purpose of this Act to encourage private insurance companies to write insurance covering the extent of the risk above \$10,000 in the case of residential property, as defined in section 8 (a) (1), and the risk above \$100,000 for any other property, as defined in section 8 (a) (2), and to provide Federal reinsurance to the extent desirable and necessary to carry out this purpose.

FEDERAL FLOOD INSURANCE ADMINISTRATION

SEC. 3. (a) To carry out the functions authorized by this Act, there is hereby created, as a constituent agency of and within the Housing and Home Finance Agency, an agency to be known as the Federal Flood Insurance Administration (hereinafter referred to as the "Administration"), which shall be headed by a Federal Flood Insurance Commissioner (hereinafter referred to as the "Commissioner") to be appointed by the President, by and with the advice and consent of the Senate, who shall be paid at the same basic rate of compensation established for the commissioners of the other constituent agencies or units of the Housing and Home Finance Agency. The management of the Administration shall be vested in the Commissioner. The Housing and Home Finance Administrator shall be responsible for the general supervision and coordination of the functions of the Administration with the functions of other constituent agencies and units of the Housing and Home Finance Agency, but, notwithstanding any other provisions of law, the Commissioner shall establish general operating policies of the Administration and, unless hereafter expressly authorized by law, none of the functions of the Administration shall be reassigned nor shall any of its administrative funds be reallocated.

(b) Section 101 of the Government Corporation Control Act, as amended, is hereby amended by inserting "Federal Flood Insurance Administration;" after "Federal Housing Administration;".

(c) In the performance of, and with respect to, the functions, powers, and duties vested in him by this Act, the Commissioner, notwithstanding the provisions of any other law, shall maintain an integral set of accounts which shall be audited annually by the General Accounting Office in accordance with the principles and procedures applicable to commercial transactions as provided by the Government Corporation Control Act, as amended, and no other audit shall be required: *Provided*, That such financial transactions of the Commissioner as the issuing of insurance policies and the making of reinsurance agreements, and vouchers approved by the Commissioner in connection with such financial transactions, shall be final and conclusive upon all officers of the Government.

AUTHORITY TO INSURE AND REINSURE

SEC. 4. To aid in carrying out the purposes of this Act, the Commissioner is authorized and directed to provide insurance and reinsurance against loss resulting from damage to or destruction of real or personal property (including property owned by State or local governments) due to flood, as hereinafter defined, occurring within the United States (including the District of Columbia), its Territories, and possessions and the Commonwealth of Puerto Rico.

PREMIUM RATES

SEC. 5. The Commissioner shall from time to time to time prescribe (1) premium rates for each type of insurance and reinsurance he shall make available

under authority of this Act, and (2) terms and conditions upon which and areas (including subdivisions thereof) within which each rate shall apply. Such rates shall be based insofar as practicable upon consideration of the risks involved and upon calculations of amounts needed to cover all administrative and operating expenses arising under this Act, as well as reserves for probable losses, to be accumulated over a reasonable period of years, but such basis shall be used only to such extent as in the judgment of the Commissioner shall be consistent with the aim of offering insurance and reinsurance at rates reasonable enough to make available to those who need it, at rates they can afford, the protection intended to be provided by this Act.

PROPERTY AND LOSS LIMITS

SEC. 6. The Commissioner is authorized to provide for the determination of types and location of property with respect to which insurance or reinsurance shall be made available under this Act, the nature and limits of loss or damage in any area (including subdivisions thereof) which may be covered by such insurance or reinsurance, and such other matters as may be necessary to carry out the purposes of this Act.

RISK CLASSIFICATION

SEC. 7. (a) During a reasonable period of time following the effective date of this Act, the Commissioner may grant a processing preference to any original application for insurance filed hereunder, over any subsequent application for insurance hereunder filed by a person whose original application for such insurance has been granted.

(b) The Commissioner may from time to time establish appropriate regulations regarding the classification and limitation of risks assumed by him under authority of this Act.

POLICY AND PROGRAM LIMITS

SEC. 8. (a) The aggregate face amount of insurance issued by the Commissioner under this Act against loss of or damage to (1) any one residential property (including personal property thereon) designed for occupancy by one to four families shall not exceed \$10,000, and (2) any other single piece of real property and any other personal property in any single location shall not exceed \$100,000. No claim for loss shall be approved which exceeds the lesser of (1) the actual value of the insured property at time of loss or (2) the cost of replacing, repairing, or rehabilitating the property destroyed or damaged with material of like kind and quality in such a manner as to restore it to the condition it was in at the time such destruction or damage occurred. Each insurance policy issued by the Commissioner shall contain a loss-deductible clause relieving him from any liability for paying the first \$100 of a proved and approved claim for loss, or such greater amount in multiples of \$25, not exceeding \$200, as may be specified by the Commissioner upon issuance of the insurance policy.

(b) The liability of the Commissioner under insurance or reinsurance outstanding and in force at any one time under this Act shall not exceed \$1,000,000,000: *Provided*, That such limit shall be increased by further amounts of \$1,000,000,000 each on July 1, 1957, and July 1, 1958.

REINSURANCE REGULATORY AUTHORITY

SEC. 9. (a) The Commissioner is authorized to issue such regulations regarding reinsurance under this Act as he deems advisable in order to carry out the purposes of this Act.

(b) The premium rate and terms and conditions of any policy reinsured under the provisions of this Act shall be subject to approval by the Commissioner.

(c) The Commissioner shall use his best efforts to encourage private insurance companies to undertake the issuance of insurance policies covering that portion of the loss in excess of the limits specified in section 8 (a) of this Act resulting from damage to or destruction of real or personal property due to flood as defined in this Act. The Commissioner shall seek to achieve this end by offering a program of appropriate reinsurance within the authority granted him by this Act.

(d) Wherever practicable, the Commissioner shall encourage, by offering suitable reinsurance subject to the provisions of this Act, the issuance by private insurance companies of policies insuring against loss resulting from damage to or destruction of real or personal property due to flood.

NONDUPLICATION OF AVAILABLE INSURANCE

SEC. 10. (a) No insurance or reinsurance shall be issued under the provisions of this Act covering risks against which insurance is available on reasonable terms from other public or private sources.

(b) No insurance or reinsurance shall be issued under the provisions of this Act on any property declared by a duly constituted State or local zoning authority, or other authorized public body, to be in violation of State or local flood zoning laws.

USE OF OTHER PUBLIC AND PRIVATE FACILITIES

SEC. 11. (a) In providing insurance or reinsurance under this Act, the Commissioner shall use to the maximum practicable extent the facilities and services of private organizations and persons authorized to engage in the insurance business under the laws of any State or District, Territory or possession of the United States or the Commonwealth of Puerto Rico (including insurance companies, agents, brokers, and adjustment organizations); and the Commissioner may arrange for payment of reasonable compensation for such services.

(b) The Commissioner is authorized to enter into agreements for financial participation of private insurance companies in the underwriting of risks assumed, and for their proportionate participation in premiums received and profits or losses realized or sustained.

(c) In providing insurance or reinsurance under this Act, the Commissioner may use the services of other public agencies, and pay reasonable compensation therefor.

(d) The Commissioner may supply, receive from, and exchange with other agencies of the Federal Government, State, District, Territory, possession, local and interstate commissions or agencies, and private organizations experienced in the fields of insurance or reinsurance, such information as may be useful in the administration of the programs authorized by this Act.

FEDERALLY AIDED PROPERTY

SEC. 12. Any department or agency of the Federal Government engaged in making direct loans or advances, or in participating in, insuring, or guaranteeing loans made by private lending institutions, for construction, modernization, repair, rehabilitation, or purchase of property eligible for assistance under this Act, may require as a condition for such future financial assistance that such property be insured against perils of natural disaster to the extent such insurance is available.

CLAIMS PAYMENT AND JUDICIAL REVIEW

SEC. 13. (a) Under such regulations as the Commissioner may prescribe, he shall arrange for prompt adjustment and payment of valid claims for losses covered by insurance or reinsurance under this Act. He shall collect from participating insurance companies such amounts as they are obligated to contribute toward such losses under agreements entered into pursuant to the provisions of section 11 (b) of this Act.

(b) No claim under color of any insurance or reinsurance made available under this Act shall be liable to attachment, levy, garnishment, or other legal process before payment to the insured or the insurer, as the case may be, nor shall any such claim be liable to deduction on account of indebtedness of the insured or his estate, or the insurer, as the case may be, to the United States, except claims of the United States arising under this Act.

(c) Upon disallowance of any claim against the Commissioner under color of any insurance or reinsurance made available under this Act, or upon refusal of the claimant to accept the amount allowed upon any such claim, the claimant may institute an action against the Commissioner on such claim in the United States district court in which a major portion (in terms of value) of the insured property is located. Any such action must be begun within one year after the date upon which the claimant receives from the Commissioner written notice of disallowance or partial disallowance of the claim. For the purposes of this section, the Commissioner may be sued and he shall appoint one or more agents within the jurisdiction of each United States district court upon whom service of process can be made in any action instituted under this section. Exclusive jurisdiction is hereby conferred upon all United States district courts to hear and determine such actions without regard to the amount in controversy.

FUNDS AND TREASURY BORROWINGS

Sec. 14. (a) To carry out the purposes of this Act, the Commissioner is authorized to establish two funds to be known as the (1) Disaster Insurance Fund, and (2) Disaster Reinsurance Fund.

(b) Into the Disaster Insurance Fund shall be deposited all insurance premiums collected by the Commissioner for insurance policies issued by him under this Act. Into the Disaster Reinsurance Fund shall be deposited all fees collected by the Commissioner in connection with reinsurance made available by him under this Act.

(c) Moneys in each of the funds may be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States. Such obligations may be sold and the proceeds derived therefrom may be reinvested as above provided if deemed advisable by the Commissioner. Income from such investment or reinvestment shall be deposited in the respective fund from which the investment was made.

(d) All salvage proceeds realized by the Commissioner in connection with insurance made available under this Act shall be deposited in the Disaster Insurance Fund; and all salvage proceeds realized by the Commissioner in connection with reinsurance made available under this Act shall be deposited in the Disaster Reinsurance Fund.

(e) The Commissioner is authorized to issue to the Secretary of the Treasury from time to time and have outstanding at any one time, in an amount not exceeding \$1,500,000,000 (or such greater amount as may be approved by the President) notes or other obligations in such forms and denominations, bearing such maturities, and subject to such terms and conditions as may be prescribed by the Commissioner, with the approval of the Secretary of the Treasury: *Provided*, That before July 1, 1957, the amount of such notes or other obligations issued to the Secretary of the Treasury by the Commissioner and outstanding at any one time shall not exceed \$1,000,000,000. Such notes or other obligations shall bear interest at a rate determined by the Secretary of the Treasury, taking into consideration the current average rate on outstanding marketable obligations of the United States of comparable maturities as of the last day of the month preceding the issuance of such notes or other obligations. The Secretary of the Treasury is authorized and directed to purchase any notes and other obligations to be issued hereunder and for such purpose he is authorized to use as a public debt transaction the proceeds from the sale of any securities issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under such Act, as amended, are extended to include any purchases of such notes and obligations. The Secretary of the Treasury may at any time sell any of the notes or other obligations acquired by him under this section. All redemptions, purchases, and sales by the Secretary of the Treasury of such notes or other obligations shall be treated as public debt transactions of the United States. Funds borrowed under this section shall be deposited, in such proportions as the Commissioner deems advisable, in the Disaster Insurance Fund and the Disaster Reinsurance Fund.

(f) Moneys in the Disaster Insurance Fund and the Disaster Reinsurance Fund may be used for the following purposes as deemed necessary by the Commissioner:

(1) To enable the Commissioner to carry out all functions under this Act, including the payment of operating and administrative expenses;

(2) To pay from the Disaster Insurance Fund approved claims for loss under insurance policies issued by the Commissioner under this Act;

(3) To pay from the Disaster Reinsurance Fund approved claims under reinsurance agreements entered into by the Commissioner under this Act; and

(4) To repay to the Secretary of the Treasury sums borrowed from him in accordance with the provisions of subsection (e) of this section.

ADVISORY COMMITTEE

Sec. 15. In carrying out his functions under this Act, the Commissioner shall appoint an advisory committee as authorized by section 807 of the Housing Act of 1954 (68 Stat. 590, 645). Such committee shall consist of not less than three nor more than fifteen persons familiar with the problems of insurance or reinsurance, to advise the Commissioner with respect to the formulation of policies and the execution of functions under this Act.

DEFINITIONS

SEC. 16. (a) As used in this Act, the word "flood" shall include any flood, tidal wave, wave wash or other abnormally high tidal water, hurricane, deluge or the water component of any other severe storm, and landslide due to excess moisture.

(b) As used in this Act, the term "natural disaster" shall include flood as defined above, earthquake, volcanic eruption, severe freeze, blizzard, duststorm, hailstorms, snowslide, explosion, drought, smog, radioactive contamination or other air pollution, and land subsidence due to an underground cave or man-made subterranean excavation, but shall not include fire or wind except where either of such perils occurs as a result of or in conjunction with one of the perils listed herein.

STUDIES

SEC. 17. (a) The Commissioner shall undertake a continuing study of the practicability of extending the coverage of insurance programs similar to those authorized under this Act to one or more of the perils included within the term "natural disaster" as defined in this Act.

(b) The Commissioner shall also undertake a continuing study of participation by private insurance companies in the programs authorized by this Act, in order that the protection it authorizes can be provided, whenever practicable, through insurance policies issued by private insurance companies and reinsured with the Commissioner, in lieu of providing such protection through insurance policies issued in the name of the Commissioner.

(c) The Commissioner shall undertake a continuing study of the feasibility of having private insurance companies take over, with or without some form of Federal financial support, the insurance programs authorized by this Act.

SEC. 18. For the purpose of carrying out functions under this Act the Commissioner may—

(a) sue or be sued;

(b) without regard to sections 3648 and 3709 of the Revised Statutes, as amended (31 U. S. C. 529 and 41 U. S. C. 5), and section 322 of the Act of June 30, 1932 (47 Stat. 412, as amended (40 U. S. C. 278a)), enter into and perform contracts, leases, cooperative agreements, or other transactions, on such terms as he may deem appropriate, with any agency or instrumentality of the United States, or with any State or agency or political subdivision thereof, or with any person, firm, association, or corporation and consent to modification thereof, and make advance or progress payments in connection therewith;

(c) without regard to sections 3648 and 3709 of the Revised Statutes, as amended (31 U. S. C. 529 and 41 U. S. C. 5), and section 322 of the Act of June 30, 1932 (47 Stat. 412, as amended (40 U. S. C. 278a)), by purchase, lease, or donation acquire such real and personal property and any interest therein, make advance or progress payments in connection therewith, and hold, use, maintain, insure against loss, sell, lease, or otherwise dispose of such real and personal property as the Commissioner deems necessary to carry out the purposes of the Act;

(d) appoint, pursuant to civil-service laws and regulations, such officers, attorneys, and employees as may be necessary to carry out the purposes of this Act; fix their compensation in accordance with the provisions of the Classification Act of 1949, as amended; define their authority and duties; require bonds from such of them as may be necessary; and delegate to them, and authorize successive redelegations by them, of such of the powers vested in him by this Act as he may determine;

(e) issue such rules and regulations as he deems necessary to carry out the purposes of this Act; and

(f) exercise all powers specifically granted by the provisions of this Act and such incidental powers as are necessary to carry out the purposes of this Act.

RESERVATION OF RIGHTS IN REAL ESTATE ACQUIRED

SEC. 19. The acquisition by the Commissioner of any real property pursuant to this Act shall not deprive any State or political subdivision thereof of its civil or criminal jurisdiction in and over such property or impair the civil rights under the State or local law of the inhabitants on such property.

TAXATION

SEC. 20. Nothing in this Act shall be construed to exempt any real property, acquired and held by the Commissioner in connection with the payment of any claim under this Act, from taxation by any State or political subdivision thereof, to the same extent, according to its value, as other real property is taxed.

ANNUAL REPORT

SEC. 21. The annual report made by the Housing and Home Finance Administrator to the President for submission to the Congress under existing law on all programs provided for under this Act shall contain a comprehensive report concerning (1) the operation of insurance and reinsurance programs authorized under this Act, and (2) the status and result of studies authorized under section 17 of this Act, together with such recommendations, if any, for legislative changes deemed by the Commissioner desirable to improve the operation of programs authorized under this Act. The annual report for the calendar year ending December 31, 1961, shall contain an express opinion of the Commissioner, supported by pertinent findings, concerning the advisability of withdrawing in whole or in part Federal financial support for insurance policies to be issued at any time after June 30, 1962, offering protection against one or more of the perils included in natural disasters as defined in this Act, taking into consideration the desirability of offering protection against such perils. Such opinion shall be accompanied by recommendations for legislative changes deemed desirable by the Commissioner in the event the opinion is to the effect that any such withdrawal of financial support is advisable. Unless and until an affirmative opinion is rendered, the annual report for every fifth calendar year after 1961 shall contain an express opinion of the Commissioner on this matter, supported by pertinent findings.

SEPARABILITY PROVISION

SEC. 22. If any provision of this Act or the application of such provision to any person or circumstances shall be held invalid, the remainder of the Act and the application of such provision to any person or circumstance other than those as to which it is held invalid shall not be affected thereby.

SECTIONAL ANALYSIS OF S. 3137

Section 1—Short title

Federal Flood Insurance Act of 1956.

Section 2—Findings and declaration of policy

(a) Findings of need for national program of insurance against flood loss and study of insurance against loss from other natural disasters.

(b) Purpose of act: (1) to provide such a program; and (2) to encourage private insurance of excess loss above Federal coverage, with Federal reinsurance, as necessary.

Section 3—Federal Flood Insurance Administration

(a) Creates constituent agency within HHFA to be named Federal Flood Insurance Administration and to be headed by Commissioner appointed by President subject to Senate confirmation. HHFA has general supervision but policy decisions remain with Commissioner.

(b) Administration made subject to Government Corporation Control Act.

(c) Official financial transactions of Commissioner binding on Government officers; annual audit to be made by GAO.

Section 4—Authority to insure and reinsure

Commissioner directed to provide insurance against flood loss to real and personal property, owned privately or by State or local government; and Commissioner directed and authorized to reinsure against such loss; program operative in United States (including District of Columbia), its Territories and possessions and Puerto Rico.

Section 5—Premium rates

Commissioner to establish them. Rates to be based on consideration of risks, administrative and operating expenses and need for reserves but rates to be consistent with the aim of offering protection at reasonable rates.

Section 6—Property and loss limits

Commissioner may determine types and location of property covered, nature and limits of loss in any area, and other necessary matters.

Section 7—Risk classification

(a) Preference granted to original applications over second applications for insurance.

(b) Commissioner may regulate classification and limitation of risks.

Section 8—Policy and program limits

(a) Face amount of insurance issued by Commissioner limited to \$10,000 on 1- to 4-family residence, including contents, and \$100,000 on any other single piece of real property or personal property in any single location. Claim for loss not to exceed actual value of property or cost of replacing in prior condition, whichever is lower. Loss deduction clause of \$100 or up to \$200 as specified by Commissioner.

(b) Total liability of Commissioner under insurance and reinsurance program not to exceed \$1 billion originally, plus an additional \$1 billion each on July 1, 1957, and July 1, 1958.

Section 9—Reinsurance regulatory authority

(a) Commissioner authorized to regulate reinsurance.

(b) Premium rates, terms, and conditions of reinsured policy are subject to Commissioner's approval.

(c) Commissioner to use best efforts to encourage private insurance companies to issue policies covering excess of loss above Federal policy limits. Commissioner to offer suitable program of reinsurance for this purpose.

(d) Commissioner to encourage private insurance companies to insure against loss from floods; Commissioner to offer suitable reinsurance.

Section 10—Nonduplication of available insurance

(a) No insurance or reinsurance to be issued against risks if available on reasonable terms from public or private sources.

(b) No insurance or reinsurance to be issued on property in violation of flood zoning laws.

Section 11—Use of other public and private facilities

(a) Commissioner to use private insurance facilities to maximum practicable extent and may pay reasonable compensation.

(b) Commissioner may allow financial participation of private insurance companies in profit or loss under program.

(c) Commissioner may use services of other public agencies for reasonable compensation.

(d) Commissioner may exchange information with private insurance organizations and other public agencies.

Section 12—Federally aided property

Federal agency aiding construction, repair, or purchase of property may require it to be insured against natural disaster to the extent such insurance is available.

Section 13—Claims payments and judicial review

(a) Commissioner to arrange for prompt adjustment and payment of claims, collecting any share due from participating private companies.

(b) Claim exempted from attachment, levy or garnishment and offset against other claims due the United States.

(c) Dissatisfied claimant may sue Commissioner in United States district court within 1 year after receipt of notice of total or partial disallowance of claim.

Section 14—Funds and Treasury borrowing

(a) Commissioner to establish disaster insurance fund and disaster reinsurance fund.

(b) Insurance premiums for insurance issued by Commissioner are to be deposited in disaster insurance fund. Reinsurance fees go into disaster reinsurance fund.

(c) Moneys in each fund may be invested in United States obligations.

(d) Salvage proceeds go to appropriate fund.

(e) Commissioner may borrow up to \$1.5 billion (or greater amount approved by President) from Secretary of Treasury; *Provided*, That before July 1, 1957,

limit is \$1 billion. Terms and conditions of evidences of indebtedness to meet approval of Commissioner and Secretary of Treasury. Interest rate fixed by Secretary of Treasury according to formula prescribed. Borrowed funds deposited in appropriate fund.

(f) Disaster insurance fund and disaster reinsurance fund usable for (1) operating and administrative expenses, (2) payment of claims, and (3) repayment of Treasury borrowing.

Section 15—Advisory committee

Commissioner shall appoint advisory committee of 3 to 15 familiar with insurance or reinsurance problems.

Section 16—Definitions

(a) "Flood" includes flood, tidal wave, wave wash, high tidal water, hurricane, deluge, water component of severe storm, and landslide due to excess moisture.

(b) "Natural disaster" includes flood, plus earthquake, volcanic eruption, severe freeze, blizzard, duststorm, hailstorm, snowslide, explosion, drought, smog, radioactive contamination, other air pollution, land subsidence, excluding fire or wind except where either occurs as result of or in conjunction with one of the listed perils.

Section 17—Studies

(a) Commissioner to study practicability of extending program to other natural disasters besides flood.

(b) Commissioner to study reinsurance program to avoid need for flood insurance by Federal Government.

(c) Commissioner to study feasibility of private insurance takeover of act's programs with or without Federal financial support.

Section 18—Additional powers

Commissioner may—

- (a) sue or be sued;
- (b) enter contracts freely;
- (c) acquire real or personal property;
- (d) hire employees;
- (e) issue necessary rules and regulations;
- (f) exercise specific and necessary implied powers.

Section 19—Reservation of rights

Commissioner's acquisition of real property shall not take away State or local jurisdiction.

Section 20—Taxation

Act not to be construed to exempt from State or local taxation any real property acquired by Commissioner due to payment of claims.

Section 21—Annual report

Annual report by HHFA to President for submission to Congress shall report comprehensively (1) operation of act's programs; and (2) status of studies under section 17, plus legislative recommendations, if any. Annual report for calendar year 1961 to contain Commissioner's opinion regarding advisability of withdrawing in whole or in part Federal aid for insurance under act after June 30, 1962. Affirmative opinion to be accompanied by legislative recommendations. Until affirmative opinion is given, similar report should be made every fifth year.

Section 22—Separability provision

Comparative analysis of 3 bills on disaster insurance or indemnity, 84th Cong., 2d sess.¹

By William F. McKenna, counsel

Item	S. 3137 (Senators Lehman and Kennedy)	S. 2768 (Senators Kennedy and Saltonstall)	S. 2862—Amendment in the nature of a substitute (Senator Bush)
1. Administering agency.....	New Federal Flood Insurance Administration in HHFA (sec. 3).	President names agency (sec. 3 (a)).	New commissioner in HHFA. Policy power given HHFA Administrator (sec. 301).
2. Risks covered.....	Flood, as defined. Study coverage of other natural disasters, as defined (secs. 4, 16 and 17).	Flood, hurricane, tides, tidal wave and high water (sec. 3 (a)).	Indemnity: Flood, including rising water from tide, wind or rain. Administrator may expand definition (sec. 101).
3. Nature of property covered.....	Real or personal property (sec. 4).	Real property and business inventories (sec. 3 (a)).	Reinsurance: Flood (sec. 201). Indemnity: Real property plus business inventories, stored farm commodities, household effects and other personal property designated by Administrator (sec. 101). Reinsurance: Real or personal property (sec. 201).
4. Ownership of property covered.....	Private, State and local government (sec. 4).	Private (sec. 3).	Indemnity: Private, State and local government (secs. 3 (b) and 101). Reinsurance: No express limitation.
5. Per person or per property limit.....	Insurance: Per property limit on policies (sec. 8 (a)).	Insurance: Per single piece of real property limit on policies (sec. 3 (e)).	Indemnity: Per person limit on policies (secs. 3 (b) and 105). None.
6. Application preference.....	Insurance: Original application may get 1st preference (sec. 7 (a)).	None.	Indemnity: Adequate to provide claim reserve over reasonable period of years, consider risks and desirability of providing protection at reasonable cost. Does not cover United States administrative expense (sec. 102).
7. Rate-making.....	Based on risks and adequate to cover administrative and operating expense and loss reserves but consider basis only to extent necessary to provide insurance to those who need it at rates they can afford (sec. 5).	Based on risks and adequate to cover administrative and operating expense and loss reserves so far as practicable (sec. 3 (b)).	Reinsurance: Consider risks; adequate to cover losses over reasonable period of years (sec. 202). Indemnity: At least 60 percent of nonprofit actuarial rate (excluding administrative expense) by insured; the balance 1/2 by State 1/4 by United States (sec. 102).
8. Premium paid by.....	Insurance: Insured (sec. 5). Reinsurance: Insuring company (sec. 5).	Insurance: Insured (sec. 3 (b)). Reinsurance: Insuring company (sec. 3 (b)).	Reinsurance: Insuring company (sec. 202). Indemnity: \$300 plus 10 percent of balance of claim, or more if contract so provides (sec. 105).
9. Loss deductible.....	Insurance: \$100 per claim or up to \$200 if Commissioner so decides (sec. 8 (a)).	Insurance: \$300 plus 10 percent of balance of claim, more if Administrator so decides (sec. 3 (e)).	Reinsurance: \$300 plus 10 percent of balance of claim, or more if contract so provides (sec. 105).
10. Declining individual application or risk.....	No express provision.	Administrator may decline applications and risks as he deems advisable (sec. 3 (c)).	Administrator may decline any application or risk for indemnity coverage (sec. 103).
11. Limit per policy.....	Insurance: \$10,000 for 1- to 4-family homes; \$100,000 for other property (sec. 8 (a)). Reinsurance: Commissioner's discretion (sec. 9).	Insurance: \$250,000 (sec. 3 (e)). Reinsurance: Administrator's discretion (sec. 3 (e)).	Indemnity: \$250,000 (sec. 105). Reinsurance: Administrator's discretion (sec. 203 (3)).

See footnote, p. 932.

Comparative analysis of 3 bills on disaster insurance or indemnity, 84th Cong., 2d sess.¹—Continued

By William F. McKenna, counsel

Item	S. 3137 (Senators Lehman and Kennedy)	S. 2768 (Senators Kennedy and Saltonstall)	S. 2862—Amendment in the nature of a substitute (Senator Bush)
12. Total exposure to risk.....	\$1 billion, plus \$1 billion on July 1, 1957, and \$1 billion on July 1, 1958 (sec. 8 (b)).	1/4 billion dollars, plus 1/4 billion dollars on July 1, 1957, and 1/4 billion dollars on July 1, 1958 (sec. 3 (f)).	Indemnity: \$1.9 billion, plus \$1 billion with President's approval (sec. 106).
13. Financing.....	Borrow up to \$1.5 billion from U. S. Treasury (or more if approved by President), but only up to \$1 billion before July 1, 1957 (sec. 14 (e)).	Appropriations—open end (sec. 4 (a)).	Reinsurance: \$100 million (sec. 205). Borrow up to 1/4 billion dollars from U. S. Treasury (not over \$100 million until July 1, 1957, unless approved by President) (sec. 303).
14. Administrative expense.....	Payable from insurance fund and reinsurance fund (a program expense) (sec. 14 (f) (1)).	Payable from national flood insurance fund (a program expense) (secs. 3 (b) and 4 (c)).	Payable from appropriated funds (not a program expense) (secs. 102, 304, and 305).
15. Compulsory insurance.....	Federal agency giving aid may require (sec. 12) —	Federal agency giving aid may require (sec. 6 (c)).	No provision.
16. Private company sharing in profits or losses.....	Commissioner may enter such financial participation agreements (sec. 11 (b)).	Administrator may enter such financial participation agreement with person or company authorized to do insurance business (sec. 3 (d)).	No express provision regarding sharing of profit or loss by private companies. Administrator to develop reinsurance program (sec. 401).
17. Advisory Committee.....	3 to 15 familiar with insurance or reinsurance (sec. 15).	6 or more experienced in writing property insurance (sec. 7).	No formal committee beyond authority to appoint advisory committees under Housing Act of 1954. Administrator to consult with insurance industry representatives to encourage risk takeover (sec. 402).
18. Exemption from levy.....	Claims are exempted from levy (sec. 13 (b)).	No provision.	Dissatisfied claimant may sue in United States district court within 1 year after disallowance notice is mailed (sec. 404 (b)).
19. Court review.....	Dissatisfied claimant may sue in United States district court within 1 year after receipt of disallowance notice (sec. 13 (c)).	No express provision.	United States (including District of Columbia), Territories, possessions, and Puerto Rico.
20. Geographic coverage.....	United States, District of Columbia, Territories, possessions, and Commonwealth of Puerto Rico (sec. 4).	United States, Territories and possessions (sec. 3 (a)).	(secs. 3 (e) and (f), 101 and 201).
21. Termination.....	None, but study takeover by private insurance companies and give express opinion every 5th year on feasibility (sec. 21).	None.	Report to President on or before Jan. 3, 1961, on feasibility of takeover by private insurance companies. No other express termination date (sec. 403).

¹ Each item applies to both insurance or indemnity and reinsurance unless otherwise noted.

CRITIQUE OF S. 2862, WILLIAM F. MCKENNA, COUNSEL, JANUARY 9, 1956

The following observations are made in connection with S. 2862, National Flood Indemnity Act of 1956, introduced by Senator Bush for the administration on January 5, 1956.

1. *Geographic limits.*—Section 3 (e) and (f) of the bill in defining "United States" and "State" omit United States possessions. These could be included by defining the United States and States as the several States, Territories, and possessions, and the District of Columbia.

2. *Personal property.*—Section 101 expressly includes in "personal property" for the purposes of direct Federal flood insurance only business inventories, stored agricultural commodities and household effects. It leaves to the Administrator's determination other personal property to be included. By contrast, section 201 dealing with reinsurance authorizes the Administrator to reinsure companies insuring against flood loss on "personal property," without expressly limiting the type covered.

3. *Flood.*—Section 101 in defining "flood" expressly includes "rising water caused by tide, wind, or rain." It leaves to the Administrator discretion to expand this definition by regulation.

4. *Rates.*—Section 102 requires indemnity contract fees to "be based on consideration of the risks involved and the desirability in the public interest of providing indemnity protection at reasonable cost" (a seeming combination of actuarial and subsidy approaches to the ratemaking task).

However, the effect of this language is restricted by a proviso that in setting fees "the Administrator shall set up estimated rates which would be necessary to provide an adequate reserve to pay all claims for losses over a reasonable period of years" (a nonprofit, actuarial approach, excluding administrative expenses).

The next proviso requires the insured to pay at least 60 percent of this nonprofit, actuarial rate, the remainder of 100 percent to be paid half by a State and half by the Federal Government. This leads to the conclusion that a reasonable cost for indemnity protection is never lower than 60 percent of the actuarial, nonprofit rate. Query whether this is always true in the light of testimony received by this committee in its disaster insurance hearings. At the Goshen, N. Y., hearing, testimony was given that in one instance Lloyds' of London quoted a rate of \$250 per \$1,000 value to cover certain real property against flood risk. It may well be that 60 percent of this (\$150 per \$1,000) would still be too high to form a practical rate at which to sell flood insurance. In other cases, Lloyds' would not insure against flood risk at any rate.

It might prove desirable to allow the administering agency more flexibility in establishing rates in order to achieve a flood indemnity program that will truly provide protection to those who need it.

5. *Reserve buildup.*—Section 102 requires loss reserves to be provided "over a reasonable period of years." Since section 403 contemplates a report to the Congress by January 3, 1961, on the feasibility of a transfer of the program to private insurance companies, presumably the assumption is that adequate reserves will have been built up by that date—roughly, a 5-year period.

6. *Uniformity.*—Section 102 contemplates uniform rates for similar risks, an acceptable concept in theory. This differs from a uniform national rate for all contracts on a given type of property.

7. *State participation.*—As worded, section 102 prevents the issuance of a single indemnity contract until the State in which the property covered is located has paid into a Federal fund the State's allotted portion of the fee due on the contract. This raises a question regarding workability of the entire direct indemnity program. Many State legislatures meet only biennially. Failure of a State to provide for its portion of each indemnity contract on property in the State would deprive all property in the State from protection under this program. Query whether a given State legislature will be willing to appropriate in advance such indefinite sums as may be needed to fulfill the obligation placed on the State under this bill. The bill gives the State no voice in the program, but only the obligation of paying for part of it. Taxation without representation is as abhorrent between governments as between a government and the governed.

If State financial participation is desired, it would seem more practical to require the State to contract with the Federal Government to reimburse it annually for a fixed percentage of claims paid on property in the State during the preceding year; with authority to offset other moneys due the State from the Federal Government in the event of default on such contract. This would permit

the program to go forward without requiring as a condition precedent that the State participate in each separate contract fee payment.

Testimony given the committee demonstrated the flood problem to be more national than intrastate in character. Flood conditions in one State may well be caused or contributed to by action or inaction of a second State wholly outside the remedial jurisdiction of the suffering State. National problems should be openly met by Federal measures, not allowed to lack solution by invoking hybrid Government devices resulting in a program whose benefits may prove more illusory than real.

Under the bill the State involved retains a veto power over every potential indemnity contract; yet the contract is designed to afford protection to the insured, not to the State.

Under the bill, each contract involves a forced subsidy on the part of the State involved, for no method is provided for returning funds to the State should the program prove to be profitable. The bill obviously hopes to make the program profitable, as section 403 envisions assumption of flood risks by private insurance companies. Yet it seems to assume a program normally working with compulsory Federal and State subsidies, hardly a proper yardstick to measure public acceptability by potential insureds of a similar protective program in which the insured must pay 100 percent of the actuarial fee plus enough to pay operating costs and produce an acceptable profit.

Technically it would be possible to omit the States from consideration under the bill even under its present language if the insured paid 100 percent of the actuarial fee, but this would too likely prove prohibitive.

For many reasons, this method of compulsory State participation bears careful scrutiny. It raises serious doubts regarding workability of the indemnity program on a nationwide basis.

8. *Administrative expense.*—Section 102 requires all Federal administrative expenses under the indemnity program to be paid from appropriations out of the Federal Treasury. A private insurance company would of necessity pay administrative expenses out of fees, earnings and salvage from the insurance program. The bill's method thus provides an unrealistic and short yardstick against which to measure the ultimate feasibility of the indemnity program as a profitable commercial venture, even without considering the nonprofit nature of the bill's program.

The Federal crop-insurance program began with a similar device; but more recently has charged some operating expenses against the program.

9. *Declining applications and risks.*—Section 103 authorizes the Administrator to decline any application or risk, as well as regulating the classification, limitation, and rejection of risks. Under the power to decline any application, there is the danger the Administrator may play favorites or use discrimination in the absence of further statutory safeguards. Under the power to decline any risk, there is the danger the Administrator may thwart congressional intent through inordinate caution in excluding from coverage risks intended to be covered by this act. The Administrator's other powers to vary fee schedules according to risks should prove adequate to exclude inadvisable risks.

10. *Crop insurance.*—Section 104 precludes indemnity if flood insurance is obtainable on reasonable rates and conditions from a public program. This presents a problem of cooperating with the Federal crop-insurance program, which presently covers only about 800 out of 3,000 counties. Under the bill's present language, the Administrator could issue in-ground crop insurance against flood in the cases in which insurance is not available from the Federal Crop Insurance Corporation.

11. *Indemnity contract limit.*—Section 105 limits each indemnity contract to a Federal obligation of \$250,000 per person (including a corporation or like organization and a State and local government). Most insurance contracts operate on a per property rather than a per person basis.

The limit is obviously a policy matter. It would seem needlessly high for owner-occupants of single family dwellings. It might well prove too low to meet the flood insurance needs of many business enterprises. A classified lower limit for residences and higher limit for other property might better distribute the allotted indemnity funds according to need, especially if changed to a per property rather than a per person basis.

This provision in section 105 speaking of "obligating the United States" not in excess of \$250,000 per contract leaves doubt as to whether \$250,000 is the top face limit per contract. Another possible interpretation requires consideration of the provision in section 105 that the United States has no obligation to pay

at least the first \$300 of any claim and 10 percent of the balance of the claim. Would this permit the face amount of each contract to run as high as \$278,077 (\$278,077—\$300—[10 percent of the difference between \$278,077 and \$300=\$27,777]=\$250,000)? This could be clarified by placing the limit on the "face amount of the contract."

Computation indicates that under the present bill 7,600 contracts could be issued having a face amount of \$278,077 if the aggregate United States exposure is limited to \$1.9 billion. Increasing the aggregate limit by \$1 billion, as permitted by the bill with Presidential approval, would increase the number of possible contracts by 4,000 for a total of 11,600 contracts. Reducing the limit per policy to \$28,080 would increase the potential number of policies to 116,000. At a limit of \$11,410 the contract potential expands to about 290,000 in number.

These figures compare with some 164 million United States population (comprising about 42 million families) and 4 million business enterprises (of which about 2 million are 1-or-2-man enterprises, mainly in the service field). Under the bill's policy of only 1 contract per "person," as defined in the bill, this allows about 1 contract for every 150 potential family, corporate or Government purchasers. Obviously not all these will want to buy flood insurance. But most businesses and governments will want to buy more than the \$11,410 limit used in arriving at this ratio. The problem is raised whether this size program will give a true test of the feasibility of the program, since the principle of adverse selection will work to induce those most exposed to flood risk to apply early for indemnity contracts, leaving more desirable risks to compete for such portion, if any, of the total authorized coverage as remains after the greatest risks have been covered.

12. Loss deductible.—Section 105 employs a formula to determine the minimum loss deductible. This is \$300 plus 10 percent of the remainder of any claim. In principle this serves the threefold purpose of eliminating nuisance claims, cutting operating costs, and requiring the insured to share the risk on all portions of the insured loss. I understand the more normal insurance practice to be to have a fixed dollar amount loss deductible (frequently \$50 on standard extended coverage). The risk-sharing device is obtained by coinsurance requirements, forcing the insured to carry insurance on a substantial portion of the value of the property under the penalty of otherwise receiving only partial recovery for a partial loss under the policy.

It should be borne in mind that the higher the loss deductible, the less benefit the policy gives the insured. A disaster victim frequently needs all the cash or credit he can obtain in order to recoup his losses.

13. Aggregate liability.—Section 106 of the bill permits a total aggregate liability of \$1.9 billion under indemnity contracts and permits the President to increase this by an additional \$1 billion. This section also permits the Administrator to earmark portions of this amount for geographic areas of the United States according to the needs of persons in such areas.

The policy decision to be made on this point is whether an aggregate permissible exposure to risk of \$1.9 billion is sufficient to supply the needs of the country for flood insurance, considering the limitation this places on the number of contracts which may be issued when taken in conjunction with the individual limit per indemnity contract.

14. Reinsurance scope.—Title II of the bill deals with reinsurance. Section 201 authorizes Federal reinsurance of insurance companies against loss on account of flood insurance on real or personal property. Such reinsurance can be issued only as necessary to enable insurance companies to provide insurance where it would otherwise not be available. It should be noted that this provision leaves with the Administrator complete discretion as to type of insurance to be provided. It also permits coverage of all types of personal property. However, it makes it necessary to determine whether the insurance involved is presently available, presumably on any terms; otherwise, the Administrator would not be authorized to issue reinsurance under the provisions of this bill. Interpretation of this provision raises this difficult problem. Testimony given the committee in its field hearings shows that insurance companies in the Lloyds' group offered flood risk coverage on some real property in the United States at a rate of \$250 per \$1,000 valuation. A question is raised as to whether such an offer is to be interpreted under the bill as meaning that insurance is available against flood risk under such conditions.

15. Reinsurance premium rates.—Section 202 requires the Administrator to fix rates for reinsurance upon consideration of the risks and requires the rates to be adequate in his judgment to cover all claims for losses under reinsurance.

agreements over a reasonable period of years. This seems to require the Administrator to calculate such rates on an actuarial basis. It raises the question whether a private company could successfully compete with the subsidized direct Government indemnity contract program even if the private company wished to make use of the reinsurance provisions in the bill. The direct indemnity contract provisions contemplate a subsidy. The reinsurance provisions appear not to, except for administrative expense.

16. *Uniformity of rates.*—Section 202 requires reinsurance rates to be uniform throughout the United States for similar risks. This provision is acceptable, since it allows a difference in rates according to risk involved.

17. *Conditions in policies reinsured.*—Section 203 of the bill grants the Administrator regulatory authority over the terms and conditions of insurance policies reinsured under the bill. Obviously, such control should be retained by the Administrator.

18. *Noncompetition.*—Section 204 of the bill precludes the issuance of reinsurance if it is otherwise available at reasonable rates and upon reasonable conditions from private sources. It should be noted that this specifically refers to reinsurance being available rather than insurance. The provision is proper as to reinsurance.

19. *Aggregate exposure to risk on reinsurance.*—Section 205 earmarks \$100 million as the top exposure to risk on reinsurance under this bill. This raises the policy question as to the sufficiency of this amount when balanced against an authorized exposure to risk of \$2.9 billion on indemnity contracts issued by the United States directly. It also has the effect of isolating this particular \$100 million, making it unusable for direct indemnity contracts in the event no need develops for its use under the reinsurance program.

20. *Administering agency.*—Title III of the bill provides for administration and financing of the program. Section 301 creates a new constituent administration within the Housing and Home Finance Agency similar to FHA and PHA from a housekeeping standpoint. This new unit would be known as the Federal Flood Indemnity Administration headed by a Commissioner appointed by the Administrator. The bill does not contemplate confirmation of the Administrator by the Senate, a departure from the requirement for the heads of FHA and PHA. Placing administration within a constituent agency of HHFA obviously raises a policy question. Presumably the main function of the Housing and Home Finance Agency is to coordinate housing programs of the Government. Under the bill indemnity contracts would cover other types of property besides housing, namely business properties and property owned by State and local governments. Under present programs the experience of the HHFA with insurance is primarily limited to general supervision of the mortgage insurance program administered by FHA. Whether this differing type of insurance is persuasive as to placing administration of the flood indemnity program within HHFA is a matter for policy decision. Other programs have suggested that the choice of the administering agency be left to the President; or that the Small Business Administration be named since it already handles a disaster loan program for business and homes; or that the Federal Civil Defense Administration be named on the theory that it could complement its wartime duties with training received in administering the peace-time disaster insurance program, especially since it already acts as Federal coordinator for disaster relief under an Executive order. A further possibility would be to name the Treasury Department, in the absence of reviving RFC, since the problems of liquidating RFC were given by statute to the Secretary of the Treasury. The old War Damage Corporation, an RFC subsidiary, is still in the process of liquidation.

21. *Budgetary control.*—Section 301 (b) makes the FFIA subject to the Government Corporation Control Act, but section 301 (c) makes the Administrator's determination final regarding vouchers he approves in connection with final transactions of all indemnity contracts and reinsurance agreements, even as against the General Accounting Office.

22. *Funds.*—Section 302 authorizes a Federal flood indemnity fund and Federal flood reinsurance fund. Into the indemnity fund are to be placed fees paid by the insured, together with payments by the Federal and State governments. Reinsurance premiums are to be placed in the reinsurance fund. The Administrator is empowered to invest money in both funds in United States obligations. These provisions are satisfactory.

23. *Financing.*—Section 303 authorizes the Administrator to borrow up to \$500 million at any one time from the Secretary of the Treasury in order to finance activities under the bill. The remaining provisions of the section dealing

with interest to be paid on such borrowings are couched in the usual language. Money borrowed is to be placed in the indemnity fund or the reinsurance fund as deemed advisable by the Administrator. The policy question here raised is whether the amount here provided is sufficient, but it should be recalled that indemnity fees are to be collected in advance and that section 305 of the bill authorizes the Secretary of the Treasury to pay valid claims out of the United States Treasury. Presumably the \$500 million borrowing authorization would be called upon to meet the need of the Administrator for indemnity reserves before adequate reserves have been built up over the reasonable period of years allowed by the other portions of the bill. None of this amount is available for Federal administrative expenses since these are to be paid out of appropriated funds under the provisions of section 304 of the bill.

Apparently section 305 sets up a safety valve which gives claimants a direct line to the United States Treasury in the event the Administrator is unable to pay any valid claim under this bill. Also, presumably, no interest is to be paid by the Administrator for the use of money so paid out by the Federal Treasury.

24. Participation.—Title IV of the bill contains general provisions. Section 401 directs the Administrator to encourage maximum participation of private companies under this bill. It directs him to use the services and facilities of public groups and private insurance companies, agents, brokers and adjustment organizations. It authorizes him to agree with private companies that they may act as underwriter agent or claim agent on the Administrator's behalf.

The section does not seem to provide express authority for the Administrator to enter into participation agreements with private companies whereby they will share in the profits or losses from the program in a manner similar to that arrangement carried out by the War Damage Corporation. It is, of course, questionable whether any such grant of authority would be placed in use by private companies at this time.

25. Private takeover.—Section 402 instructs the Administrator to consult with insurance industry representatives to make continuing studies concerning methods for expanding the reinsurance program and for facilitating the takeover of all flood risks by private insurance carriers.

This section appears to have supplanted provisions for a formal advisory board. Under it the Administrator is limited to consultation with insurance industry representatives. Other bills have authorized a broader representation on advisory boards by permitting membership to those familiar with insurance or reinsurance problems.

26. Duration.—No express termination date is provided in this bill. However, section 403 requires the Administrator to send a report to the President on or before January 3, 1961. The President in turn is to submit the report to the Congress. Among other matters it is to contain recommendations for legislation terminating the Government insurance program and providing for assumption of flood risk by private companies or, in the alternative, it is to explain why such legislation would not be feasible or advisable at that time.

As previously pointed out, it is questionable whether the bill sets up a proper yardstick for measuring the feasibility of a flood-insurance program, since it contemplates both Federal and State subsidy of premium payments. Moreover, it does not envision any profit being made on the program; and it requires payment of all Government administrative and operating expenses out of general United States Treasury funds rather than out of funds raised under the indemnity program.

Since the staff study indicated that in any given year the amount of flood damage in the United States varies considerably from the average amount of damage over a long span of years, it is questionable whether a 5-year program will truly test the feasibility of flood insurance. A period of light damage during that 5 years might inaccurately lead to the belief that such a program over a longer period would be commercially profitable. On the other hand, a period of heavy damage during the 5-year period might lead to the unfair conclusion that no private insurance program is commercially feasible while in truth it might prove feasible over a longer period of years.

27. Payment of claims.—Section 404 (a) authorizes the Administrator to pay claims either directly or through his agents. It limits claims to the actual cash value of the indemnified property or the cost of replacing such property with material of like kind or quality, less depreciation at the time of loss. It is suggested that the latter test make it plain that indemnity paid will equal the cost of replacing the damaged property in the condition it was in just before the damage occurred. Translating the formula into a computation of depreciated

value of a damaged road becomes complex when compared with the similar calculation of estimating the actual cost of repair in order to restore the road to its undamaged condition.

28. *Judicial review.*—Section 404 (b) allows a dissatisfied claimant 1 year within which to file suit in the Federal court in the district where the property is located. One year is measured from the date the Administrator mails notice of disallowance in whole or in part to the claimant.

Such a provision will assure judicial review for dissatisfied claimants.

29. *Coordination.*—Section 405 (a) empowers the Administrator to consult with other Government agencies having jurisdiction over land use and flood control, in order to assure that the indemnity and reinsurance program is consistent with the programs of such Government agencies. This apparently is intended to encourage flood zoning. The Administrator is also entitled to the cooperation of other Federal agencies where the Administrator's program may affect existing or proposed flood control works. Finally, the Secretary of Agriculture and the Administrator are to coordinate their respective programs for flood indemnity insurance and reinsurance of agricultural commodities.

Section 405 (b) authorizes the Administrator to receive from or exchange with certain State or private organizations dealing with insurance problems information helpful in establishing fees and premiums and in administering the indemnity and reinsurance programs. As a minor point, it should be noted that this does not expressly authorize the Administrator to supply information to such groups unless he receives something in return for such information. This deficiency could be remedied by adding the word "supply," before the word "receive."

30. *General corporate powers.*—Section 406 grants the Administrator general powers usually assigned to a corporation. These include the authority to sue and be sued; to enter into contracts; to acquire and dispose of real or personal property; to hire employees under the Civil Service and Classification Acts, requiring bonds as necessary (but not authorizing the Administrator to pay bond premiums); to place three positions in supergrades; to conduct necessary research and investigation; to issue rules and regulations; and to exercise incidental powers necessary to carry out the purposes of the bill.

31. *Exemption from attachment.*—Section 407 of the bill exempts claims under the bill from attachment, garnishment, levy or other legal processes and also exempts claims from setoff against indebtedness due the United States. This provision is designed to insure receipt of funds from an approved claim by the person indemnified.

32. *Jurisdiction of real estate.*—Section 408 of the bill preserves civil and criminal jurisdiction for States and political subdivisions over any real property acquired by the Administrator under the bill.

33. *Taxation.*—Section 409 provides that nothing in the bill shall be construed to exempt from taxation by any State or political subdivision any real property acquired and held by the Administrator in connection with the payment of any claim under the bill. This is a provision similar to that contained in comparable portions of the National Housing Act concerning the takeover of property on foreclosure or default. It should be noted that it is limited in scope in that it applies only to property taken over in connection with payment of a claim under this bill.

34. *Separability.*—Section 410 of the bill is the usual separability provision sustaining a portion of the act even though the remainder be held invalid.

Senator LEHMAN. All these bills are officially before us. However, I believe it is a fair statement of this committee's present state of mind to say that the major alternatives before us are the administration bill, S. 2862, introduced by Senator Bush, and the Lehman-Kennedy bill, S. 3137. Senator Kennedy worked with me in the redraft of my bill.

These hearings, therefore, will be largely concerned, I expect, with these two bills and the differences between them. It is my hope that witnesses will direct their remarks to evaluation and constructive criticism of this pending legislation. In a moment, I want to mention some of the differences between the two bills I have mentioned in order to set the stage for these hearings.

Before I do so, however, I think it is important to point out how large the area of agreement is between Senator Bush's bill and my

own. Both bills set up a flood-insurance program. Both recognize that this program breaks new ground, since private insurance companies have not written flood insurance in the past and indeed have asserted their inability to do so. Therefore, both programs recognize that some element of Government subsidy is necessary. Both legislative proposals view the enterprise as one demanding flexibility and an experimental approach.

I believe also that Senator Bush and the administration share with me and my cosponsors a sincere desire to put a workable program into operation as soon as possible.

I have every reason to believe that we may expect quick action from the full committee as soon as this subcommittee is ready to make its recommendations. Moreover, I know that the interest in this program among Senators from all over the country is very great, and I believe we may expect prompt action on the Senate floor. We have the assurance of the majority leader to this effect.

Now let me mention briefly a few of the variances between S. 3137 and S. 2862.

First, the administration bill contains a provision under which no insurance may be issued in a State until that State has made arrangements to pay a portion of the premiums. The Lehman-Kennedy bill contains no such requirement. The program set forth in S. 3137 would be an entirely Federal one, in cooperation with the insurance industry.

Second, the administration bill contains a formula whereby premium rates to be insured are to be set at 60 percent of the actuarial rate, however that may be established. The remaining 40 percent would be paid half by the participating State government and half by the Federal Government. The Lehman-Kennedy bill uses more general language, envisioning a rate below actuarial levels if necessary.

Third, the administration bill would limit policies to one per person. The Lehman-Kennedy bill would place its limits on a per-locus-of-property basis, with a grant of authority to the Administrator to honor original applications before honoring those made by persons who are, as it were, coming around for a second helping.

Fourth, the administration bill would earmark its funds and separate those for direct insurance from those to be used for the reinsurance program. The Lehman-Kennedy bill would not.

There are other differences, some specific and critical, others general and perhaps philosophic. The staff has prepared a detailed comparative analysis of the differences among all three of the bills pending before us, which has already been inserted in the record. (See p. 932.)

Now let us proceed with the hearing which today will be devoted to the administration, and its first witness, Mr. Frank J. Meistrell, Deputy Administrator of the Housing and Home Finance Agency, which under the terms of both the Bush bill and the Lehman-Kennedy bill would administer the insurance program.

Senator BUSH. Mr. Chairman, I would like to compliment the chairman on his opening statement and to assure him of my eagerness to cooperate in any way. As he has pointed out, there is a large area of agreement in these bills, and I think there is no question that the chairman and all of us will work primarily to get something in the nature of a flood insurance bill which people can afford and which can

Comparative analysis of 8 bills on disaster insurance or indemnity, 84th Cong., 2d sess.—Continued

By William F. McKenna, counsel

Item	8, 81st (Senator Lehman and Kennedy)	8, 82nd (Senator Kennedy and McNamara)	8, 83rd (Agreement in the House of a sub-committee)
Total expenses to risk	\$1 billion, plus \$1 billion on July 1, 1957, and \$1 billion on July 1, 1958 (sec. 4 (5)).	Is billion dollars plus 10 billion dollars on July 1, 1958 (sec. 4 (5)).	Is billion dollars plus 10 billion dollars on July 1, 1958 (sec. 4 (5)).
Financing	Borrow up to \$1.5 billion from U. S. Treasury for more if approved by President. Not only up to \$1 billion before July 1, 1957 (sec. 14 (5)).	Appropriation—open end (sec. 4 (6)).	Appropriation—open end (sec. 4 (6)).
Administrative expense	Payable from insurance fund and experience fund in program expense (sec. 14 (1), (3)).	Payable from national flood insurance fund in program expense (sec. 4 (5) and (6)).	Payable from experience fund, but not a two-year experience fund, but not a two-year experience fund (sec. 4 (5)).
Compulsory insurance	Compulsory insurance may enter such Federal participation agreements (sec. 14 (5)).	Administration may enter such Federal participation agreements with Federal participation agreements (sec. 4 (5)).	Administration may enter such Federal participation agreements with Federal participation agreements (sec. 4 (5)).
Private company sharing in profits or losses	Private company sharing in profits or losses	Private company sharing in profits or losses	Private company sharing in profits or losses

CRITIQUE OF S. 2862, WILLIAM F. MCKENNA, COUNSEL, JANUARY 9, 1956

The following observations are made in connection with S. 2862, National Flood Indemnity Act of 1956, introduced by Senator Bush for the administration on January 5, 1956.

1. *Geographic limits.*—Section 3 (e) and (f) of the bill in defining "United States" and "State" omit United States possessions. These could be included by defining the United States and States as the several States, Territories, and possessions, and the District of Columbia.

2. *Personal property.*—Section 101 expressly includes in "personal property" for the purposes of direct Federal flood insurance only business inventories, stored agricultural commodities and household effects. It leaves to the Administrator's determination other personal property to be included. By contrast, section 201 dealing with reinsurance authorizes the Administrator to reinsure companies insuring against flood loss on "personal property," without expressly limiting the type covered.

3. *Flood.*—Section 101 in defining "flood" expressly includes "rising water used by tide, wind, or rain." It leaves to the Administrator discretion to amend this definition by regulation.

4. *Rates.*—Section 102 requires indemnity contract fees to "be based on consideration of the risks involved and the desirability in the public interest of providing indemnity protection at reasonable cost" (a seeming combination of actuarial and subsidy approaches to the ratemaking task).

However, the effect of this language is restricted by a proviso that in setting "the Administrator shall set up estimated rates which would be necessary to provide an adequate reserve to pay all claims for losses over a reasonable period of years" (a nonprofit, actuarial approach, excluding administrative expenses).

The next proviso requires the insured to pay at least 60 percent of this non-actuarial rate, the remainder of 100 percent to be paid half by a State and half by the Federal Government. This leads to the conclusion that a viable cost for indemnity protection is never lower than 60 percent of the actuarial, nonprofit rate. Query whether this is always true in the light of any received by this committee in its disaster insurance hearings. At New York, N. Y., hearing, testimony was given that in one instance Lloyds' quoted a rate of \$250 per \$1,000 value to cover certain real property flood risk. It may well be that 60 percent of this (\$150 per \$1,000) will be too high to form a practical rate at which to sell flood insurance. In such cases, Lloyds' would not insure against flood risk at any rate.

It might prove desirable to allow the administering agency more flexibility in setting rates in order to achieve a flood indemnity program that will provide protection to those who need it.

5. *Reserve buildup.*—Section 102 requires loss reserves to be provided "over a reasonable period of years." Since section 403 contemplates a report to be made by January 3, 1961, on the feasibility of a transfer of the program to private insurance companies, presumably the assumption is that adequate reserves will have been built up by that date—roughly, a 5-year period.

6. *Uniformity.*—Section 102 contemplates uniform rates for similar risks, an important concept in theory. This differs from a uniform national rate for all property of a given type of property.

7. *State participation.*—As worded, section 102 prevents the issuance of a single contract until the State in which the property covered is located has agreed to contribute to the Federal fund the State's allotted portion of the fee due on the contract. This raises a question regarding workability of the entire direct indemnity program if any State legislatures meet only biennially. Failure of a State to contribute its portion of each indemnity contract on property in the State leaves all property in the State from protection under this program. For a given State legislature will be willing to appropriate in advance indefinite sums as may be needed to fulfill the obligation placed on it by this bill. The bill gives the State no voice in the program, but leaves the question of paying for part of it. Taxation without representation between governments as between a government and the governed. If equal participation is desired, it would seem more practical to require the State to contract with the Federal Government to reimburse it an appropriate percentage of claims paid on property in the State during the year, with authority to offset other moneys due the State from the Federal Government in the event of default on such contract. This would permit

FUNDS AND TREASURY BORROWINGS

SEC. 14. (a) To carry out the purposes of this Act, the Commissioner is authorized to establish two funds to be known as the (1) Disaster Insurance Fund, and (2) Disaster Reinsurance Fund.

(b) Into the Disaster Insurance Fund shall be deposited all insurance premiums collected by the Commissioner for insurance policies issued by him under this Act. Into the Disaster Reinsurance Fund shall be deposited all fees collected by the Commissioner in connection with reinsurance made available by him under this Act.

(c) Moneys in each of the funds may be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States. Such obligations may be sold and the proceeds derived therefrom may be reinvested as above provided if deemed advisable by the Commissioner. Income from such investment or reinvestment shall be deposited in the respective fund from which the investment was made.

(d) All salvage proceeds realized by the Commissioner in connection with insurance made available under this Act shall be deposited in the Disaster Insurance Fund; and all salvage proceeds realized by the Commissioner in connection with reinsurance made available under this Act shall be deposited in the Disaster Reinsurance Fund.

(e) The Commissioner is authorized to issue to the Secretary of the Treasury from time to time and have outstanding at any one time, in an amount not exceeding \$1,500,000,000 (or such greater amount as may be approved by the President) notes or other obligations in such forms and denominations, bearing such maturities, and subject to such terms and conditions as may be prescribed by the Commissioner, with the approval of the Secretary of the Treasury: *Provided*, That before July 1, 1957, the amount of such notes or other obligations issued to the Secretary of the Treasury by the Commissioner and outstanding at any one time shall not exceed \$1,000,000,000. Such notes or other obligations shall bear interest at a rate determined by the Secretary of the Treasury, taking into consideration the current average rate on outstanding marketable obligations of the United States of comparable maturities as of the last day of the month preceding the issuance of such notes or other obligations. The Secretary of the Treasury is authorized and directed to purchase any notes and other obligations to be issued hereunder and for such purpose he is authorized to use as a public debt transaction the proceeds from the sale of any securities issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under such Act, as amended, are extended to include any purchases of such notes and obligations. The Secretary of the Treasury may at any time sell any of the notes or other obligations acquired by him under this section. All redemptions, purchases, and sales by the Secretary of the Treasury of such notes or other obligations shall be treated as public debt transactions of the United States. Funds borrowed under this section shall be deposited, in such proportions as the Commissioner deems advisable, in the Disaster Insurance Fund and the Disaster Reinsurance Fund.

(f) Moneys in the Disaster Insurance Fund and the Disaster Reinsurance Fund may be used for the following purposes as deemed necessary by the Commissioner:

(1) To enable the Commissioner to carry out all functions under this Act, including the payment of operating and administrative expenses;

(2) To pay from the Disaster Insurance Fund approved claims for loss under insurance policies issued by the Commissioner under this Act;

(3) To pay from the Disaster Reinsurance Fund approved claims under reinsurance agreements entered into by the Commissioner under this Act; and

(4) To repay to the Secretary of the Treasury sums borrowed from him in accordance with the provisions of subsection (e) of this section.

ADVISORY COMMITTEE

SEC. 15. In carrying out his functions under this Act, the Commissioner shall appoint an advisory committee as authorized by section 807 of the Housing Act of 1954 (68 Stat. 590, 645). Such committee shall consist of not less than three nor more than fifteen persons familiar with the problems of insurance or reinsurance, to advise the Commissioner with respect to the formulation of policies and the execution of functions under this Act.

DEFINITIONS

SEC. 16. (a) As used in this Act, the word "flood" shall include any flood, tidal wave, wave wash or other abnormally high tidal water, hurricane, deluge or the water component of any other severe storm, and landslide due to excess moisture.

(b) As used in this Act, the term "natural disaster" shall include flood as defined above, earthquake, volcanic eruption, severe freeze, blizzard, duststorm, hailstorms, snowslide, explosion, drought, smog, radioactive contamination or other air pollution, and land subsidence due to an underground cave or man-made subterranean excavation, but shall not include fire or wind except where either of such perils occurs as a result of or in conjunction with one of the perils listed herein.

STUDIES

SEC. 17. (a) The Commissioner shall undertake a continuing study of the practicability of extending the coverage of insurance programs similar to those authorized under this Act to one or more of the perils included within the term "natural disaster" as defined in this Act.

(b) The Commissioner shall also undertake a continuing study of participation by private insurance companies in the programs authorized by this Act, in order that the protection it authorizes can be provided, whenever practicable, through insurance policies issued by private insurance companies and reinsured with the Commissioner, in lieu of providing such protection through insurance policies issued in the name of the Commissioner.

(c) The Commissioner shall undertake a continuing study of the feasibility of having private insurance companies take over, with or without some form of Federal financial support, the insurance programs authorized by this Act.

SEC. 18. For the purpose of carrying out functions under this Act the Commissioner may—

(a) sue or be sued;

(b) without regard to sections 3648 and 3709 of the Revised Statutes, as amended (31 U. S. C. 529 and 41 U. S. C. 5), and section 322 of the Act of June 30, 1932 (47 Stat. 412, as amended (40 U. S. C. 278a)), enter into and perform contracts, leases, cooperative agreements, or other transactions, on such terms as he may deem appropriate, with any agency or instrumentality of the United States, or with any State or agency or political subdivision thereof, or with any person, firm, association, or corporation and consent to modification thereof, and make advance or progress payments in connection therewith;

(c) without regard to sections 3648 and 3709 of the Revised Statutes, as amended (31 U. S. C. 529 and 41 U. S. C. 5), and section 322 of the Act of June 30, 1932 (47 Stat. 412, as amended (40 U. S. C. 278a)), by purchase, lease, or donation acquire such real and personal property and any interest therein, make advance or progress payments in connection therewith, and hold, use, maintain, insure against loss, sell, lease, or otherwise dispose of such real and personal property as the Commissioner deems necessary to carry out the purposes of the Act;

(d) appoint, pursuant to civil-service laws and regulations, such officers, attorneys, and employees as may be necessary to carry out the purposes of this Act; fix their compensation in accordance with the provisions of the Classification Act of 1949, as amended; define their authority and duties; require bonds from such of them as may be necessary; and delegate to them, and authorize successive redelegations by them, of such of the powers vested in him by this Act as he may determine;

(e) issue such rules and regulations as he deems necessary to carry out the purposes of this Act; and

(f) exercise all powers specifically granted by the provisions of this Act and such incidental powers as are necessary to carry out the purposes of this Act.

RESERVATION OF RIGHTS IN REAL ESTATE ACQUIRED

SEC. 19. The acquisition by the Commissioner of any real property pursuant to this Act shall not deprive any State or political subdivision thereof of its civil or criminal jurisdiction in and over such property or impair the civil rights under the State or local law of the inhabitants on such property.

TAXATION

SEC. 20. Nothing in this Act shall be construed to exempt any real property, acquired and held by the Commissioner in connection with the payment of any claim under this Act, from taxation by any State or political subdivision thereof, to the same extent, according to its value, as other real property is taxed.

ANNUAL REPORT

SEC. 21. The annual report made by the Housing and Home Finance Administrator to the President for submission to the Congress under existing law on all programs provided for under this Act shall contain a comprehensive report concerning (1) the operation of insurance and reinsurance programs authorized under this Act, and (2) the status and result of studies authorized under section 17 of this Act, together with such recommendations, if any, for legislative changes deemed by the Commissioner desirable to improve the operation of programs authorized under this Act. The annual report for the calendar year ending December 31, 1961, shall contain an express opinion of the Commissioner, supported by pertinent findings, concerning the advisability of withdrawing in whole or in part Federal financial support for insurance policies to be issued at any time after June 30, 1962, offering protection against one or more of the perils included in natural disasters as defined in this Act, taking into consideration the desirability of offering protection against such perils. Such opinion shall be accompanied by recommendations for legislative changes deemed desirable by the Commissioner in the event the opinion is to the effect that any such withdrawal of financial support is advisable. Unless and until an affirmative opinion is rendered, the annual report for every fifth calendar year after 1961 shall contain an express opinion of the Commissioner on this matter, supported by pertinent findings.

SEPARABILITY PROVISION

SEC. 22. If any provision of this Act or the application of such provision to any person or circumstances shall be held invalid, the remainder of the Act and the application of such provision to any person or circumstance other than those as to which it is held invalid shall not be affected thereby.

SECTIONAL ANALYSIS OF S. 3137

Section 1—Short title

Federal Flood Insurance Act of 1956.

Section 2—Findings and declaration of policy

(a) Findings of need for national program of insurance against flood loss and study of insurance against loss from other natural disasters.

(b) Purpose of act: (1) to provide such a program; and (2) to encourage private insurance of excess loss above Federal coverage, with Federal reinsurance, as necessary.

Section 3—Federal Flood Insurance Administration

(a) Creates constituent agency within HHFA to be named Federal Flood Insurance Administration and to be headed by Commissioner appointed by President subject to Senate confirmation. HHFA has general supervision but policy decisions remain with Commissioner.

(b) Administration made subject to Government Corporation Control Act.

(c) Official financial transactions of Commissioner binding on Government officers; annual audit to be made by GAO.

Section 4—Authority to insure and reinsure

Commissioner directed to provide insurance against flood loss to real and personal property, owned privately or by State or local government; and Commissioner directed and authorized to reinsure against such loss; program operative in United States (including District of Columbia), its Territories and possessions and Puerto Rico.

Section 5—Premium rates

Commissioner to establish them. Rates to be based on consideration of risks, administrative and operating expenses and need for reserves but rates to be consistent with the aim of offering protection at reasonable rates.

Section 6—Property and loss limits

Commissioner may determine types and location of property covered, nature and limits of loss in any area, and other necessary matters.

Section 7—Risk classification

(a) Preference granted to original applications over second applications for insurance.

(b) Commissioner may regulate classification and limitation of risks.

Section 8—Policy and program limits

(a) Face amount of insurance issued by Commissioner limited to \$10,000 on 1- to 4-family residence, including contents, and \$100,000 on any other single piece of real property or personal property in any single location. Claim for loss not to exceed actual value of property or cost of replacing in prior condition, whichever is lower. Loss deduction clause of \$100 or up to \$200 as specified by Commissioner.

(b) Total liability of Commissioner under insurance and reinsurance program not to exceed \$1 billion originally, plus an additional \$1 billion each on July 1, 1957, and July 1, 1958.

Section 9—Reinsurance regulatory authority

(a) Commissioner authorized to regulate reinsurance.

(b) Premium rates, terms, and conditions of reinsured policy are subject to Commissioner's approval.

(c) Commissioner to use best efforts to encourage private insurance companies to issue policies covering excess of loss above Federal policy limits. Commissioner to offer suitable program of reinsurance for this purpose.

(d) Commissioner to encourage private insurance companies to insure against loss from floods; Commissioner to offer suitable reinsurance.

Section 10—Nonduplication of available insurance

(a) No insurance or reinsurance to be issued against risks if available on reasonable terms from public or private sources.

(b) No insurance or reinsurance to be issued on property in violation of flood zoning laws.

Section 11—Use of other public and private facilities

(a) Commissioner to use private insurance facilities to maximum practicable extent and may pay reasonable compensation.

(b) Commissioner may allow financial participation of private insurance companies in profit or loss under program.

(c) Commissioner may use services of other public agencies for reasonable compensation.

(d) Commissioner may exchange information with private insurance organizations and other public agencies.

Section 12—Federally aided property

Federal agency aiding construction, repair, or purchase of property may require it to be insured against natural disaster to the extent such insurance is available.

Section 13—Claims payments and judicial review

(a) Commissioner to arrange for prompt adjustment and payment of claims, collecting any share due from participating private companies.

(b) Claim exempted from attachment, levy or garnishment and offset against other claims due the United States.

(c) Dissatisfied claimant may sue Commissioner in United States district court within 1 year after receipt of notice of total or partial disallowance of claim.

Section 14—Funds and Treasury borrowing

(a) Commissioner to establish disaster insurance fund and disaster reinsurance fund.

(b) Insurance premiums for insurance issued by Commissioner are to be deposited in disaster insurance fund. Reinsurance fees go into disaster reinsurance fund.

(c) Moneys in each fund may be invested in United States obligations.

(d) Salvage proceeds go to appropriate fund.

(e) Commissioner may borrow up to \$1.5 billion (or greater amount approved by President) from Secretary of Treasury; *Provided*, That before July 1, 1957,

limit is \$1 billion. Terms and conditions of evidences of indebtedness to meet approval of Commissioner and Secretary of Treasury. Interest rate fixed by Secretary of Treasury according to formula prescribed. Borrowed funds deposited in appropriate fund.

(f) Disaster insurance fund and disaster reinsurance fund usable for (1) operating and administrative expenses, (2) payment of claims, and (3) repayment of Treasury borrowing.

Section 15—Advisory committee

Commissioner shall appoint advisory committee of 3 to 15 familiar with insurance or reinsurance problems.

Section 16—Definitions

(a) "Flood" includes flood, tidal wave, wave wash, high tidal water, hurricane, deluge, water component of severe storm, and landslide due to excess moisture.

(b) "Natural disaster" includes flood, plus earthquake, volcanic eruption, severe freeze, blizzard, duststorm, hailstorm, snowslide, explosion, drought, smog, radioactive contamination, other air pollution, land subsidence, excluding fire or wind except where either occurs as result of or in conjunction with one of the listed perils.

Section 17—Studies

(a) Commissioner to study practicability of extending program to other natural disasters besides flood.

(b) Commissioner to study reinsurance program to avoid need for flood insurance by Federal Government.

(c) Commissioner to study feasibility of private insurance takeover of act's programs with or without Federal financial support.

Section 18—Additional powers

Commissioner may—

- (a) sue or be sued;
- (b) enter contracts freely;
- (c) acquire real or personal property;
- (d) hire employees;
- (e) issue necessary rules and regulations;
- (f) exercise specific and necessary implied powers.

Section 19—Reservation of rights

Commissioner's acquisition of real property shall not take away State or local jurisdiction.

Section 20—Taxation

Act not to be construed to exempt from State or local taxation any real property acquired by Commissioner due to payment of claims.

Section 21—Annual report

Annual report by HHFA to President for submission to Congress shall report comprehensively (1) operation of act's programs; and (2) status of studies under section 17, plus legislative recommendations, if any. Annual report for calendar year 1961 to contain Commissioner's opinion regarding advisability of withdrawing in whole or in part Federal aid for insurance under act after June 30, 1962. Affirmative opinion to be accompanied by legislative recommendations. Until affirmative opinion is given, similar report should be made every fifth year.

Section 22—Separability provision

Comparative analysis of 3 bills on disaster insurance or indemnity, 84th Cong., 2d sess.¹

By William F. McKenna, counsel

Item	S. 3137 (Senators Lehman and Kennedy)	S. 2768 (Senators Kennedy and Saltonstall)	S. 2802—Amendment in the nature of a substitute (Senator Bush)
1. Administering agency.....	New Federal Flood Insurance Administration in HHFA (sec. 3).	President names agency (sec. 3 (a)).	New commissioner in HHFA. Policy power given HHFA Administrator (sec. 301).
2. Risks covered.....	Flood, as defined. Study coverage of other natural disasters, as defined (secs. 4, 16 and 17).	Flood, hurricane, tides, tidal wave and high water (sec. 3 (a)).	Indemnity: Flood, including rising water from tide, wind or rain. Administrator may expand definition (sec. 101).
3. Nature of property covered.....	Real or personal property (sec. 4).	Real property and business inventories (sec. 3 (a)).	Reinsurance: Flood (sec. 201). Indemnity: Real property plus business inventories, stored farm commodities, household effects and other personal property designated by Administrator (sec. 101). Reinsurance: Real or personal property (sec. 201).
4. Ownership of property covered.....	Private, State and local government (sec. 4).	Private (sec. 3).	Indemnity: Private, State and local government (secs. 3 (b) and 101). Reinsurance: No express limitation.
5. Per person or per property limit.....	Insurance: Per property limit on policies (sec. 8 (a)).	Insurance: Per single piece of real property limit on policies (sec. 3 (e)).	Indemnity: Per person limit on policies (secs. 3 (b) and 105). None.
6. Application preference.....	Insurance: Original application may get 1st preference (sec. 7 (a)).	None.	Indemnity: Adequate to provide claim reserve over reasonable period of years; consider risks and desirability of providing protection at reasonable cost. Does not cover United States administrative expense (sec. 102).
7. Rate-making.....	Based on risks and adequate to cover administrative and operating expense and loss reserves but consider basis only to extent necessary to provide insurance to those who need it at rates they can afford (sec. 5).	Based on risks and adequate to cover administrative and operating expense and loss reserves so far as practicable (sec. 3 (b)).	Reinsurance: Consider risks; adequate to cover losses over reasonable period of years (sec. 202).
8. Premium paid by.....	Insurance: Insured (sec. 5). Reinsurance: Insuring company (sec. 5).	Insurance: Insured (sec. 3 (b)). Reinsurance: Insuring company (sec. 3 (b)).	Indemnity: At least 60 percent of nonprofit actuarial rate (excluding administrative expense) by insured; the balance $\frac{1}{4}$ by State $\frac{1}{4}$ by United States (sec. 102). Reinsurance: Insuring company (sec. 202).
9. Loss deductible.....	Insurance: \$100 per claim or up to \$200 if Commissioner so decides (sec. 8 (a)).	Insurance: \$300 plus 10 percent of balance of claim, more if Administrator so decides (sec. 3 (e)).	Indemnity: \$300 plus 10 percent of balance of claim, or more if contract so provides (sec. 105).
10. Declining individual application or risk.....	No express provision.	Administrator may decline applications and risks as he deems advisable (sec. 3 (c)).	Administrator may decline any application or risk for indemnity coverage (sec. 103).
11. Limit per policy.....	Insurance: \$10,000 for 1- to 4-family homes. \$100,000 for other property (sec. 8 (a)). Reinsurance: Commissioner's discretion (sec. 9).	Insurance: \$250,000 (sec. 3 (e)). Reinsurance: Administrator's discretion (sec. 3 (e)).	Indemnity: \$250,000 (sec. 105). Reinsurance: Administrator's discretion (sec. 203 (3)).

See footnote, p. 932.

Comparative analysis of 3 bills on disaster insurance or indemnity, 84th Cong., 2d sess.¹—Continued

By William F. McKenna, counsel

Item	S. 3137 (Senators Lehman and Kennedy)	S. 2768 (Senators Kennedy and Saltonstall)	S. 2862—Amendment in the nature of a substitute (Senator Bush)
12. Total exposure to risk.....			Indemnity: \$1.9 billion, plus \$1 billion with President's approval (sec. 108).
13. Financing.....	\$1 billion, plus \$1 billion on July 1, 1957, and \$1 billion on July 1, 1958 (sec. 8 (b)). Borrow up to \$1.5 billion from U. S. Treasury (or more if approved by President), but only up to \$1 billion before July 1, 1957 (sec. 14 (e)). Payable from insurance fund and reinsurance fund (a program expense) (sec. 14 (f) (1)). Federal agency giving aid may require (sec. 12).....	$\frac{1}{4}$ billion dollars, plus $\frac{1}{4}$ billion dollars on July 1, 1957, and $\frac{1}{2}$ billion dollars on July 1, 1958 (sec. 3 (f)). Appropriations—open end (sec. 4 (a)). Payable from national flood insurance fund (a program expense) (secs. 3 (b) and 4 (c)). Federal agency giving aid may require (sec. 6 (c)). Administrator may enter such financial participation agreement with person or company authorized to do insurance business (sec. 3 (d)). 6 or more experienced in writing property insurance (sec. 7).	Reinsurance: \$100 million (sec. 205). Borrow up to $\frac{1}{4}$ billion dollars from U. S. Treasury (not over \$100 million until July 1, 1957, unless approved by President) (sec. 303). Payable from appropriated funds (not a program expense) (secs. 102, 304, and 305). No provision.
14. Administrative expense.....			No express provision regarding sharing of profit or loss by private companies. Administrator to develop reinsurance program (sec. 401).
15. Compulsory insurance.....	Commissioner may enter such financial participation agreements (sec. 11 (b)).		No formal committee beyond authority to appoint advisory committees under Housing Act of 1954. Administrator to consult with insurance industry representatives to encourage risk takeover (sec. 402).
16. Private company sharing in profits or losses.....	3 to 15 familiar with insurance or reinsurance (sec. 15).	No provision. No express provision.	Disaffected claimant may sue in United States district court within 1 year after disallowance notice is mailed (sec. 404 (b)).
17. Advisory Committee.....	Claims are exempted from levy (sec. 13 (b)). Disaffected claimant may sue in United States district court within 1 year after receipt of disallowance notice (sec. 13 (c)). United States, District of Columbia, Territories, possessions, and Commonwealth of Puerto Rico (sec. 4).	United States, Territories and possessions (sec. 3 (a)). None.	United States (including District of Columbia), Territories, possessions, and Puerto Rico. (secs. 3 (e) and (f), 101 and 201). Report to President on or before Jan. 3, 1961, on feasibility of takeover by private insurance companies. No other express termination date (sec. 403).
18. Exemption from levy.....			
19. Court review.....			
20. Geographic coverage.....			
21. Termination.....	None, but study takeover by private insurance companies and give express opinion every 5th year on feasibility (sec. 21).		

¹ Each item applies to both insurance or indemnity and reinsurance unless otherwise noted.

CRITIQUE OF S. 2862, WILLIAM F. McKENNA, COUNSEL, JANUARY 9, 1956

The following observations are made in connection with S. 2862, National Flood Indemnity Act of 1956, introduced by Senator Bush for the administration on January 5, 1956.

1. *Geographic limits.*—Section 3 (e) and (f) of the bill in defining "United States" and "State" omit United States possessions. These could be included by defining the United States and States as the several States, Territories, and possessions, and the District of Columbia.

2. *Personal property.*—Section 101 expressly includes in "personal property" for the purposes of direct Federal flood insurance only business inventories, stored agricultural commodities and household effects. It leaves to the Administrator's determination other personal property to be included. By contrast, section 201 dealing with reinsurance authorizes the Administrator to reinsure companies insuring against flood loss on "personal property," without expressly limiting the type covered.

3. *Flood.*—Section 101 in defining "flood" expressly includes "rising water caused by tide, wind, or rain." It leaves to the Administrator discretion to expand this definition by regulation.

4. *Rates.*—Section 102 requires indemnity contract fees to "be based on consideration of the risks involved and the desirability in the public interest of providing indemnity protection at reasonable cost" (a seeming combination of actuarial and subsidy approaches to the ratemaking task).

However, the effect of this language is restricted by a proviso that in setting fees "the Administrator shall set up estimated rates which would be necessary to provide an adequate reserve to pay all claims for losses over a reasonable period of years" (a nonprofit, actuarial approach, excluding administrative expenses).

The next proviso requires the insured to pay at least 60 percent of this nonprofit, actuarial rate, the remainder of 100 percent to be paid half by a State and half by the Federal Government. This leads to the conclusion that a reasonable cost for indemnity protection is never lower than 60 percent of the actuarial, nonprofit rate. Query whether this is always true in the light of testimony received by this committee in its disaster insurance hearings. At the Goshen, N. Y., hearing, testimony was given that in one instance Lloyds' of London quoted a rate of \$250 per \$1,000 value to cover certain real property against flood risk. It may well be that 60 percent of this (\$150 per \$1,000) would still be too high to form a practical rate at which to sell flood insurance. In other cases, Lloyds' would not insure against flood risk at any rate.

It might prove desirable to allow the administering agency more flexibility in establishing rates in order to achieve a flood indemnity program that will truly provide protection to those who need it.

5. *Reserve buildup.*—Section 102 requires loss reserves to be provided "over a reasonable period of years." Since section 403 contemplates a report to the Congress by January 3, 1961, on the feasibility of a transfer of the program to private insurance companies, presumably the assumption is that adequate reserves will have been built up by that date—roughly, a 5-year period.

6. *Uniformity.*—Section 102 contemplates uniform rates for similar risks, an acceptable concept in theory. This differs from a uniform national rate for all contracts on a given type of property.

7. *State participation.*—As worded, section 102 prevents the issuance of a single indemnity contract until the State in which the property covered is located has paid into a Federal fund the State's allotted portion of the fee due on the contract. This raises a question regarding workability of the entire direct indemnity program. Many State legislatures meet only biennially. Failure of a State to provide for its portion of each indemnity contract on property in the State would deprive all property in the State from protection under this program. Query whether a given State legislature will be willing to appropriate in advance such indefinite sums as may be needed to fulfill the obligation placed on the State under this bill. The bill gives the State no voice in the program, but only the obligation of paying for part of it. Taxation without representation is as abhorrent between governments as between a government and the governed.

If State financial participation is desired, it would seem more practical to require the State to contract with the Federal Government to reimburse it annually for a fixed percentage of claims paid on property in the State during the preceding year; with authority to offset other moneys due the State from the Federal Government in the event of default on such contract. This would permit

the program to go forward without requiring as a condition precedent that the State participate in each separate contract fee payment.

Testimony given the committee demonstrated the flood problem to be more national than intrastate in character. Flood conditions in one State may well be caused or contributed to by action or inaction of a second State wholly outside the remedial jurisdiction of the suffering State. National problems should be openly met by Federal measures, not allowed to lack solution by invoking hybrid Government devices resulting in a program whose benefits may prove more illusory than real.

Under the bill the State involved retains a veto power over every potential indemnity contract; yet the contract is designed to afford protection to the insured, not to the State.

Under the bill, each contract involves a forced subsidy on the part of the State involved, for no method is provided for returning funds to the State should the program prove to be profitable. The bill obviously hopes to make the program profitable, as section 403 envisions assumption of flood risks by private insurance companies. Yet it seems to assume a program normally working with compulsory Federal and State subsidies, hardly a proper yardstick to measure public acceptability by potential insureds of a similar protective program in which the insured must pay 100 percent of the actuarial fee plus enough to pay operating costs and produce an acceptable profit.

Technically it would be possible to omit the States from consideration under the bill even under its present language if the insured paid 100 percent of the actuarial fee, but this would too likely prove prohibitive.

For many reasons, this method of compulsory State participation bears careful scrutiny. It raises serious doubts regarding workability of the indemnity program on a nationwide basis.

8. Administrative expense.—Section 102 requires all Federal administrative expenses under the indemnity program to be paid from appropriations out of the Federal Treasury. A private insurance company would of necessity pay administrative expenses out of fees, earnings and salvage from the insurance program. The bill's method thus provides an unrealistic and short yardstick against which to measure the ultimate feasibility of the indemnity program as a profitable commercial venture, even without considering the nonprofit nature of the bill's program.

The Federal crop-insurance program began with a similar device; but more recently has charged some operating expenses against the program.

9. Declining applications and risks.—Section 103 authorizes the Administrator to decline any application or risk, as well as regulating the classification, limitation, and rejection of risks. Under the power to decline any application, there is the danger the Administrator may play favorites or use discrimination in the absence of further statutory safeguards. Under the power to decline any risk, there is the danger the Administrator may thwart congressional intent through inordinate caution in excluding from coverage risks intended to be covered by this act. The Administrator's other powers to vary fee schedules according to risks should prove adequate to exclude inadvisable risks.

10. Crop insurance.—Section 104 precludes indemnity if flood insurance is obtainable on reasonable rates and conditions from a public program. This presents a problem of cooperating with the Federal crop-insurance program, which presently covers only about 800 out of 3,000 counties. Under the bill's present language, the Administrator could issue in-ground crop insurance against flood in the cases in which insurance is not available from the Federal Crop Insurance Corporation.

11. Indemnity contract limit.—Section 105 limits each indemnity contract to a Federal obligation of \$250,000 per person (including a corporation or like organization and a State and local government). Most insurance contracts operate on a per property rather than a per person basis.

The limit is obviously a policy matter. It would seem needlessly high for owner-occupants of single family dwellings. It might well prove too low to meet the flood insurance needs of many business enterprises. A classified lower limit for residences and higher limit for other property might better distribute the allotted indemnity funds according to need, especially if changed to a per property rather than a per person basis.

This provision in section 105 speaking of "obligating the United States" not in excess of \$250,000 per contract leaves doubt as to whether \$250,000 is the top face limit per contract. Another possible interpretation requires consideration of the provision in section 105 that the United States has no obligation to pay

at least the first \$300 of any claim and 10 percent of the balance of the claim. Would this permit the face amount of each contract to run as high as \$278,077 (\$278,077—\$300—[10 percent of the difference between \$278,077 and \$300=\$27,777]=\$250,000)? This could be clarified by placing the limit on the "face amount of the contract."

Computation indicates that under the present bill 7,600 contracts could be issued having a face amount of \$278,077 if the aggregate United States exposure is limited to \$1.9 billion. Increasing the aggregate limit by \$1 billion, as permitted by the bill with Presidential approval, would increase the number of possible contracts by 4,000 for a total of 11,600 contracts. Reducing the limit per policy to \$28,080 would increase the potential number of policies to 116,000. At a limit of \$11,410 the contract potential expands to about 290,000 in number.

These figures compare with some 164 million United States population (comprising about 42 million families) and 4 million business enterprises (of which about 2 million are 1-or-2-man enterprises, mainly in the service field). Under the bill's policy of only 1 contract per "person," as defined in the bill, this allows about 1 contract for every 150 potential family, corporate or Government purchasers. Obviously not all these will want to buy flood insurance. But most businesses and governments will want to buy more than the \$11,410 limit used in arriving at this ratio. The problem is raised whether this size program will give a true test of the feasibility of the program, since the principle of adverse selection will work to induce those most exposed to flood risk to apply early for indemnity contracts, leaving more desirable risks to compete for such portion, if any, of the total authorized coverage as remains after the greatest risks have been covered.

12. *Loss deductible.*—Section 105 employs a formula to determine the minimum loss deductible. This is \$300 plus 10 percent of the remainder of any claim. In principle this serves the threefold purpose of eliminating nuisance claims, cutting operating costs, and requiring the insured to share the risk on all portions of the insured loss. I understand the more normal insurance practice to be to have a fixed dollar amount loss deductible (frequently \$50 on standard extended coverage). The risk-sharing device is obtained by coinsurance requirements, forcing the insured to carry insurance on a substantial portion of the value of the property under the penalty of otherwise receiving only partial recovery for a partial loss under the policy.

It should be borne in mind that the higher the loss deductible, the less benefit the policy gives the insured. A disaster victim frequently needs all the cash or credit he can obtain in order to recoup his losses.

13. *Aggregate liability.*—Section 106 of the bill permits a total aggregate liability of \$1.9 billion under indemnity contracts and permits the President to increase this by an additional \$1 billion. This section also permits the Administrator to earmark portions of this amount for geographic areas of the United States according to the needs of persons in such areas.

The policy decision to be made on this point is whether an aggregate permissible exposure to risk of \$1.9 billion is sufficient to supply the needs of the country for flood insurance, considering the limitation this places on the number of contracts which may be issued when taken in conjunction with the individual limit per indemnity contract.

14. *Reinsurance scope.*—Title II of the bill deals with reinsurance. Section 201 authorizes Federal reinsurance of insurance companies against loss on account of flood insurance on real or personal property. Such reinsurance can be issued only as necessary to enable insurance companies to provide insurance where it would otherwise not be available. It should be noted that this provision leaves with the Administrator complete discretion as to type of insurance to be provided. It also permits coverage of all types of personal property. However, it makes it necessary to determine whether the insurance involved is presently available, presumably on any terms; otherwise, the Administrator would not be authorized to issue reinsurance under the provisions of this bill. Interpretation of this provision raises this difficult problem. Testimony given the committee in its field hearings shows that insurance companies in the Lloyds' group offered flood risk coverage on some real property in the United States at a rate of \$250 per \$1,000 valuation. A question is raised as to whether such an offer is to be interpreted under the bill as meaning that insurance is available against flood risk under such conditions.

15. *Reinsurance premium rates.*—Section 202 requires the Administrator to fix rates for reinsurance upon consideration of the risks and requires the rates to be adequate in his judgment to cover all claims for losses under reinsurance.

agreements over a reasonable period of years. This seems to require the Administrator to calculate such rates on an actuarial basis. It raises the question whether a private company could successfully compete with the subsidized direct Government indemnity contract program even if the private company wished to make use of the reinsurance provisions in the bill. The direct indemnity contract provisions contemplate a subsidy. The reinsurance provisions appear not to, except for administrative expense.

16. *Uniformity of rates.*—Section 202 requires reinsurance rates to be uniform throughout the United States for similar risks. This provision is acceptable, since it allows a difference in rates according to risk involved.

17. *Conditions in policies reinsured.*—Section 203 of the bill grants the Administrator regulatory authority over the terms and conditions of insurance policies reinsured under the bill. Obviously, such control should be retained by the Administrator.

18. *Noncompetition.*—Section 204 of the bill precludes the issuance of reinsurance if it is otherwise available at reasonable rates and upon reasonable conditions from private sources. It should be noted that this specifically refers to reinsurance being available rather than insurance. The provision is proper as to reinsurance.

19. *Aggregate exposure to risk on reinsurance.*—Section 205 earmarks \$100 million as the top exposure to risk on reinsurance under this bill. This raises the policy question as to the sufficiency of this amount when balanced against an authorized exposure to risk of \$2.9 billion on indemnity contracts issued by the United States directly. It also has the effect of isolating this particular \$100 million, making it unusable for direct indemnity contracts in the event no need develops for its use under the reinsurance program.

20. *Administering agency.*—Title III of the bill provides for administration and financing of the program. Section 301 creates a new constituent administration within the Housing and Home Finance Agency similar to FHA and PHA from a housekeeping standpoint. This new unit would be known as the Federal Flood Indemnity Administration headed by a Commissioner appointed by the Administrator. The bill does not contemplate confirmation of the Administrator by the Senate, a departure from the requirement for the heads of FHA and PHA. Placing administration within a constituent agency of HHFA obviously raises a policy question. Presumably the main function of the Housing and Home Finance Agency is to coordinate housing programs of the Government. Under the bill indemnity contracts would cover other types of property besides housing, namely business properties and property owned by State and local governments. Under present programs the experience of the HHFA with insurance is primarily limited to general supervision of the mortgage insurance program administered by FHA. Whether this differing type of insurance is persuasive as to placing administration of the flood indemnity program within HHFA is a matter for policy decision. Other programs have suggested that the choice of the administering agency be left to the President; or that the Small Business Administration be named since it already handles a disaster loan program for business and homes; or that the Federal Civil Defense Administration be named on the theory that it could complement its wartime duties with training received in administering the peace-time disaster insurance program, especially since it already acts as Federal coordinator for disaster relief under an Executive order. A further possibility would be to name the Treasury Department, in the absence of reviving RFC, since the problems of liquidating RFC were given by statute to the Secretary of the Treasury. The old War Damage Corporation, an RFC subsidiary, is still in the process of liquidation.

21. *Budgetary control.*—Section 301 (b) makes the FFAA subject to the Government Corporation Control Act, but section 301 (c) makes the Administrator's determination final regarding vouchers he approves in connection with final transactions of all indemnity contracts and reinsurance agreements, even as against the General Accounting Office.

22. *Funds.*—Section 302 authorizes a Federal flood indemnity fund and Federal flood reinsurance fund. Into the indemnity fund are to be placed fees paid by the insured, together with payments by the Federal and State governments. Reinsurance premiums are to be placed in the reinsurance fund. The Administrator is empowered to invest money in both funds in United States obligations. These provisions are satisfactory.

23. *Financing.*—Section 303 authorizes the Administrator to borrow up to \$500 million at any one time from the Secretary of the Treasury in order to finance activities under the bill. The remaining provisions of the section dealing

with interest to be paid on such borrowings are couched in the usual language. Money borrowed is to be placed in the indemnity fund or the reinsurance fund as deemed advisable by the Administrator. The policy question here raised is whether the amount here provided is sufficient, but it should be recalled that indemnity fees are to be collected in advance and that section 305 of the bill authorizes the Secretary of the Treasury to pay valid claims out of the United States Treasury. Presumably the \$500 million borrowing authorization would be called upon to meet the need of the Administrator for indemnity reserves before adequate reserves have been built up over the reasonable period of years allowed by the other portions of the bill. None of this amount is available for Federal administrative expenses since these are to be paid out of appropriated funds under the provisions of section 304 of the bill.

Apparently section 305 sets up a safety valve which gives claimants a direct line to the United States Treasury in the event the Administrator is unable to pay any valid claim under this bill. Also, presumably, no interest is to be paid by the Administrator for the use of money so paid out by the Federal Treasury.

24. Participation.—Title IV of the bill contains general provisions. Section 401 directs the Administrator to encourage maximum participation of private companies under this bill. It directs him to use the services and facilities of public groups and private insurance companies, agents, brokers and adjustment organizations. It authorizes him to agree with private companies that they may act as underwriter agent or claim agent on the Administrator's behalf.

The section does not seem to provide express authority for the Administrator to enter into participation agreements with private companies whereby they will share in the profits or losses from the program in a manner similar to that arrangement carried out by the War Damage Corporation. It is, of course, questionable whether any such grant of authority would be placed in use by private companies at this time.

25. Private takeover.—Section 402 instructs the Administrator to consult with insurance industry representatives to make continuing studies concerning methods for expanding the reinsurance program and for facilitating the takeover of all flood risks by private insurance carriers.

This section appears to have supplanted provisions for a formal advisory board. Under it the Administrator is limited to consultation with insurance industry representatives. Other bills have authorized a broader representation on advisory boards by permitting membership to those familiar with insurance or reinsurance problems.

26. Duration.—No express termination date is provided in this bill. However, section 403 requires the Administrator to send a report to the President on or before January 3, 1961. The President in turn is to submit the report to the Congress. Among other matters it is to contain recommendations for legislation terminating the Government insurance program and providing for assumption of flood risk by private companies or, in the alternative, it is to explain why such legislation would not be feasible or advisable at that time.

As previously pointed out, it is questionable whether the bill sets up a proper yardstick for measuring the feasibility of a flood-insurance program, since it contemplates both Federal and State subsidy of premium payments. Moreover, it does not envision any profit being made on the program; and it requires payment of all Government administrative and operating expenses out of general United States Treasury funds rather than out of funds raised under the indemnity program.

Since the staff study indicated that in any given year the amount of flood damage in the United States varies considerably from the average amount of damage over a long span of years, it is questionable whether a 5-year program will truly test the feasibility of flood insurance. A period of light damage during that 5 years might inaccurately lead to the belief that such a program over a longer period would be commercially profitable. On the other hand, a period of heavy damage during the 5-year period might lead to the unfair conclusion that no private insurance program is commercially feasible while in truth it might prove feasible over a longer period of years.

27. Payment of claims.—Section 404 (a) authorizes the Administrator to pay claims either directly or through his agents. It limits claims to the actual cash value of the indemnified property or the cost of replacing such property with material of like kind or quality, less depreciation at the time of loss. It is suggested that the latter test make it plain that indemnity paid will equal the cost of replacing the damaged property in the condition it was in just before the damage occurred. Translating the formula into a computation of depreciated

value of a damaged road becomes complex when compared with the similar calculation of estimating the actual cost of repair in order to restore the road to its undamaged condition.

28. *Judicial review.*—Section 404 (b) allows a dissatisfied claimant 1 year within which to file suit in the Federal court in the district where the property is located. One year is measured from the date the Administrator mails notice of disallowance in whole or in part to the claimant.

Such a provision will assure judicial review for dissatisfied claimants.

29. *Coordination.*—Section 405 (a) empowers the Administrator to consult with other Government agencies having jurisdiction over land use and flood control, in order to assure that the indemnity and reinsurance program is consistent with the programs of such Government agencies. This apparently is intended to encourage flood zoning. The Administrator is also entitled to the cooperation of other Federal agencies where the Administrator's program may affect existing or proposed flood control works. Finally, the Secretary of Agriculture and the Administrator are to coordinate their respective programs for flood indemnity insurance and reinsurance of agricultural commodities.

Section 405 (b) authorizes the Administrator to receive from or exchange with certain State or private organizations dealing with insurance problems information helpful in establishing fees and premiums and in administering the indemnity and reinsurance programs. As a minor point, it should be noted that this does not expressly authorize the Administrator to supply information to such groups unless he receives something in return for such information. This deficiency could be remedied by adding the word "supply," before the word "receive."

30. *General corporate powers.*—Section 406 grants the Administrator general powers usually assigned to a corporation. These include the authority to sue and be sued; to enter into contracts; to acquire and dispose of real or personal property; to hire employees under the Civil Service and Classification Acts, requiring bonds as necessary (but not authorizing the Administrator to pay bond premiums); to place three positions in supergrades; to conduct necessary research and investigation; to issue rules and regulations; and to exercise incidental powers necessary to carry out the purposes of the bill.

31. *Exemption from attachment.*—Section 407 of the bill exempts claims under the bill from attachment, garnishment, levy or other legal processes and also exempts claims from setoff against indebtedness due the United States. This provision is designed to insure receipt of funds from an approved claim by the person indemnified.

32. *Jurisdiction of real estate.*—Section 408 of the bill preserves civil and criminal jurisdiction for States and political subdivisions over any real property acquired by the Administrator under the bill.

33. *Taxation.*—Section 409 provides that nothing in the bill shall be construed to exempt from taxation by any State or political subdivision any real property acquired and held by the Administrator in connection with the payment of any claim under the bill. This is a provision similar to that contained in comparable portions of the National Housing Act concerning the takeover of property on foreclosure or default. It should be noted that it is limited in scope in that it applies only to property taken over in connection with payment of a claim under this bill.

34. *Separability.*—Section 410 of the bill is the usual separability provision sustaining a portion of the act even though the remainder be held invalid.

Senator LEHMAN. All these bills are officially before us. However, I believe it is a fair statement of this committee's present state of mind to say that the major alternatives before us are the administration bill, S. 2862, introduced by Senator Bush, and the Lehman-Kennedy bill, S. 3137. Senator Kennedy worked with me in the redraft of my bill.

These hearings, therefore, will be largely concerned, I expect, with these two bills and the differences between them. It is my hope that witnesses will direct their remarks to evaluation and constructive criticism of this pending legislation. In a moment, I want to mention some of the differences between the two bills I have mentioned in order to set the stage for these hearings.

Before I do so, however, I think it is important to point out how large the area of agreement is between Senator Bush's bill and my

own. Both bills set up a flood-insurance program. Both recognize that this program breaks new ground, since private insurance companies have not written flood insurance in the past and indeed have asserted their inability to do so. Therefore, both programs recognize that some element of Government subsidy is necessary. Both legislative proposals view the enterprise as one demanding flexibility and an experimental approach.

I believe also that Senator Bush and the administration share with me and my cosponsors a sincere desire to put a workable program into operation as soon as possible.

I have every reason to believe that we may expect quick action from the full committee as soon as this subcommittee is ready to make its recommendations. Moreover, I know that the interest in this program among Senators from all over the country is very great, and I believe we may expect prompt action on the Senate floor. We have the assurance of the majority leader to this effect.

Now let me mention briefly a few of the variances between S. 3137 and S. 2862.

First, the administration bill contains a provision under which no insurance may be issued in a State until that State has made arrangements to pay a portion of the premiums. The Lehman-Kennedy bill contains no such requirement. The program set forth in S. 3137 would be an entirely Federal one, in cooperation with the insurance industry.

Second, the administration bill contains a formula whereby premium rates to be insured are to be set at 60 percent of the actuarial rate, however that may be established. The remaining 40 percent would be paid half by the participating State government and half by the Federal Government. The Lehman-Kennedy bill uses more general language, envisioning a rate below actuarial levels if necessary.

Third, the administration bill would limit policies to one per person. The Lehman-Kennedy bill would place its limits on a per-locus-of-property basis, with a grant of authority to the Administrator to honor original applications before honoring those made by persons who are, as it were, coming around for a second helping.

Fourth, the administration bill would earmark its funds and separate those for direct insurance from those to be used for the reinsurance program. The Lehman-Kennedy bill would not.

There are other differences, some specific and critical, others general and perhaps philosophic. The staff has prepared a detailed comparative analysis of the differences among all three of the bills pending before us, which has already been inserted in the record. (See p. 932.)

Now let us proceed with the hearing which today will be devoted to the administration, and its first witness, Mr. Frank J. Meistrell, Deputy Administrator of the Housing and Home Finance Agency, which under the terms of both the Bush bill and the Lehman-Kennedy bill would administer the insurance program.

Senator BUSH. Mr. Chairman, I would like to compliment the chairman on his opening statement and to assure him of my eagerness to cooperate in any way. As he has pointed out, there is a large area of agreement in these bills, and I think there is no question that the chairman and all of us will work primarily to get something in the nature of a flood insurance bill which people can afford and which can

be put into use as quickly as possible. And I assure my complete cooperation to that end.

Senator LEHMAN. I am quite sure of that. I thank the Senator from Connecticut.

Senator ROBERTSON. Mr. Chairman, I would like to add this comment: All of us are very busy these days. It is going to be a little difficult for some of us to examine all the testimony on these three measures. I hope after all the testimony has been concluded, this subcommittee will call on the staff to carefully examine all the testimony and submit a recommendation to the committee of what it thinks the committee's action should be, with explanatory notes on why it submits this recommendation. Then we can develop any differences between the patrons of the bill and other viewpoints and have a better idea without too much laborious work and study of the testimony of individual witnesses as to what would be the proper thing to do.

I am very much interested in seeing something of this kind done. My only desire is to know what to do.

Senator LEHMAN. I want to say the staff has been very cooperative and very helpful to us on both sides of this.

Senator ROBERTSON. They have already given us a preliminary synopsis of the differences, but it is too condensed for me.

Senator LEHMAN. The staff study is very useful. I am sure we will call on the staff for a great deal of help in many directions. The exact course of action of the committee, I think, may be decided by the committee when it meets later on after the testimony has been submitted to the committee or prior to that time if necessary.

(The following was received with reference to the above:)

MARCH 1, 1956.

MEMORANDUM BY WILLIAM F. MCKENNA, COUNSEL; APPROVED BY ROBERT A. WALLACE, STAFF DIRECTOR

In response to discussion between Senator Lehman and Senator Robertson at the February 16, 1956, session of disaster insurance hearings before the Subcommittee on Securities, the staff presents this memorandum outlining the major problems to be settled in preparing appropriate legislation.

In an effort to assist the subcommittee in reaching a conclusion on this matter, the pros and cons of these problems are discussed in this memorandum, based on a review of the testimony presented during 8 days of hearings held by the committee between October 31 and December 19, 1955, and 5 more days of hearings held by the subcommittee between February 16 and 27, 1956.

I. SHALL STATE PARTICIPATION BE REQUIRED IN THE INSURANCE OR INDEMNITY PROGRAM?

S. 2862 was introduced for the administration by Senator Bush on January 5, 1956, and an amendment in the nature of a substitute was introduced by Senator Bush on January 13, 1956. It requires each State to pay half the difference between the actuarial premium required to pay losses and the percentage (not less than 60 percent) of that premium paid by the insured. In other words, the State must pay 20 percent of the actuarial premium if the insured pays 60 percent of that premium. The Federal Government would pay the remaining 20 percent.

S. 3137 was introduced by Senator Lehman for himself and Senator Kennedy as well as several cosponsors on February 6. It contains no State participation requirements.

S. 2768 was introduced by Senator Saltonstall for Senator Kennedy, himself, and several other cosponsors on January 5, 1956. It contains no State participation requirement.

Arguments for

1. States have a responsibility to share flood burdens.
2. State's own economy is helped by flood insurance.
3. Would add incentive to participating States to work for flood control and flood zoning.
4. Each State can decide whether or not it wants this type of insurance or indemnity protection available to its residents.
5. Some States have no major flood problem.
6. The bill authorizes consultation with State officials.
7. Each State's total contribution would vary with flood exposures existing in that State.
8. Forty-five State legislatures will convene early in 1957.
9. Legal and financial problems presented by States participating can be worked out as in the case of other Federal-State programs: compare unemployment insurance, old age and survivors insurance, and the urban renewal program.
10. Private insurance companies can still issue insurance in nonparticipating States, with the aid of Federal reinsurance.

Arguments against

1. Many States face constitutional prohibitions against using State funds to aid individuals.
2. The program will be delayed because of the need for State enabling legislation; many State legislatures meet only biennially.
3. Some States will probably oppose the program on the ground they cannot afford to participate in it.
4. The requirement for State participation imposes an added burden on areas already hard hit financially due to floods.
5. It would also place participating States in a poorly competitive tax position as compared with nonparticipating States.
6. Indirectly penalizes States because the Federal Government has not carried out the flood-control responsibilities it assumed.
7. It further penalizes participating States because they must contribute to a Federal program while nonparticipating States may benefit from Federal relief.
8. It would penalize taxpayers of participating States because they would be required to pay Federal taxes to help the Federal Government provide relief for victims in nonparticipating States.
9. Conversely, it penalizes taxpayers in nonparticipating States because they must pay a part of the amount needed to subsidize the entire insurance or indemnity program.
10. The flood problem is national in character, not intrastate; floods in one State may be caused by conditions in another State.
11. The Federal Government can better spread the overall burden than can a State.
12. A requirement for State participation allows the State to veto a Federal program by inaction.
13. The program is intended primarily to benefit the insured, not the State in which he happens to live; therefore, the States should be allowed no veto power over the program.
14. Such a provision allows a State to frustrate a Federal policy by failing or refusing to participate.
15. Under S. 2862 the State has no voice in fixing terms or conditions of the program.
16. Under S. 2862 no provision is made for any refund of State contributions if a profit should be realized from the program.
17. Under S. 2862 State payment of a share of a premium is made a condition precedent to the issuance of each indemnity contract.
18. Other Federal-State programs are not analogous.
19. Finally, requiring State participation will result in an impractical, unworkable program.

II. WHAT RATE MAKING FORMULA SHALL BE USED?

S. 2768 requires rates to be based on risks and adequate to cover administrative expenses and loss reserves so far as practical.

S. 2862 declares a policy of requiring premiums to be adequate to provide loss reserves over a reasonable period of years while at the same time considering the desirability of providing protection at a reasonable cost. It requires at least

60 percent of the actuarial rate (excluding administrative expenses) to be paid by the insured, and the balance is to be paid half by the Federal Government and half by the State in which the property indemnified is located.

S. 3137 requires rates to be based on risks in order to be adequate to cover administrative expenses and loss reserves; but this base is to be considered only to the extent necessary to provide insurance to those who need it at rates they can afford.

Arguments for specifying insured's percentage of actuarial rate

1. Limits amount of subsidy required to be paid by Federal Government.
2. The percentage is a minimum and should be increased as practical in order to approach actuarial rate.

Arguments against specifying insured's percentage of actuarial rate

1. Even the minimum percentage may result in a prohibitive rate, discouraging purchase of insurance.
2. In view of the present inability to determine precisely what an actuarial rate would amount to, the percentage approach denies the administering agency flexibility necessary to achieve a rate at which insurance will sell.

Arguments for flexibility in rate making

1. Because the experts cannot now fix an actuarial rate precisely, flexibility is required.
2. Since an actuarial rate may be prohibitive, it is necessary to permit the administering agency to fix a lower rate.

Arguments against unlimited flexibility in rate making

1. Leaves the program too open to subsidies.
2. Under some interpretations might impose an ability-to-pay test on purchasers of insurance.

III. WHAT LIMITS SHALL BE PLACED ON FACE AMOUNTS OF POLICIES?

S. 2768 provides a policy limit of \$250,000 per single piece of real property.

S. 2862 provides a limit of \$250,000 per person.

S. 3137 provides a limit per policy of 10,000 for 1-to-5-family homes and \$100,000 for other types of property, all on a per property basis with authority in the administering agency to grant first preference to original applications by any person.

Arguments for high limit

1. Since flood damage tends to be catastrophic, victims need maximum recovery for property severely damaged or destroyed.
2. Purchasers will not overinsure, since recovery is limited to property value anyway.
3. Private insurance companies hesitate to issue their own coverage against losses in excess of the Government limit, even relying on Federal reinsurance.

Arguments against high limits

1. The higher the limit the more total exposure the Federal Government must assume on this entire program.
2. Possibly private companies will write insurance against losses in excess of Government's limits if the Federal reinsurance program is made attractive enough.
3. Lower limits will enable the benefits of the program to be spread among more persons, assuming a widespread demand for this type of insurance develops.
4. Large organizations equipped to apply swiftly for insurance may use up available Government insurance before smaller businesses and homeowners get around to applying for insurance.

Arguments for "per property" basis

2. Follows normal insurance practice.
2. Encourages greater participation in the program by customers willing to purchase insurance.

Argument against "per property" basis

1. Enables disproportionate amount of insurance under program to be obtained by a few organizations.

Argument for "per person" limit

1. Helps spread benefits among those needing it most.

Arguments against "per person" limit

1. May provide totally inadequate coverage for corporations or public bodies, since each category is defined as a "person."
2. Requires sharing limit between home and business for person operating a one-man business enterprise.
3. "Per person" limits provide little hope of issuing blanket policies to mortgagees to cover their portfolio.

IV. HOW MUCH SHALL BE ALLOTTED AS THE FEDERAL GOVERNMENT'S EXPOSURE TO RISK REPRESENTED BY THE AGGREGATE FACE AMOUNT OF THE POLICIES ISSUED?

S. 2768 limits this amount to one-half billion dollars a year for each of 3 fiscal years.

S. 2862 limits the amount of direct indemnity contracts to \$1.9 billion, but allows an additional \$1 billion worth with presidential approval. It earmarks \$100 million for reinsurance.

S. 3137 provides a limit of \$1 billion for each of 3 fiscal years.

Arguments for a low limit

1. Confines the extent of a possible Federal subsidy.
2. Conforms to the experimental nature of the whole program.
3. Is likely to gain more acceptance in the House and Senate.

Arguments against a low limit

1. Denies an opportunity to obtain the benefits of the insurance principle of spreading the risk.
2. The aggregate face amount of policies issued normally greatly exceeds the probable loss expected.

Mr. Herd of the American Insurance Co. and Mr. Yount of the American Mutual Alliance indicated the normal insurance practice to be the writing of far greater amounts of insurance than they expect to pay out in losses.

Mr. Yount noted that a \$3 billion program would provide insurance for only 300,000 homes if the face amount of each policy is \$10,000.

He also noted that with \$3 billion at risks on which the assumed loss rate is as high as 1 percent, the amount of losses expected would only amount to \$30 million. This in effect would be the amount the private insurance company would plan to pay.

V. WHAT LOSS DEDUCTIBLE PROVISION SHALL BE PLACED IN THE BILL?

S. 2768 and S. 2862 both provide a loss deductible provision requiring that there be deducted from each claim before it is paid by the administering agency the amount of \$300 plus 10 percent of the balance of the claim, as a minimum.

S. 3137 provides a flat loss deductible per claim of \$100 or up to \$200 if the administering agency so decides.

Arguments for high loss deductible provision

1. By requiring the insured to share the risk, it encourages him to exercise more care in preventing damage to his property; it specifically discourages construction on high-risk flood plains.
2. It discourages nuisance claim.
3. By reducing the Government's share of risk, it enables a decrease in the premium charge.

Arguments against high loss deductible provision

1. Disaster victims stand in real need of reimbursement; high deductible reduces the amount they can receive.
2. A provision of \$300 plus 10 percent of the balance of the claim places a greater burden in terms of loss recovery on an insured suffering a small loss as compared with an insured suffering a large loss.
3. If this premium is to be made acceptable to the purchaser, the usual argument that a higher deductible permits a lower actuarial rate need not apply.

VI. WHAT PERILS SHOULD BE COVERED?

S. 2768 covers flood, hurricane, tide, tidal wave, and high water.

S. 2862 covers flood, including rising water from tide, wind, or rain and permits the Administrator to expand this definition.

S. 3137 covers flood, tidal wave, wave wash, or other abnormally high tidal water, hurricane, deluge or the water component of any other severe storm, or landslide due to excessive moisture. It also directs a study of the feasibility of extending coverage to other forms of natural disaster.

Arguments for broad definition of flood

1. It will make available protection to those who need it.
2. It will better enable the spreading of the risk.

Argument against broad definition of flood

1. It will expand the risk exposure of the Government program by encouraging purchase of insurance by those having the highest risk from each form of flood.

Arguments for coverage of other perils

1. It will enable a better spreading of the risk.
2. It will provide insurance against some perils for which no private insurance is available.

Arguments against coverage of other perils

1. It will increase the Government's exposure to risk.
2. Since the greatest present demand is for flood insurance, it would be preferable to start with this and leave other forms of insurance to later development.

VII. SHOULD FEDERAL AGENCIES ADVANCING AID TO PROPERTY BE PERMITTED TO REQUIRE RECIPIENTS TO PURCHASE FLOOD INSURANCE?

- S. 2768 and S. 3137 grant such authority to Federal agencies.
S. 2862 contains no such provision.

Arguments for

1. This will serve as a means of overcoming reluctance of prospective purchasers.
2. It is appropriate to afford flood protection to property receiving Federal aid.
3. It will help to spread the risk and include coverage on properties not subject to great risk exposure.

Arguments against

1. It is not a true application of insurance principles, especially if the purchaser is not subject to the risk against which the insurance is bought.
2. It may have indirect adverse effects on the Federal programs granting such aid.
3. As a matter of administrative discretion purchase of flood insurance could be encouraged by such Federal agencies even without express statutory authority.

VIII. SHOULD CLAIMS BE EXEMPTED FROM LEVY, ATTACHMENT AND SIMILAR LEGAL PROCESSES?

- S. 2768 and S. 2862, as amended, contain no provision on this subject although S. 2862, as originally introduced, did contain such a provision.

S. 3137 contains a provision exempting claims from legal process.

Arguments for the provision

1. It enables claimants to receive money sorely needed for rehabilitation.
2. The existence of the claim is purely a windfall as far as persons are concerned who would attach it or levy execution against it.
3. It would relieve the administering agency of administrative delay in settling claims.

Argument against the provision

1. It grants a preference to a particular class of debtors who may be in no greater distress than other recipients of insurance claim proceeds resulting from other types of insurance.

IX. SHOULD ADMINISTRATIVE EXPENSES BE MADE PART OF THE PROGRAM EXPENSES OR SHOULD THEY BE PAID FROM SEPARATE APPROPRIATED FUNDS?

- S. 2768 and S. 3137 both make administrative expenses a program expense payable from insurance funds.

S. 2862 does not make administrative expenses a program expense, but instead provides they should be paid from appropriated funds.

Arguments for making administrative expenses a program expense

1. This provides a direct yardstick of the commercial feasibility of the program, since a private insurance company would have to include administrative expenses in the premium charged.

2. It avoids the necessity of obtaining appropriations each year for this continuing insurance program.

Arguments against including administrative expenses as a program expense

1. Since the program is intended to include a subsidy in ratemaking, it does not afford a true yardstick of commercial feasibility in any event.

2. It bypasses the Appropriation Committee's procedure.

X. SHOULD THE ADVISORY COMMITTEE BE REQUIRED TO CONTAIN MEMBERS FAMILIAR WITH INSURANCE OR REINSURANCE?

S. 2768 requires an advisory committee composed of six or more persons experienced in writing property insurance.

S. 2862 contains no specific provision for the makeup of an advisory committee. It relies on a grant of authority in the Housing Act of 1954 for the appointment of advisory committees. It also authorizes the Administrator to consult with insurance industry representatives.

S. 3137 requires the appointment of an advisory committee of 3 to 15 members familiar with insurance or reinsurance.

Arguments for

1. This experimental program will require the expert advice of persons familiar with insurance practices and principles.

2. S. 3137, which uses as a test the requirement that members be familiar with insurance problems, allows a broader participation than does S. 2768, which requires members to be experienced in writing property insurance.

Argument against

1. It is unnecessary to provide a statutory requirement for the makeup of the advisory committee, since the Administrator would be expected in any event to see that it contains people familiar with insurance problems.

XI. SHOULD THE STATUTE PROVIDE FOR A NEW ADMINISTRATION WITHIN HHFA TO HANDLE THIS PROGRAM, LEAVING POLICY DECISIONS WITH A COMMISSIONER TO BE CONFIRMED BY THE SENATE?

S. 2768 vests administration of the program with such agency as the President may name.

S. 2862, as amended, places the power of policy decision within the Housing and Home Finance Administrator and permits him to name a Commissioner to handle the program. S. 2862, as originally introduced, established a new constituent administration within HHFA to handle the program.

S. 3137 establishes a new constituent agency within HHFA to be known as the Federal Flood Insurance Administration. It reserves policy decisions for the Commissioner heading that Administration. It also requires that he be confirmed by the Senate.

Arguments for

1. Since this is a new program, power of policy decisions should be granted to a Commissioner in a new constituent agency within HHFA.

2. This will avoid confusion which arose concerning division of responsibility between the HHFA Administrator and the Federal Housing Commissioner during the investigation of windfalls under the housing programs.

3. It will assure the Senate a voice in the selection of a qualified person to head this new Administration.

Arguments against

1. The Hoover Commission recommendations and recent Executive policies tend to vest policy decisions in the head of an agency.

2. Recent constituent units in HHFA, such as the Community Facilities Administration, have been constituted without Senate confirmation of the head of the agency.

XII. WHAT TYPE OF PROPERTY SHOULD BE COVERED BY THIS PROGRAM?

S. 2768 covers only privately owned real property and business inventories.

S. 2862 covers real property and business inventories, stored farm commodities, household effects and other personal property designated by the Administrator, whether such property is owned by a private individual or organization or a State or local government.

S. 3137 covers real or personal property whether owned by a private individual or organization or State or local government.

Argument for covering all types of personal property

1. Floods hit hard on personal property owned by tenants as well as homeowners and business property owners.

Arguments against covering all types of personal property

1. Due to the nature of flood damage, the exact amount of damage to personal property not destroyed may be difficult to ascertain.

2. It increases the Federal Government's exposure to loss.

3. Personal property "floater" policies are available from private insurance companies.

4. It adds to administrative expenses.

Senator LEHMAN. Now Mr. Meistrell.

STATEMENT OF FRANK J. MEISTRELL, DEPUTY ADMINISTRATOR; ACCOMPANIED BY ASHLEY FOARD, ASSISTANT GENERAL COUNSEL, AND DAVID LOWERY, ASSISTANT DIRECTOR OF PLANS AND PROGRAMS, HOUSING AND HOME FINANCE AGENCY

Mr. MEISTRELL. Mr. Chairman, I have a prepared statement which I would like to ask the privilege to read, and then at its conclusion answer any questions you may care to raise.

Senator LEHMAN. Very well.

Mr. MEISTRELL. Mr. Chairman and members of the committee, I appreciate the opportunity to appear before your committee and present the views of the Housing and Home Finance Agency on proposed legislation relating to flood indemnity, insurance, and reinsurance.

It is well recognized that both public and private facilities are presently inadequate to protect flood victims against financial losses. This situation is of major importance to our Nation in terms of hardship to individual citizens and adverse effect upon our economy. Throughout our history floods have constituted perhaps the greatest natural disaster to man, and they continue to strike vast areas of our country. Notwithstanding the tremendous losses involved, there nowhere exists in our economy any method by which victims of these floods can substantially retrieve their losses. Although insurance coverage is available for almost every other form of natural peril, it is not generally available for flood losses. I will not dwell on the need for legislation in this field. Your committee has already obtained extensive information on the subject through hearings and staff studies.

As one of the agencies assisting in relief following the recent floods in the Northeast, the Housing and Home Finance Agency began early last fall to study methods for relieving the plight of homeowners whose homes were destroyed or seriously damaged, as well as attempting to develop some method for avoiding similar hardships in the future. As part of this study the Housing Agency undertook to determine whether some form of insurance or indemnity program could give property owners financial protection against flood losses. For

this purpose we held a series of meetings on the subject with representatives of casualty insurance companies and various lending groups, and these studies have continued in consultation with other agencies of the Federal Government. On the basis of our studies and consultation, we reached the conclusion that if this financial protection is to be afforded property owners, some form of Government participation is necessary.

As you know, private insurance companies do not write flood insurance on real property of any kind, except for possibly a few isolated cases. They do underwrite flood risks in connection with personal property to some extent. In general, however, it may be stated that private insurance companies are unwilling to assume flood risks at this time. It is the considered opinion of insurance company underwriters that insurance against the peril of flood applicable to fixed property cannot successfully be written. They feel that the virtual certainty of the loss by flood, its catastrophic nature, and the impossibility of making this line of insurance self-supporting, prevents them from prudently engaging in this field of insurance. Also insurance companies have indicated that they have not entered this line of insurance because a flood disaster of considerable magnitude during the early years of any flood-insurance operation could bankrupt a company before sufficient reserves were accumulated.

Accordingly, Government participation is required if the needed protection for property owners is to be made available. Therefore, we have undertaken to determine the most feasible program which can be developed, with maximum opportunity for participation by the private insurance industry and with the greatest opportunity for private enterprise to supplant the Government in this field of operation as soon as possible. In our judgment, necessary legislative authority for carrying out such a program would be provided by S. 2682, introduced on January 5 by Senator Bush on behalf of himself and 18 other Senators. We recommend the enactment of this bill, with an amendment in the nature of a substitute introduced by Senator Bush on January 18, and have been authorized to state that the bill as amended is in accord with the program of the President.

With your permission I would like first to summarize briefly the major provisions of that bill. I will then comment upon the basic considerations involved and the relationship of the bill to other legislation on the same subject pending before your committee. These other bills before the committee are S. 3137, introduced on February 6 by Senator Lehman on behalf of himself and 10 other Senators, and S. 2768, introduced on January 5 by Senator Saltonstall for Senator Kennedy, himself, and 10 other Senators.

FLOOD INDEMNITY AND REINSURANCE PROGRAMS UNDER S. 2862

The bill we are recommending, S. 2862, introduced by Senator Bush, makes provision for an experimental flood indemnity and reinsurance program on a voluntary basis. It would be administered by the Federal Government, acting through the Housing and Home Finance Administrator, who would be required to utilize private insurance facilities to the fullest extent possible in the operation of the program.

The indemnity program would require contributions from the person to be indemnified, the State, and the Federal Government.

Senator ROBERTSON. May I interrupt, because I may not be able to stay for the full presentation.

Senator LEHMAN. Yes, Senator.

Senator ROBERTSON. If you require State contributions there would have to be State action, because I do not imagine any State has any law to underwrite this type of insurance at the present time.

I would like to know if the whole thing in any State will hinge on whether you have to wait until the State acts, and if the State turns it down you would not have any program in that State? Congress, of course, cannot force a State to go into this. It might be quite desirable to have some State contribution, but I just do not see how you are going to have it as a practical thing; if they are going to do anything within the near future on this.

I wanted you to comment on that phase of it. That was not in your original bill; was it?

Senator BUSH. Mr. Chairman, may I comment?

Senator LEHMAN. Yes, please.

Senator BUSH. I see no reason why it should be any more difficult for the States to comply with their obligations under the bill than for the Federal Government to. We have an appropriation process here. We have appropriated funds in advance, the same thing as the States would be required to do. So I do not think there is any complication for the States any more than there is for the Federal Government.

Senator ROBERTSON. I understood this was to be a continuing insurance program.

Senator BUSH. I beg your pardon?

Senator ROBERTSON. I understood what he was recommending was a continuing insurance program.

Mr. MEISTRELL. That is correct.

Senator ROBERTSON. From year to year over an indefinite period, and those who wanted to go into it would pay so much premium and the Federal Government would put in so much, and if the insurance company was willing to take part of the risk they could come into it. I wanted him to explain how he would bring the States in.

Mr. MEISTRELL. We propose to make this program optional with the States. There are 45 State legislatures meeting between now and the early part of next year. Those States that choose to participate would in certain instances need legislative action. The financial aspect of the program would be a matter to be determined by each individual State. It is a fiscal problem and not unlike what we have in the Federal Government.

Senator ROBERTSON. Yes; but I was just thinking about my home State. The legislature there is now in session. It will end its session about the 10th of March. They are not to meet again for 2 years. Will there be no insurance program in Virginia for over 2 years under this bill?

Mr. MEISTRELL. I am not sufficiently familiar with your legislative processes in Virginia.

Senator ROBERTSON. It is just a question of when, under our constitution and State laws, the legislature meets. It just does not meet after this year for 2 more years, unless there is a special session.

Senator BUSH. It is not unusual for special sessions of the legislature to be held if the need is pressing. I am sure the Senator has had them down there, and we have, too.

Senator ROBERTSON. We had one this past fall over the school issue, and if they keep pressing us we may have some more. It is just not normal to have a special session for every issue that comes up, because it is rather expensive.

Senator BUSH. The State would have the option of calling a special session if necessary, depending on the extent of the need presented by this situation. I do not know whether Virginia has a pressing need, or as pressing as some others do.

Senator ROBERTSON. Is it impossible to frame this bill so that if the States that have not had a chance to meet, or do not care to go into it, can still be under the insurance plan?

Mr. MEISTRELL. Of course, private carriers under this program could go into that State without the State having had an opportunity to take affirmative action.

I think, Senator, there are only three States that are not in session or will not be in session after the expiration of a reasonable time.

Senator ROBERTSON. Can you give us some indication of what kind of financial obligation the State would incur if it goes into it? Has that been worked out, as to what the State is supposed to do and the Federal Government is supposed to do?

Mr. MEISTRELL. Yes. That would depend on the extent to which the State desires to participate, recognizing the extent of exposure within that State, and the amount of money they choose to appropriate for participation.

Senator ROBERTSON. Would there be a minimum a State would be required to have before you could put this insurance plan into effect?

Mr. MEISTRELL. I go into these questions you are raising, Senator, in this statement, and if you choose I will proceed with it or answer your specific questions.

Senator ROBERTSON. I will be glad for you to do that. I just wanted the assurance that it was covered in here somewhere.

Mr. MEISTRELL. Yes.

Senator ROBERTSON. Certainly if Virginia could not participate in it then I would not know just what the financial picture is. We have a pretty tight budget in Virginia. We are not as rich as some of the other States, you know. It is not easy to say here is a good, new cause and let us put some money into that. In Virginia we cannot engage in deficit financing.

Senator LEHMAN. I am going to reserve most of my questions for later on in the session, but I do want to emphasize what the Senator from Virginia has said, that there are a number of States, and I do not know how many, that have only biennial sessions, not even every year. Of course Virginia does not meet every year, and they will recess after the next few weeks. However, there are a number of States that have only biennial sessions.

As I understand your recommendation, this would be purely, exclusively, and entirely an optional matter?

Mr. MEISTRELL. That is correct. Optional on the part of the State if they choose to participate.

Senator LEHMAN. We, of course, are very anxious to get legislation before the Senate as promptly as possible and, we hope, enact it. I

wonder whether any survey has been made by the administration, by your agency, to determine how many States would participate in the program on such a basis?

Mr. MEISTRELL. No; Senator Lehman, we did not make any survey.

Senator LEHMAN. None at all? You are just shooting in the dark on this as to insurance—that any of the States would come in under this optional plan?

Mr. MEISTRELL. We have not contacted any individual State. Your own State of New York had some representatives down here with whom we talked some months ago, but apart from that——

Senator ROBERTSON. In connection with what the State will do, of course, what they can do may be limited by their constitution.

Mr. MEISTRELL. That is correct.

Senator ROBERTSON. We have a provision in our constitution now that you cannot take any school money and appropriate it to an individual. So we called a constitutional convention and it will meet in a few days. They will take that out of the constitution and then the legislature proposes in certain counties if they do not care to operate a desegregated school system they will have a public-school system and everybody who wants to go to it can go, and those who do not want to go can get a tuition grant.

Here is another proposal that the State appropriate the taxpayers' money for an individual. Will you not have to help us get our tuition grant past the Supreme Court on the school cases before we feel sure we could go into another scheme of contributing grants to individuals in another phase?

Mr. MEISTRELL. That is a legal problem and I am reluctant to comment, Senator, on the legal aspects of either the segregation appropriation or the contribution of your State to a premium.

Senator ROBERTSON. Of course, in Virginia we face a little different situation than we do in Congress. In Congress we fall back on the general-welfare clause, which was never granting any overall power, but the Supreme Court ruled they are not going to question what Congress does, and Congress can spend money for anything it pleases. Under our State constitution we cannot do that. We do not have any general-welfare clause in our constitution. The Federal legislature can do anything and if they say very piously, this is to promote the general welfare, here goes the money. We cannot do that in Virginia.

Senator LEHMAN. Are there any other questions?

You may proceed.

Mr. MEISTRELL. As Senator Robertson raised the question, each State would decide for itself whether or not it wished to participate in the indemnity program. The reinsurance program contemplates the writing of flood insurance by private companies which would have reinsurance contracts with the Federal Government. This program would require no contributions by the State or Federal Government.

The administrator would be authorized under the terms of the bill to issue indemnity contracts, upon the payment of a fee, protecting the person indemnified against damage to or loss of real or personal property caused by floods. Business inventories, stored agricultural commodities, and household effects are specifically mentioned as items of personal property which may be covered by the indemnity contracts.

Senator LEHMAN. May I interrupt you? I want to make this request, and I make it now for fear I may forget it later on.

Senator BUSH. Would the Senator speak a little louder, please?

Senator LEHMAN. I would very much like your agency, which is the agency designated in both of the two bills now before us to administer this program, to immediately make a survey of the laws and constitutions of the various States to ascertain whether as a matter of fact participation such as has been suggested in the administration bill is practicable and legal.

(The information referred to follows:)

As previously explained, S. 2862 makes provision for a flood indemnity program on a Federal-State partnership basis. Individual States may participate in this program by agreeing to make certain financial contributions to a Federal flood indemnity fund. Such contributions would be matched by the Federal Government. If a State agrees to participate, flood indemnity contracts would be made available to the owners of property located in that State, upon payment of a fee, protecting them against flood loss or damage. The total amount of a State's contribution would depend on the amount it is required to pay with reference to each individual contract covering property in that State as well as the total volume of indemnity contracts written in the State. The Administrator would determine the State's share as to individual contracts according to standards set forth in the bill. This may be any amount up to one-third of the amount of the fee paid by the person indemnified.

Under the flood indemnity program provided in S. 2862 the people of each State acting through their duly elected representatives would have the opportunity of comparing the economic advantages of such a program with its cost and to determine for themselves whether they wish to participate and make available to owners of property within the State a form of financial protection against flood losses which would not otherwise be available either from private or public sources.

The devastation caused by floods is the concern of both the Federal Government and the affected individual States. Just as the Federal Government and the States cooperate in providing emergency relief in the event of a disaster, joint action is desirable to provide some form of financial relief for those suffering property losses in such disasters. It is appropriate that the Federal Government and the individual States should share the cost of such a program because both derive substantial economic benefits. It is equally appropriate that participating States with the greatest exposure to flood losses should bear a greater proportion of the cost of such a program compared to those States with less exposure.

A flood-indemnity program such as that proposed in S. 2862 would be of substantial benefit to States affected by flood disasters. Indemnity protection in the event of a disaster would result in an early restoration of the State's economy. It would immediately provide the necessary funds to initiate new construction and carry out rehabilitation measures and in this way would also aid in the restoration of the tax base. Such a program would also have the effect of creating many opportunities for employment and bringing about a normal resumption of business.

The Federal-State flood indemnity program outlined in the proposed bill is feasible, because every State wishing to participate in the economic advantages offered by such a program may do so. Unless there is a State constitutional barrier a State could participate by simply appropriating funds for this purpose. If a State is prohibited by a constitutional restriction from appropriating funds for the purposes provided in the bill, the people have it within their power to amend the constitution as has been done with reference to other Federal-State programs.

Under existing authority and appropriations, it would definitely be impossible for the Housing and Home Finance Agency to make an exhaustive study of the constitutions, laws, and judicial decisions of every State in the Union to determine which States could become participants in the program by passage of an appropriation measure, which States would require amendments to other laws and which State constitutions contain restrictions on the use of public funds for such a purpose. In addition, we believe that it is undesirable for employees of the Federal Government to set themselves up as legal experts in

interpreting the constitution, laws, and judicial decisions of each of the 48 States.

However, we wish to point out that experience in other programs would indicate that we should not anticipate serious legal obstacles in this respect.

The State, unlike the Federal Government, is not a government of limited powers. Under the United States Constitution, powers not specifically delegated to the Federal Government are reserved to the States. The State may use any of its sovereign powers for the general welfare of its people unless some superior Federal power prohibits such action. In our judgment the States would not be confronted with any such superior power under S. 2862.

Under the various State constitutions, all legislative powers are given to the State legislatures, unless such grant of power is expressly restricted. Since, of course, there is no specific restriction as to aid to a program of flood indemnities, it is only necessary to consider general restrictions in State constitutions. Restrictions which are particularly pertinent to the present issue may be paraphrased as follows:

(1) No person shall be deprived of his life, liberty, or property without due process of law.

(2) Taxes may be levied and the public funds expended only for a public purpose or use.

(3) No exclusive privileges, grants, or concessions shall be made to any private individual, firm, or corporation.

(4) The credit of a State shall not be loaned or advanced to or for the aid of any private person, firm, or corporation.

In general, court decisions interpreting these various State constitutional provisions have made clear that they do not prohibit State aid if a public use or purpose is to be served, even though benefits indirectly inure to individuals. Accordingly, these constitutional provisions raise one broad basic issue, i. e., whether the use of State funds for a designated purpose would constitute a public use or purpose. Judicial decisions on this broad issue recognize that the concept of public use grows with an expanding civilization. A use may be considered public today which would not have been considered public 25 years ago, because of the many social and economic changes that have intervened.

The basic issue facing us is whether a State can use its sovereign power, particularly its tax power, to make available to owners of property located within the State indemnity contracts issued by the Federal Government protecting the property owner from flood loss or damage where such financial protection is otherwise unavailable. Is this a public purpose for which tax funds may be used? From the point of view of constitutional law it seems to be immaterial which sovereign power is used if the menace warrants public action and the power applied is reasonably related to the evil and is calculated to check it.

Serious floods covering wide areas in a State may completely disrupt a State's economy and interfere with the general welfare of its inhabitants by destroying factories, business establishments, homes, and public thoroughfares. Floods disrupt transportation and community facilities; they cause an upheaval in business and create serious unemployment; they not only make many people homeless but leave them with heavy mortgage debts; they breed crime; and they result in increased tax burdens not only by destroying the tax base but also by causing large relief expenditures.

These are some of the evils of such natural disasters. In our judgment the proposed indemnity program is related to these evils and is calculated to remedy the situation. For every dollar appropriated by a State in the indemnity program some property owner will obtain insurance protection against flood losses which would otherwise not be available. This indemnity protection in the event of a catastrophe will not only result in the flow of funds into the affected areas but will strengthen the credit of flood victims. This accumulated financial relief will result in the construction, reconstruction, and rehabilitation of industrial plants, business establishments, homes, and schools; it will put new life into stricken communities and strengthen morale; it will create employment and aid business enterprises to build up new inventories and resume normal business activities. In addition, it will restore the tax base, reduce relief costs, and help prevent looting and similar crimes. Thus it may be stated that a flood indemnity program would satisfy a great public need and would promote the general welfare. This would surely indicate that a public purpose was involved in the expenditure of tax funds to provide indemnity protection.

It could be argued that these funds were not being used for a public purpose if such financial protection was available to property owners from private sources

or some other public source. Since flood insurance is generally not available from private or public sources and if it were available, indemnity contracts could not be issued by the Federal Administrator, under the proposed legislation, such argument has no pertinence.

In conclusion let me say that we feel very strongly, for the reasons heretofore stated, that the individual States which desire to gain the economic advantages of this program should be willing to bear an equitable part of the cost. We believe also that the Federal Government should offer these advantages to the States and let each State decide for itself whether it wishes to participate. If a State desires to become a partner with the Federal Government in the indemnity program proposed in S. 2862 it has the inherent authority to do so.

Senator ROBERTSON. And then I would like him to add to that report the basis of the decision that the States must come in on this, rather than the individual insurance companies and the Federal Government? Why do you have to bring the States in on it? Just who made that decision and what was the basis of that decision that you have to bring the States in this to make it work?

Mr. MEISTRELL. I will cover that, Senator Robertson, as we go along.

No item could be covered by indemnity contracts if insurance for them is available on reasonable terms from private insurance companies or under any other public program such as Federal crop insurance. In issuing indemnity contracts, the Administrator would be required to give consideration to the undesirability of encouraging the acquisition, maintenance or location of property in areas which are subject to frequently recurring floods.

The person to be indemnified would pay a fee equal to at least 60 percent of an estimated rate, which would be the rate determined by the administrator to be adequate to produce sufficient proceeds over a reasonable period of years to pay claims.

Senator LEHMAN. May I interrupt you? As I understand it, that rate under this bill would have to be an actuarial rate.

Mr. MEISTRELL. That is correct. I think you understand, Senator Lehman, that we exclude any loading in the rate for administrative or operating expenses and for the cost that may be involved in operating the facilities for the ratemaking process. It is a pure premium rate.

Senator LEHMAN. Would that include agents' fees?

Mr. MEISTRELL. No; it would not. The rate is designed to produce a pure premium without any loading for acquisition cost or overhead.

Senator LEHMAN. Very well. Would you proceed, please?

Mr. MEISTRELL. The participating State in which the property is located and the Federal Government would equally share in paying the balance of the estimated rate. Presently I will discuss the more important aspects of establishing these rates. Administrative costs for the operation of this program would be borne solely by the Federal Government and would not be taken into consideration in establishing the estimated rate or fee. The fees charged, plus the Federal and State contributions, would be placed in a Federal flood indemnity fund from which losses would be paid. As the 60-percent figure represents the minimum percentage to be paid by the person to be indemnified, a higher percentage could be established if feasible, which would reduce, of course, the contributions by the Federal and State Governments.

The bill would limit the maximum indemnity coverage per person to \$250,000, and would require that all approved claims be reduced

by a minimum of \$300 plus at least 10 percent of the remainder of the claim.

The Administrator would be authorized to issue indemnity contracts in an aggregate amount of \$1,900 million outstanding at any one time, which amount could be increased by \$1 billion with the approval of the President. The Administrator would be authorized to determine the aggregate amount of these contracts which could be outstanding at one time in any State, taking into account the needs of persons in that State for such indemnity protection. This would permit an allocation of the authorization on an equitable basis.

Authority would also be given the Administrator to enter into reinsurance agreements with private insurance companies, subject to limitations in the bill, under any plan of reinsurance he deems will best effectuate the purposes of the act. He could, for example, reinsure against excess losses, a percentage of losses, or losses on other bases, within prescribed limitations. The reinsurance authorization would be limited to \$100 million outstanding at any one time. The reinsurance program would involve no participation by the States and no contributions from the Federal Government except the payment of its own administrative expenses. Thus, flood insurance from private sources could also become available under a reinsurance program in States which may not participate in the indemnity program. The Administrator would be required to establish premiums for reinsurance which, in his judgment, would be adequate to pay claims over a reasonable period of years. A separate Federal flood reinsurance fund would be created for this program. Although the amount of the reinsurance authorization would be small compared to the authorization for indemnity contracts, it may be some time before private insurance companies will participate to any extent in the reinsurance program. It is hoped that the reinsurance program will in time prove to be a convenient vehicle for the transition from these Government-operated programs to the assumption of flood risks by private carriers alone.

As a backstop or reserve fund for the indemnity and reinsurance programs (which may become necessary in the event of a large catastrophe prior to the accumulation of reserves from contributions, fees, and premiums), the bill would authorize the Administrator to borrow from the Treasury up to \$500 million outstanding at any one time, except that not more than \$100 million could be borrowed prior to July 1, 1957, without the approval of the President.

The Administrator would be specifically authorized to consult with representatives of the various States and with representatives of the insurance industry. Under the bill, he would also consult with other agencies of the Federal Government and States having responsibilities for land-use and flood control and for flood-zoning and flood-damage protection in order to assure that the indemnity and reinsurance programs are consistent with the programs of those agencies. The Secretary of Agriculture and the Administrator would be required to coordinate their respective programs relating to flood indemnities, insurance, and reinsurance for agricultural commodities.

Senator LEHMAN. May I interrupt you again?

Mr. MEISTRELL. Yes, sir.

Senator LEHMAN. Does the administration bill allow the States to have any voice in determining the terms and conditions of indemnity contracts beyond the provisions of section 402, which permits the

Housing and Home Finance Administrator to consult the State representatives in the Administrator's discretion? Is there any provision made at all, in recognition of the participation of the State, for them to have any voice?

Mr. MEISTRELL. There is the consultation and meeting with various State representatives in order that the program be consistent not only with the various State activities, but with Federal activities as well.

Senator LEHMAN. But it is merely consultation?

Mr. MEISTRELL. Yes. It is not mandatory.

Senator LEHMAN. But they do not have any voice whatsoever, even though they are expected to participate?

Mr. MEISTRELL. That is correct.

Senator LEHMAN. With the liabilities?

Mr. MEISTRELL. That is correct.

Senator LEHMAN. Thank you.

Mr. MEISTRELL. The programs authorized by this bill would not be a substitute for the relief and rehabilitation programs of the Federal Government and private organizations, nor for the insurance or other aids made available by Federal and State Governments, such as crop insurance, flood control, and watershed flood prevention.

I believe this summarizes the major provisions of S. 2862. The provisions of the other two bills being considered by your committee are also directed toward the same general objective of affording property owners protection where not otherwise available, against financial losses resulting from floods. For this purpose they would each authorize, on a limited basis, a federally administered program of flood indemnity (or insurance) and reinsurance to be carried out through the facilities of private insurance companies to the fullest extent feasible. I would now like to comment on the basic considerations involved in S. 2862 and its relationship to the other two bills.

ESTIMATED RATE AND FEE UNDER INDEMNITY CONTRACT

One of the most difficult problems in connection with this legislation relates to provisions for establishing fees or premiums which a person would have to pay to obtain an indemnity contract or an insurance policy. As provided in S. 2862, this fee for an indemnity contract must be at least 60 percent of the estimated rate, which is the rate that would be adequate over a reasonable period of years, in the judgment of the Administrator, to obtain funds sufficient to pay claims for probable losses. Thus, it is contemplated that the rates would be computed to reflect differences in risks and would be applied to the value of properties or to such other feasible base as the Administrator may determine. Since exposure of properties to flood damage can vary widely, there can be a wide range in the estimated rates as between different properties. For example, homes located at a low elevation near a river's edge, where even a small flood could damage them, would be subject to greater losses annually than homes on a higher elevation and some distance from the river, where only larger floods would damage them. Thus, there could be a wide range in rates even in a single area. A wide range in rates for insurance is not unusual. Fire insurance rates, for example, vary from about 10 cents to \$1.60 per \$100, depending upon such factors as the type of construction involved, the use of property, its location, the degree of protection accorded by fire department services, and the availability of adequate water supply.

As you may know, the rates under the crop-insurance program of the Department of Agriculture vary widely, depending on the crop insured, the risk involved in the location, and the amount of insurance per acre. We are informed that these rates range from 3 percent to as much as 35 percent of the amount of protection offered. We also understand that the experience of the Department would indicate that with respect to crop insurance, if the rate is equitably adjusted to risks involved the amount of the rate has little effect on the acceptability of the insurance.

To compute the estimated rates under the indemnity program, it is necessary to know the frequency of floods and flood stages, the contour of the flood plain, and the location and values of properties exposed to the flood hazard. There is available a considerable body of information on flood frequency and flood stages on most important river basins. In establishing rates, this information must be related to the contour of the floodable areas and the location of the particular properties within such areas, and the values of these properties and their types of construction. From this information the probable annual damage can be derived, and when they are related to the value of a property, the estimated rate can be established. The important areas of information which are now lacking are the facts relating to properties exposed to flood peril such as elevation, value, and type of construction.

The local rating bureaus which establish insurance premium rates for fire and extended coverage have for their own purposes accumulated information on individual properties which could be useful for these flood programs. It has been indicated that, if S. 2862 is enacted, these bureaus will make their facilities available for the purpose of assisting in establishing a rate structure on an out-of-pocket reimbursable basis.

In our examination of this problem we have studied other available information from both public and private sources which might be used to determine what the estimated rates would be at this time. Our study has disclosed that there is no significant information readily available on rates of insurance against the risk of flood which would indicate what these estimated rates would be.

I think I should mention that within the limits of our present authorizations and appropriations, we could not undertake the necessary studies to obtain this additional information.

Senator BUSH. Mr. Chairman?

Senator LEHMAN. Senator Bush.

Senator BUSH. You say:

within the limits of our present authorizations and appropriations, we could not undertake the necessary studies to obtain this additional information.

Would you like to have that? Would it be helpful if that appropriation and authority were given?

Mr. MEISTRELL. Senator Bush, I doubt that we would. We are interested in undertaking an experimental program. Much of the raw data for computing a rate schedule or schedules is available. It is necessary to superimpose on that raw data the information which is also generally available concerning the probability of floods, the contour of floodable areas and the probable losses that might arise from floods. There is a fairly representative body of information

on that. So that the problem really is attempting to formulate a rate schedule with information that is now generally available.

After you computed a rate or rate schedule there is nothing certain about how long that would be in effect. For example, you might come up with a rate schedule for areas in Connecticut, and if you had a severe flood, within a week or two thereafter your entire rate schedule may have to be revised. We did not undertake that study, therefore, for the reasons that we felt it would be an unnecessary one at this time.

Senator BUSH. Go ahead.

Mr. MEISTRELL. The authority in the bill to charge fees as low as 60 percent of the "estimated rates" recognizes the fact that the indemnity program may not otherwise be feasible, at least in its initial stages. The contributions by the Federal and State Governments combined would total a maximum of 40 percent of the estimated rates to cover average losses. In addition, the administrative expenses involved would be absorbed solely by the Federal Government rather than included in the estimated rates, as is the case with the private insurance industry. Consequently, the fee to be charged to a property owner could be as low as 50 percent of what would have to be charged if all losses and administrative expenses were included. It is our best judgment that the contributions involved in the indemnity program should be initially authorized at the amounts prescribed in S. 2862, in order to make the indemnity contracts acceptable at the outset. On the other hand, it is our best judgment that no greater contributions are required or would be warranted. No one can foresee at this time with any certainty whether the fees to be charged on indemnity contracts will actually result in widespread purchases of those contracts. The real test lies in offering the protection at stated fees so that property owners exposed to varying degrees of damage can weigh the amount of fees to be charged annually against the damages which their properties may suffer when floods occur.

I should point out that S. 2862 is sufficiently flexible to permit several choices of indemnity coverage to be offered, so that the property owner could choose the extent of coverage which he feels he could afford to purchase. Let us take, for example, the case where the homeowner can afford to pay only \$1 per \$1,000, which is roughly the rate he might be paying for fire insurance, excluding extended coverage. In some areas, for \$10,000 of flood indemnity coverage he would be paying \$10 a year and the State and Federal contributions would be \$6.67 combined. The total estimated rate would thus be \$16.67 annually. In other areas and for different types of properties, the rate might well be higher. If the homeowner could not afford to pay more than the \$10, the policy would be adjusted to provide him with coverage proportionate to the amount he pays. This could be done through several methods. One would be to increase the minimum \$300 deductible amount; another would be to increase the minimum 10 percent deductible percentage; and a third would be to provide for coinsurance or for a limited amount of coverage.

Senator LEHMAN. May I interrupt to point out to the witness that in an academic way it is something which is very interesting, but it is an established fact that the only insurance policy that has been offered by any insurance company, has been offered by Lloyd's of London for many, many times the amounts that you have specified here. No

American company has been willing to write this insurance. We recognize that fact.

We are not trying to compete with insurance companies for a minute. We want them to do all or such part of this project as they can undertake, but the fact remains that the Government must make it possible for homeowners and for the owners of industrial plants to get insurance at a reasonable rate.

There is no use talking about the rates and no use in thinking of insurance being available to the homeowner at the rates that they could get it from Lloyd's of London, which are completely impracticable, or from insurance companies in this country if they were willing to undertake it at all.

What we are trying to get at is to make insurance available at a reasonable rate, at a rate that would really cover this man against the loss he would suffer from destruction or damage to his home, or to his inventory, or to his personal possessions. Of course, you can say if a man wants to be protected and he has a \$10,000 home he should take out only part, or cover only part of the value of that property, or make the deductions instead of \$300, \$1,000, or \$3,000, or any other arbitrary figure. But I do not see how that is going to help the homeowner to protect himself at a reasonable rate.

I emphasize this question of reasonable rates just as strongly as the need for protection.

MR. MEISTRELL. I think, Senator Lehman, you and I are thinking in the same way there. I think we both have the same objective in mind of making insurance available to the homeowners, the small-business man, to the extent which he may properly need. That is implicit through Senator Bush's bill.

I do want to point out, however, we should not confuse two things: We should not confuse relief with insurance. If we are talking about a form of insurance program, or an indemnity program, I do not know how you can avoid approaching it from an actuarial basis and determining upon an actuarial rate.

It has this additional factor, that if you and I think, as we have so indicated, and as I know Senator Bush thinks, that the private carriers should be encouraged to get into this business and get into it as quickly as they can if it is feasible, we will establish that a lot quicker and on a lot firmer basis if we can determine an actuarial rate that is sound upon which the carriers themselves could act.

Once you leave that premise and start talking about a rate and then getting it down to a point where it is related to a man's ability to pay for the same amount of insurance which another fellow wants and can pay, you are destroying the very premise on which insurance is predicated. The further you move away from an actuarial rate to a subsidized rate, and the more the Federal Government absorbs that difference, the more you are approaching a relief program. It is a matter of philosophy.

If we are talking relief and we are going to get our absorption of the rate or cost to the individual to 60, or 70, or 80, or 90 percent, I think we might just as well tip the scale over and call it relief and put an end to it. I think we must clearly keep in mind whether we are talking about reimbursing people for losses, which no relief program does, or we are talking about a form of insurance related to a

rate structure that is sound. Then I think we clarify some of the fuzzy thinking that may be going on among a lot of people that are interested in this problem.

Senator LEHMAN. I think where we differ—and I know our objective is the same—but where we differ is I do not think that the providing of insurance at a reasonable rate to people who cannot get insurance in any other way is relief on the part of the Federal Government. I think we might just as well realize right now that they cannot get this insurance except through Government auspices and that in all probability it will require some form of subsidy. I think we would be just deluding ourselves to take any other position in this matter. But I think that is a long, long, long way from just giving relief. I think it is completely different from that.

Mr. MEISTRELL. If I may amplify?

Senator LEHMAN. In section 102 it says:

Such fees shall be established by the Administrator, and shall be based on considerations of the risk involved and the desirability in the public interest of providing indemnity protection at reasonable costs, and shall be uniform throughout the United States.

What do you mean about providing indemnity protection at reasonable costs save what I emphasized here in my remarks?

Mr. MEISTRELL. We think this is a sound way to approach this rate-making process. We have in mind that you would attempt to develop an actuarial rate, whatever it may be, but a sound rate. Then having determined that, have the Federal Government absorb some portion of the premium and have a State absorb some portion of the premium and have the individual who wants the protection pay something for it. Now, as I read the bill introduced by you, it provides—and we go along to a certain extent on this—

Senator BUSH. On what page?

Mr. MEISTRELL. I am reading from S. 3137, page 5, section 5, line 18. Your bill provides:

That such rates shall be based insofar as practicable upon consideration of risks involved and upon calculations of amounts needed to cover all administrative and operating expenses as well as reserve for probable losses to be accumulated over a reasonable period of years.

That is, in substance, the insurance company formula. When they are calculating a rate they take, or attempt to determine, how much they are going to need for the losses they incur. They also put a loading in the rate for their administrative and operating expenses, and in certain lines they put a loading in for profit. We say if you are going to get a rate—and we are serious in what we say—that we want as much coverage as we can afford for the people—then the emphasis should be on getting the rate as low as possible. That is the reason why we say, start with the low rate and let the Federal Government and the State government absorb enough of it so people can afford to pay.

Once you throw into the rate administrative and operative expenses you have got anywhere from a 30-percent to a 50-percent loading in that rate to start with. We are not going to put that in. We are not going to ask the people to pay that. We are going to absorb that ourselves.

Now to go on. That is the base upon which this rate under S. 3137 is to be predicated. S. 3137 goes on to say :

But such basis shall be used only to such extent as, in the judgment of the Commissioner, shall be consistent with the aim of offering insurance and reinsurance at rates reasonable enough to make available to those who need it at rates they can afford the protection intended to be provided.

Now, I will be less candid than I would like to be, Senator, if I did not state that I do not know what that means, because if you say you are going to have a rate which is the traditional rate formula that the carriers follow of loading in the administrative and operating expenses, and you are going to come up with that rate and then you are going to say to a Commissioner, "Now, no matter what that rate is, don't consider it if you do not think it is a good one after you look at the fellow and see what he can afford to pay," in my judgment, this is a pocketbook rate. You look at the fellow and ask him what he can afford to pay, and if he tells you he can only afford to pay so much, he is entitled to get that insurance.

I think you are putting a very undue responsibility on anyone who is charged with the administration of this program to set up no standards, and no method by which the rate formula can be checked; with no control by the Congress as to what is going to be charged. I think for that reason alone I would recommend that this whole rate formula be very carefully analyzed.

Senator LEHMAN. I have no objection at all to an investigation being made as to the costs of this insurance, but added to the basis on which the actuarial costs are ascertained I have in my bill, part of which you have already quoted, but not all—

But such bases shall be used only to such extent as in the judgment of the Commissioner shall be consistent with the aim of offering insurance and reinsurance at rates reasonable enough to make available to those who need it at rates they can afford the protection intended to be provided by this act.

I think it is quite possible and maybe probable that in order to do that the Federal Government will have to give a subsidy to the owners of property. But you yourself, or Senator Bush, rather, himself in his bill recognizes the principle of subsidy.

Mr. MEISTRELL. That is correct.

Senator LEHMAN. He says we will pay all of the administrative expenses and we will pay 20 percent of this rate. So it is not a matter of principle that is involved here, but it is simply a matter of the extent to which the Federal Government is willing to go in order to protect its citizens when they cannot protect themselves.

We hear a lot, a great deal, about the point that the Government should not do anything which the individual or business can do by itself. Here is a case where the individual and industry and insurance companies cannot do this thing. We know that. That was clearly demonstrated in the hearings we had. You have accepted that principle, and Senator Bush accepted that principle in his bill. It is only a matter of the extent to which we are willing to go in order to subsidize these people, if necessary.

Mr. MEISTRELL. I think it is a little bit more than the extent to which we are going to go in this respect: We recognize that there is a subsidy and we further recognize in this bill that to the extent that we need a subsidy of 40 percent, 20 percent from the State and 20 percent from

the Federal Government, that is it. We are asking the individual to make a contribution of not less than 60 percent of the rate. When we get into section 5 of this other bill there are no standards. There is no method whereby anyone could administer this program except on the basis of two tests. First, is there a need and, if so, what can the fellow afford to pay. I say to you under that provision it is perfectly possible for the need test and the ability-to-pay test to approach 100 percent, or approach 90 percent. You cannot do that under Senator Bush's bill, but under yours you can. You can approach 80 or 90 or 100 percent, and I just raise the question, Senator Lehman, how far do you go before you say this is relief and recognize it as such. That is the only point I am making.

Senator LEHMAN. You see, under Senator Bush's bill a man has to pay a certain percentage of the actuarial rate. He is not relieved of paying something—possibly a very large percentage.

Mr. MEISTRELL. Correct.

Senator LEHMAN. Under my bill he certainly will have to pay the premium at whatever level the premium is set. You talk about an actuarial cost, but you yourself have said there is no way of determining with any degree of accuracy what a fair actuarial cost will be.

Mr. MEISTRELL. No; I did not say that, Senator Lehman. I said at the present time there is no way of determining what the rate would be, but if the Congress should enact this bill it would be in my judgment important to provide in the bill a method of determining a rate structure. I did not say you could not do it. I said we could not do it at this time. But if you are going to put this program into effect there must be some sound rate structure established. Having done that, what Senator Bush provides is that having established a sound rate structure based on actuarial considerations, that the individual who wants to buy insurance has got to take his fair share of the load. The minimum he will be required to pay is 60 percent of the rate—the other 40 percent to be made up from contributions of the State and Federal Governments.

Under your bill there is no standard. It would seem to say to the Commissioner:

Take into consideration in your rate deliberations that you will give some consideration to operating expenses, administrative expenses, and amounts you need for loss reserves, but having arrived at that figure then, Mr. Commissioner, you determine whether the fellow needs insurance, and if he does you determine how much he can afford to pay.

That is the point I am making.

If you are going to determine on some formula, which I frankly do not quite develop in my mind—but if you are going to determine an ability-to-pay test and you are going to put that responsibility on the Commissioner, he very well may extend that ability to pay to zero and say, "Well, this fellow cannot afford to pay much, or this community cannot afford to pay much and, therefore, we will let them off the hook and we will pay it all." And, when you reach that point I say it is relief. That is the only point I am making.

Senator LEHMAN. Now wait a minute. You talk as if we were considering the means, the ability to pay, of an individual. There is no such thought. The rate base, the rate which this man would have to pay, would be based on the general ability of those who wish

insurance. The general ability to pay of those who wish the insurance. It is not the individual.

Of course, I did not expect you to say to me, "I will only pay a dollar a hundred, or a dollar a thousand, or \$10." But it is the general rate that is paid.

Mr. MEISTRELL. Senator Lehman, that is a matter of interpretation. I am merely pointing this out. If the Congress should choose to follow this type of formula it would certainly in my judgment need some clarification, because it says:

reasonable enough to make available to those who need it at rates they can afford the protection intended to be provided.

Senator BUSH. But would that not seem to say——

Senator LEHMAN. If you do not mind, I do not think the witness completed his statement.

Mr. MEISTRELL. Senator Lehman, with your permission I wanted to refer to a statement that appeared in the Congressional Record. I think it is on page 1782, February 6, 1956, in which this means test which I adverted to as an individual test, was implied in a statement there. I am attempting to find the exact reference. May I read this statement?

If this legislation is to accomplish its intended purpose the schedule of rates at which insurance is made available must be within the means of prospective customers to pay. The bill's formula for ratemaking will allow appropriate flexibility in establishing these rates.

When I referred a moment ago to the ability-to-pay test I had in mind this reference which said that the insurance as made available must be within the means of prospective customers to pay. Whether you intend by that to examine each individual applicant for insurance as to his ability to pay; whether you would approach it from the standpoint of a community, are questions that trouble me.

Let me advert to one other point. You intend, I assume, under this bill to insure corporations, States, and municipalities. I would have considerable difficulty if I were administering this act, to apply the ability-to-pay test to a State like New York, or the city of New York, or a corporation like Standard Oil. How could I determine what their ability to pay is in determining a rate; and yet, under this act I have an obligation to do that. Excuse me, Senator Bush, I did not mean to interrupt.

Senator LEHMAN. Go ahead. I did not mean to stop you.

Senator BUSH. I just wanted to ask the witness whether it is not true that under the language he has just read at the top of page 6 in the Lehman bill that it would put the Administrator in a position where he would be obliged almost to discriminate between neighbors next door to each other down on the flood plain of the Naugatuck River, for instance?

Mr. MEISTRELL. I think, Senator Bush, that is an inevitable result of the standard.

Senator BUSH. I think just as an illustration, only the day before yesterday we passed by there when we went up the valley and I have in mind a sight I saw from the road with Val Peterson and General Fleming of the Army engineers. Here is a development on the flood plain but raised about 10 or 12 feet above the bed of the river itself, or the water level. It is a development of 20 homes that

survived the last flood. Although they were flooded they survived it. There are 20 neighbors there in more or less the same size of house, and so forth. Is it not true, in your opinion, under the language we are discussing at the top of page 6 of the Lehman bill, that the Administrator might be obliged to discriminate between those people so as to give one a more favorable rate than the other simply on his own assertion as to what he could or could not afford to pay?

Mr. MEISTRELL. I think that is a very logical conclusion, Senator Bush, that may very properly result.

Senator BUSH. I think the chairman is quite right that our bill is a subsidy bill and so is his. We all agree we have to have a subsidy bill if we are going to have a bill. But the only thing I think our bill lays the subsidy right out in the open and in this bill the subsidy is left quite indeterminate, if not entirely concealed, in the language at the top of page 6, and leaves the Administrator in the almost impossible position of responsibility with regard to it. I do not see how he could operate under that.

Mr. MEISTRELL. I think to illustrate it in a very simple way, if an Administrator or Commissioner in charge of this program wanted to build up a big volume of business he could drop the rate down to the point where the Federal Government might be absorbing it all.

Senator LEHMAN. Who would be able to do that?

Mr. MEISTRELL. The Commissioner could, under the language in this ratemaking section, because he has two tests to go by—those who need it and the ability of them to pay. When you talk of the ability to pay I can readily imagine a situation where to get broad coverage and to sell a great deal of this insurance that the ability to pay test may be very flexible.

Senator LEHMAN. Of course, it is meant to be flexible.

Mr. MEISTRELL. We meant that too, of course, Senator Lehman. But I think of the two ratemaking sections I have great reluctance to undertake a program where there are no standards, there are no checks, and there is no way under this language to come up with a rate that is actuarially sound and could be defended, when you insert a need test and an ability-to-pay test.

Senator LEHMAN. Let me make this very clear so that there will be no misunderstanding. You have raised some question about what you believe to be vagueness of the language I have used on pages 5 and 6 of section 5 of the bill. I want to make it very clear that the formula which I have suggested, and which I believe is the only formula that is going to be practicable and effective in its use, is with the idea and the intention of setting up a schedule of rates—not rates for an individual homeowner or a property owner who wishes to take out insurance. That, of course, is furthest from my mind. When you talk about a man with a lot of neighbors in the same section paying a different rate from his neighbors because he was less able to pay, that of course is not a serious argument it seems to me because I have tried to make it clear—and I am making it clear again I hope—that this is with the intention of setting up a schedule of rates under the same conditions and not to permit a differentiation as between individuals in the same circumstances, or operating under the same conditions.

Senator BUSH. Would the Senator be willing to change the language so as to make that point very clear, or does he think this language makes it clear?

Senator LEHMAN. I want to say to you I believe we are going to change the language a whole lot in these bills.

Senator BUSH. I appreciate that.

Senator LEHMAN. Before we are ready to submit a clean bill to Congress.

Senator BUSH. Mr. Chairman, I would like to ask the witness again if that language in the first line, where it says, "those who need it" is not going to mean to the Administrator any one of those who need it.

Senator LEHMAN. May I say to the Senator, I think the language I have used is entirely clear but some question as to its clarity has been raised by the Senator from Connecticut and by the Administrator. I want to say if there is any question I want to set forth as clearly as possible what the intention of the sponsors of S. 3137 is with regard to this particular matter. Certainly there will no change in the bill at the moment but I have no doubt at all that there will be many changes and much clarification of the language required before we get through with this legislation.

Mr. MEISTRELL. Senator Lehman, I would like to raise this question: If you have in mind clarifying this language what in your judgment would be the standard for determining the amount of the premium or rate the Federal Government would consider reasonable to absorb?

Senator LEHMAN. I do not know what the Administrator—and you may be the Administrator——

Mr. MEISTRELL. No; I mean, under the bill——

Senator LEHMAN. Under the bill this Administrator is lodged in your Department. I do not know.

Mr. MEISTRELL. Did I say the "Administrator"?

Senator LEHMAN. I could ask you if you were Administrator how you would arrive with any degree of accuracy at an actuarial base.

Mr. MEISTRELL. Perhaps I did not make myself clear. What I had in mind was what in your judgment would be a minimum or a maximum that the Congress would consider should be absorbed either by the Federal Government under your program, or the State government and Federal Government under Senator Bush's program, as an amount to be included in the rate? In other words, as I understand your proposal, if the actuarial rate should be determined as \$1, for example, and you then applied the need test and ability to pay test, and if the individual or group of individuals cannot pay the actuarial rate, or the rate based on the need for getting into the premium administrative and operating expenses and the reserve for losses—whatever that rate may be—if the individual cannot afford to pay it but he needs it and the Administrator so determines that he needs it, then he has got some flexibility in coming up with a rate that that individual or group of individuals can afford to pay. Obviously, if what they can afford to pay is much lower than what they ought to pay, somebody has got to put up that money. I would assume under your bill it would be the function of the Federal Government to absorb it. If it is, then I would like to know what would be the maximum amount you would recommend to the Congress as absorp-

tion by the Federal Government in making up the difference between the actuarial rate and the ability to pay.

Senator LEHMAN. I am not prepared to state how much of this subsidy the Federal Government should assume. I will say this: That I have said many times in the hearings that it is idle to talk about this kind of legislation without recognizing that a subsidy will be needed.

Mr. MEISTRELL. Correct. Correct.

Senator LEHMAN. To what extent that subsidy will be needed I do not know at the present time. However, I can say to you that I am quite certain if we depend on the States to put up 20 percent of this subsidy—half of the 40 percent which is left after the insurer pays his premium—we are leaning on a very, very weak and insecure reed. Very. Because I do not believe that you are going to get the States to do that, and I do not believe in many cases they could do it.

To what extent the actual cost could be reduced by the assumption of a subsidy by the Government, I do not know, but I do know this: That we have heard in the case of some insurance companies that they demand \$20 and \$25 a hundred to cover the insurance. I do not know whether the actual cost, if you could make an actuarial survey, would be \$5 or \$6, or \$8 or \$10 a hundred, or \$3 a hundred. I think if it gets beyond a certain point it is just out of the reach of the average citizen of this country to protect himself.

Mr. MEISTRELL. That is right.

Senator LEHMAN. It is almost the only thing I know of in which he cannot obtain protection. He can obtain protection against tornadoes, earthquakes, fire, and damage of various kinds. But in this particular thing he just cannot get the protection at any reasonable rate—and I use the word “reasonable” in that.

Mr. MEISTRELL. Yes. Yes.

Senator LEHMAN. That is my whole position. But you may continue.

Mr. MEISTRELL. Yes, sir. Thank you. Under S. 2862 the Administrator would endeavor to keep Federal and State contributions as low as possible, and fees would be increased to the extent that experience shows that this is feasible. It is hoped that this will afford a means of gradually eliminating the State and Federal contributions and serve to demonstrate that flood risks may be underwritten by private companies.

In contrast to the recommended bill, S. 3137 would not provide a specific limitation on the extent to which subsidies by the Federal Government would be used to reduce the premiums to be paid by the property owners. It first states in section 5 that the premium rates may be established on the basis of general considerations such as the risks involved and estimated operating expenses and reserves for losses. However, it then states that such considerations shall be used only to the extent that they are consistent with the aim of offering insurance or reinsurance at rates reasonable enough to make available to those who need it, at rates they can afford, the protection intended to be provided.

Although I believe that flexibility is an essential feature of legislation on this subject, the provisions of section 5 in S. 3137 are too broad and indefinite and would not afford adequate direction by the Congress nor adequate control by the Congress over premiums and subsidies—one of the most important aspects of this program.

Under the section 5 provisions, the Federal subsidy could be any amount, and this could result in the program developing into virtually an outright relief program. Indeed, those provisions would place the burden on the agency administering the program to make the insurance and reinsurance available to all who need it "at rates they can afford" to pay, and consequently there is no limit to the amount of Federal subsidy involved. To assure that the desired protection would be made available to all persons who need it, at rates they can afford, would seem to require some kind of "means test" for relating premium rates to the ability of individual property owners to pay.

A further complication under these provisions would exist in connection with establishing rates for municipalities and other public bodies. It is not clear how rates would be determined on the basis of the ability of States and municipalities to pay premiums.

PROGRAMS LIMITED, EXPERIMENTAL, AND FLEXIBLE

I believe that almost everyone who has dealt with the subject of flood insurance or indemnity would agree that it embraces very difficult and complex problems, the solution of which depends to a great extent upon the development of facts and experience which could not be obtained prior to the enactment of authorizing legislation and the initiation of operations under it. Experience of the Government in the field of war-damage insurance is helpful but limited, because the potential damage covered under that program was almost beyond calculation and the actual losses under it were relatively small. The Federal crop-insurance program with all risk coverage affords perhaps more valuable experience, but as it applies only to growing crops the experience is of limited value to programs relating to flood insurance or indemnity.

It is, therefore, our recommendation that the proposed programs be placed on a limited, experimental, and flexible basis. The provisions in S. 2862 before your committee are in accord with that recommendation. The powers conferred by the recommended bill are necessarily flexible and, consequently, the programs under this bill should be limited until experience is gained and the Congress has an opportunity to review operations under the legislation. Discretion would be conferred by other provisions of this bill which would require study and specific regulations by the Administrator.

Senator LEHMAN. May I point out there that although there is no specific limitation in the bill with respect to rates, or with respect to the subsidy that might have to be offered on the policies, there is a limitation in my bill with regard to the liability that it assumes.

Mr. MEISTRELL. I am aware of that.

Senator LEHMAN. A very definite limitation.

Senator BUSH. Mr. Chairman, may I ask a question?

Senator LEHMAN. Surely.

Senator BUSH. In preparing this, and doing your study on this bill, did you consider the question of crop insurance? Did you talk with those people, and so forth?

Mr. MEISTRELL. Yes, we did, Senator Bush.

Senator BUSH. They have had crop-insurance programs for some time. They testified before us, I believe, but do you remember how

many years they have been working on the crop-insurance program? It is 10 years?

Mr. MEISTRELL. I think, Senator Bush, the crop-insurance program was started in 1938, but operations were suspended in 1944 and reinstated in 1945. Congress reduced the scope of the program and placed it on an experimental basis in 1947.

Senator BUSH. Yes. But they still consider it definitely on an experimental basis, do they not?

Mr. MEISTRELL. Yes; I believe they do.

Senator BUSH. That is the point I wanted to make.

Mr. MEISTRELL. S. 2862 authorizes an experimental program. The Housing Administrator would be required on or before January 3, 1961, to transmit a report to the President for submission to the Congress on operations under the legislation including information on the extent to which private insurance companies have participated in the programs. This report would have to either (1) make recommendation for such legislation as may be necessary for the termination of the Government programs and an assumption of flood risk by private insurance companies, or (2) an explanation as to why such legislation at that time would not be feasible or desirable.

The 5-year period should be adequate to demonstrate the acceptability of the programs and provide significant information on the classes of contracts which are marketable. This information, with our administrative experience, may prove adequate to determine the feasibility of private operations in this field. Several provisions of S. 2862 would limit the extent of operations. I should like to comment on those for a moment.

1. MAXIMUM AMOUNT OF INDEMNITY CONTRACT

No indemnity contract or contracts could be issued to any person in excess of \$250,000 in the aggregate. This limitation applies to the contracts issued to any person, as distinguished from a maximum amount with respect to a particular property. It would have the effect of excluding full coverage on the property of States and property of larger corporations and municipalities. It would adequately cover the homeowner and the small-business establishment, where the needs are greatest. If this limitation were removed from the bill, it would be necessary to provide much larger authorizations than the bill now contains.

It is also desirable to spread the risk among as many areas and with respect to as many separate properties as possible. Of course, this can be done to a greater extent, with a limited amount of authorization, if the very large policies are excluded. Developing a broad distribution of indemnity contracts would be important not only in Government operations but in attempting to obtain private assumption of flood risks. In many cases it is also true that large corporations can act as self-insurers and suffer less relative financial loss from floods than smaller businesses, as well as obtaining more tax advantages.

In contrast to the maximum limitation per person under the recommended bill, S. 3137 would place the maximum limitation on the property. Under S. 3137, the coverage limitation is \$10,000 for residential property (including personal property thereon), designed for occupancy by 1 to 4 families. The maximum is \$100,000 for any other

single piece of real property, and \$100,000 for any other personal property in any single location. Thus, a large corporation doing business in many localities could insure each one of its properties in flood areas up to \$100,000. Similarly each individual property of a State or municipality could be insured up to these amounts. In addition, each one of these corporations or bodies could carry flood insurance on personal property up to \$100,000 in each separate location.

Under such a program, therefore, an unduly large proportion of the limited authorization could be used up by large corporations, States, and municipalities to the detriment of the homeowner and small-business man.

It also appears to us that the amounts of the dollar limitations contained in S. 3137 are inequitable. It is not clear why a home, including its personal property, should be limited to \$10,000 coverage, while all other types of real property and all other types of personal property on a single location each have a \$100,000 limitation. It would seem to be inequitable also to have the same coverage limitation for all residential properties whether they are designed for occupancy by 1, 2, 3, or 4 families. We believe it is preferable to have a maximum limitation per person with administrative discretion to prescribe lower limitations for different types of properties as the Administrator may determine on the basis of data developed in the initiation of the program. S. 2862 would provide that authority.

Senator LEHMAN. Would there not be a very considerable advantage to the Government as far as that is concerned, if we limited the maximum to a single piece of property? I am thinking about industrial concerns. An industrial concern may have five factories. He can either take out under S. 2862 a blanket policy covering his property or, under my bill, he would be required to take out separate policies for each one of these factories. He does not know where the flood is going to hit him. It may hit him in only 1 of the 5, but he will have to pay the premium on all 5. It seems to me there is a considerable advantage.

Mr. MEISTRELL. Well, Senator Lehman, there is again a matter of emphasis. If we are interested, as I know Senator Bush is, in protecting the small-home owner and the small-business man, then it would seem to me when you place the emphasis on multiple-location risks, permitting the large corporations to insure many of their locations at unlimited amounts, then you necessarily deplete your authorization in favor of those who perhaps can take these losses with less financial hurt than the small-business man and small-home owner whom I think we are primarily interested in. For that reason we felt that if you limit the coverages on a per person basis rather than on per properties basis, we would accomplish a much more effective method of helping those who need to be helped. That is the reason why we chose the per person rather than the per property test.

Senator LEHMAN. As far as the homes are concerned, the overwhelming majority are in the \$10,000 class.

Mr. MEISTRELL. That is correct. That is correct.

Senator LEHMAN. And those are the people who really need protection.

Mr. MEISTRELL. That is correct.

Senator LEHMAN. Not the fellow who has the \$75,000 or \$100,000 home. He can usually take care of himself pretty well, or write it off his income tax.

Mr. MEISTRELL. It is the little people I think Senator Bush had in mind in having this bill require the per person test rather than the per property test, since the latter would permit large corporations to insure in considerably larger amounts and use up your authorization before these little people who need it so badly ever got a chance at it.

Senator LEHMAN. But we have a preference clause in this, in that the fellow who requires an application for an insurance policy cannot be frozen out by some fellow who comes back and wants to increase his policy and get a different policy.

Mr. MEISTRELL. Yes.

Senator LEHMAN. It is a quarter of 1. I think we probably all have some things to do. I have to go to the floor so I will recess, if it is agreeable to you, until 3 p. m. this afternoon.

Mr. MEISTRELL. Very well, sir.

(Whereupon, at 12:45 p. m., the hearing was recessed to 3 p. m. of the same day.)

AFTERNOON SESSION

(The subcommittee reconvened, pursuant to recess, at 3:05 p. m.)

Senator LEHMAN. Mr. Meistrell, will you go right at it, sir? Where where we?

Mr. MEISTRELL. We were at the bottom of page 15, item 2.

Senator LEHMAN. All right.

Mr. MEISTRELL. The deductible provision. As indicated, under the indemnity provisions of S. 2862 each approved claim for loss must be reduced by a minimum of \$300 plus at least 10 percent of the remainder of the claim. The minimum amount of \$300 would serve as a means of eliminating many small nuisance claims which would otherwise increase administrative expenses unduly. The minimum percentage deduction of 10 percent would provide for some sharing of the loss by the property owner and thereby provide an incentive for him to protect his property against flood losses. The provision would also limit the total liability of the Federal Government and serve to reduce the premium required to pay losses. S. 2768 contains similar provisions in this regard.

Under S. 3137, however, the minimum deduction would be \$100 and the maximum \$200. That bill does not contain the requirement that the property owner bear a prescribed percentage of the loss. We believe that omission is undesirable because, in the case of large policies, a \$200 deduction would be an insignificant sharing of the risk.

The third limitation is limitation of programs to flood peril. The recommended bill, S. 2862, is limited to losses caused by floods as defined by the Housing Administrator. The term "flood," as used in the bill, specifically includes rising water caused by tide, wind, or rain. S. 2768 contains similar provisions. Other natural disasters such as earthquakes, hurricanes, drought, et cetera, are not covered by these two bills. Because the program would be undertaken on a limited, experimental basis, it is believed desirable that it be directed first toward meeting the area of greatest need. Insurance is available from private companies for at least the bulk of natural disasters

other than floods. Thus, private companies customarily write insurance covering windstorms, tornadoes, hurricanes, and earthquakes. Insurance against crop losses from drought and other natural disasters is provided for, to a certain extent, under the Federal crop insurance program.

If information is developed showing a need for the extension of the proposed program to other types of natural disasters, this could be done in subsequent legislation after some experience is gained with operations in connection with the flood programs. From the standpoint of effective administration, there would be an advantage in avoiding the further complications which would result from adding other types of risks during the initial stages of the program.

Under S. 3137, the term "flood" is defined to include "hurricane," so that losses could be covered under that bill even though no flood or rising water occurs. I think this is undesirable, as the program should be limited to floods for the reasons I have given. Private companies now customarily write insurance covering hurricanes. As indicated, S. 2862 covers floods or rising water resulting from wind, including hurricanes, which I believe is adequate.

The fourth limitation deals with maximum authorization. The total of authorizations in S. 2862 for indemnity and reinsurance contracts, amounting to \$3 billion, is very limited in relation to the total value of all property which could be damaged by floods. It is believed, however—

Senator LEHMAN. Before you get away from that, we do not recommend in my bill the inclusion of natural disasters generally such as earthquake, landslide, and things of that sort, although there is provision made to make recommendations on that question. We do include hurricanes as part of the flood damage that results from hurricanes.

In the case of the insurance companies, you say that they will write insurance on hurricanes, but that is only partially correct. The great damage that has come on the shores, on the beaches, comes from the effect of high winds on the waters. But while the insurance companies will insure the direct loss, directly attributable to the wind effect of hurricanes, they do not protect the homeowner or the insurer against damage done by high waters caused by hurricanes.

That was very clearly indicated in the hearings we had where some of the insurance companies did make some very, very minor settlements as compensation, but, generally speaking, they did not recognize their liability on damage that came from high waters caused by hurricanes.

Mr. MEISTRELL. Yes. Well, Senator Lehman, as I interpreted section 16 (a) of S. 3137, it says:

As used in this act, the word "flood" shall include any flood, tidal wave, wave wash, or other abnormally high tidal water, hurricane, deluge, or the water component of any other severe storm—

And so forth. And I was under the impression under this definition it would be construed to mean that hurricanes as such would be insured. Perhaps I am in error on that.

Senator LEHMAN. If you recall the history of the effect of hurricanes, I think you will agree that the great part of the damage on the shores, shores of the ocean and of lakes, came from the high waters

caused by hurricanes, and that is the damage that is not compensated for by the insurance companies.

Mr. MEISTRELL. Well, I understand that hurricane insurance as such is available from the private carriers. Now, if under your bill you intend to cover damages caused by water which results from a hurricane, then you are covering the same thing that Senator Bush is, because Senator Bush intended under his bill that "flood" would include rising water caused by tides or wind. And if that is what you intend, then we are talking about the same thing.

Senator LEHMAN. Well, at any rate, it is again an academic question—

Mr. MEISTRELL. Right.

Senator LEHMAN. Because if the private insurance companies will write an adequate insurance policy—

Mr. MEISTRELL. They would be excluded under both; that is correct.

It is believed, however, that the amounts prescribed in the bill are adequate and realistic for undertaking the proposed program.

The total annual damages by floods in the United States are estimated by a number of different Government agencies. This information is collected in different ways and serves the separate purposes of those agencies. Among them, the information collected by the Weather Bureau covers the longest period, going back as far as the turn of the century. The Bureau advises that the information since 1925 would furnish a better basis for estimating average annual losses from floods. This information shows that the estimated average annual flood damage, including flood damage caused by hurricanes, amounted to \$240 million during the period from 1925 to 1955, inclusive.

Because of changes in prices over the period covered by the estimates, year-to-year comparisons of flood damages can be more meaningful if the figures are adjusted for changes in costs in terms of constant dollars and changes in the amount of property exposed to flood losses. Moreover, if these constant dollars measure the purchasing power of dollars of some current period, they can be useful in measuring the magnitude of prospective losses. The Weather Bureau estimates have been adjusted by the use of an index presented in a recent publication on floods by Hoyt & Langbein which adjusts for variation in wholesale prices and variations in the amounts of property exposed to loss with 1950-51 as the base. After such adjustment, the average annual damage from floods is estimated to be \$350 million.

Senator BUSH. Mr. Chairman?

Senator LEHMAN. Yes, Senator Bush?

Senator BUSH. That is the average annual damage, \$350 million, but is it not true that under our bill here, S. 2862, that a great deal of that loss would be excluded?

Mr. MEISTRELL. That is correct.

Senator BUSH. Because of the limitation of \$250,000 upon any one insured, because of the \$300 deductible, and the 10-percent participating feature? You do not have any estimate of how much would be excluded under our bill, do you?

Mr. MEISTRELL. Senator Bush, we have made some calculations which I will comment on in a moment, but the figure of \$350 million average annual damages would have to be adjusted to take into con-

sideration the types of property that would be covered under your bill and adjusted for the maximum liability, the \$300 deductible, and the 10 percent in addition.

Senator BUSH. The Army engineers in preparing their estimates of losses include what they call indirect losses or losses due to unemployment and lack of operation of the plant and that sort of thing.

Mr. MEISTRELL. That is correct.

Senator BUSH. So that the point I am making is that I believe if it were possible to get at the real insurable loss under our bill that it would be a relatively small fraction of that figure.

Mr. MEISTRELL. That is correct.

Senator BUSH. When we see the amounts of money that the Red Cross left in the devastated areas, part of which might have been insurable under this bill, when we see some of the totals of the SBA people which would have been insurable under this bill—that is, less than \$250,000—those figures are very, very moderate compared with this \$350 million figure.

Mr. MEISTRELL. That is correct.

Senator BUSH. So that I simply want to point out that it seemed to me that we are in danger of thinking we are doing something tremendous here when actually we are probably talking about an annual insurable loss of substantially less than \$100 million.

Senator LEHMAN. Well—

Senator BUSH. I have no sound basis to make that estimate but just from observation of these factors that I have seen.

Senator LEHMAN. May I ask what the estimated losses in Connecticut were?

Senator BUSH. Well, sir, I—

Senator LEHMAN. This one storm.

Senator BUSH. Well, they talk of \$250 million according to the Army engineers, but again that includes \$10 million or more from the New Haven Railroad, it includes several million dollars for the Chase Brass, the American Brass, Hershey, a small plant—he had to borrow \$1.8 million to get back into business—and all that sort of thing. So those things are greatly enlarged by risks that would not be insured under the Senator's bill or mine.

Senator LEHMAN. I do not follow that.

Senator BUSH. You asked me how much the floods cost us in Connecticut.

Senator LEHMAN. Yes.

Senator BUSH. Well, the engineers estimate in excess of \$250 million for Connecticut, but I say that those figures include many large losses that would not have been insurable if either the Senator's bill or mine had been in existence. Do you see what I mean?

Senator LEHMAN. Yes, I see that perfectly, but I am talking about the figures that apparently have been given by the Weather Bureau. I wonder whether you know how those figures are compiled. Are those estimates, or was there any survey made by the Weather Bureau after the storm?

Mr. MEISTRELL. I am informed, Senator Lehman, that the Weather Bureau collect these data from questionnaires that they send out, I would assume to their various—

Senator LEHMAN. Collects it from what?

Mr. MEISTRELL. Collects it from questionnaires that they send out to their various field offices and local informed sources. I do not know this as a fact. Consequently, I cannot answer with any accuracy how they collect their figures—the mechanics they go through to collect them. But these are the figures that have been given to us by the Weather Bureau, which I believe to be reliable.

Senator LEHMAN. I would like to know what they were based on. We have had estimates—and they have been estimates, frankly—with regard to the damage done in these storms of last August and October in the Northeast and the floods that came on the Pacific coast and in the Northwest. Those estimates in this one period are as follows: The minimum estimate that I have heard was around a billion dollars, and the maximum estimate which I have heard is about \$1.7 billion.

I do not accept either the minimum or the maximum. It is probably somewhere in between.

We have asked the Corps of Engineers, who have the means of studying this situation quite fully, what their figures showed. I asked that question. I believe you were here. I asked it of the Chief of Engineers.

Mr. MEISTRELL. Yes, you did.

Senator LEHMAN. I think it was the last part of October.

Mr. MEISTRELL. Yes.

Senator LEHMAN. This is February, and they promised to give them to us, and we have not yet received them.

But I do recall this that the figures that we got from the Corps of Engineers even without figures of this current year or of 1955 were very much greater than the figures that you have given—very much greater.

Mr. MEISTRELL. Of course, these are averages over a period of 30 years.

Senator LEHMAN. Well, theirs were averages, but I do not remember the period. But they were averages over a long number of years. And it was vastly greater than these figures.

Mr. MEISTRELL. Of course, Senator Lehman, it is difficult to know what was included in their figures, whether they had indirect losses such as loss of payrolls, loss of profit on unfilled contracts, public and municipal property such as highways and bridges and that sort of thing, roads. So that I am in no position to comment on the figure nor what was included within the figure.

The \$240 million that we have from the Weather Bureau which we used we adjusted to allow for increases in costs and come up with an average annual damage figure on the 30-year average of approximately \$350 million.

Senator LEHMAN. The figures that we got from the Corps of Engineers, as I recall it, were only direct losses. They did not include any—

Mr. MEISTRELL. Only direct losses? Well, our figure of \$350 million includes indirect damage.

Senator LEHMAN. Would you mind placing in the record the figures that you have gotten from the Weather Bureau?

Mr. MEISTRELL. I would be very happy to.

Senator LEHMAN. With an explanation of how they were collected?

Mr. MEISTRELL. I will indeed.

(The figures requested from Mr. Meistrell follow:)

The figures presented below are estimates of the Weather Bureau. According to the Weather Bureau, these statistics should be taken as estimates only. They were collected incidental to the primary purpose of surveying the meteorological and hydrological aspects of the storms and floods. They are obtained by Weather Bureau stations throughout the country from a wide variety of sources, official and unofficial. They came from the Red Cross, Civil Defense authorities, Corps of Engineer districts, police records, insurance companies, State and municipal governments, and newspapers. As far as possible, they include all damages, public and private. They apply to real estate, industrial establishments, roads, railways, utilities, and agriculture. Many of the original sources had only estimates. Hence, the figures should be looked upon only as orders of magnitude. They include indirect losses as well as direct losses. The data for 1955 are still incomplete and hence those figures are definitely subject to revision.

Estimated annual flood losses in the United States, 1925 through 1955

[In million of dollars]

Year	Excluding tropical storms, unadjusted ¹	Including tropical storms		Year	Excluding tropical storms, unadjusted ¹	Including tropical storms	
		Unadjusted ²	Adjusted ³			Unadjusted ²	Adjusted ³
1925.....	9,922	9,922	22,049	1943.....	199,733	216,498	400,922
1926.....	23,470	129,970	265,245	1944.....	101,079	266,089	483,798
1927.....	347,658	347,658	755,778	1945.....	165,797	245,930	431,456
1928.....	44,614	69,614	145,028	1946.....	70,814	76,014	118,772
1929.....	68,069	68,752	134,808	1947.....	272,328	408,086	497,666
1930.....	15,850	15,850	33,728	1948.....	229,960	248,360	275,956
1931.....	2,810	2,810	6,386	1949.....	93,632	152,682	171,553
1932.....	10,295	10,295	25,738	1950.....	176,049	211,899	223,052
1933.....	36,679	82,329	222,511	1951.....	1,028,742	1,030,742	981,689
1934.....	10,361	15,121	36,002	1952.....	254,064	256,814	244,585
1935.....	127,130	138,630	322,395	1953.....	122,203	128,366	122,253
1936.....	282,549	284,849	678,212	1954.....	99,149	854,622	813,926
1937.....	440,740	440,782	1,025,074	1955.....	800,000	1,090,000	1,038,095
1938.....	101,100	401,345	955,583				
1939.....	13,834	13,836	32,943				
1940.....	40,466	45,210	102,750	Total.....	5,327,458	7,435,882	10,896,721
1941.....	39,525	47,200	100,426	Average.....	4172,000	240,000	350,000
1942.....	98,506	126,607	228,376				

¹ As estimated by U. S. Weather Bureau.

² As estimated by the U. S. Weather Bureau, including flood damage caused by tropical storms (including hurricanes).

³ As adjusted by the use of an index which adjusts for variations in wholesale prices and in the amounts of property exposed to loss; on the basis of 1950-51=100. The index used appears in Floods, Hoyt and Langbein, Princeton University Press, 1955.

⁴ The comparable average annual estimated flood losses, excluding hurricane, for the 53-year period 1903-55 inclusive is \$118 million.

Senator LEHMAN. I understand your figures include indirect losses as well as growing crops and similar things?

Mr. MEISTRELL. That is correct.

Senator LEHMAN. How much do you estimate that to be?

Mr. MEISTRELL. Senator Lehman, if I may continue with the statement, I think we probably cover it.

Senator LEHMAN. I will ask you to continue in a minute.

Mr. MEISTRELL. Right.

Senator LEHMAN. But I only make this observation: I wish that you had been present at the hearings that we held. We heard from a large number of people, but among them were fairly responsible people, people who would ordinarily be considered as being well informed in connection with the matters that we had under discussion.

For instance, in every one of the States we appeared we had testimony in person from the governor of the State. We had testimony in person in a number of the states from the Senators of the State. And the figures that they gave with regard to the losses certainly indicated a situation very different from the one that you are sketching, even though I realize perfectly well that you are dealing now in an average situation over a period of years.

Mr. MEISTRELL. Yes.

Senator LEHMAN. But I would certainly want to study those figures very carefully.

Mr. MEISTRELL. Well, we will, of course, give you all of the data we have on this particular subject.

Senator LEHMAN. And I want to point out too that some fear has been expressed—I do not accept your figures in the first place, but I am going to make an observation based on those figures. A great fear has been expressed that this would involve the Federal Government in tremendous liabilities and possibly in tremendous losses. But if the figures that you have given are anywhere near correct, even though they might set a rate considerably below the actuarial rate, the loss to the Government could not possibly be very substantial.

I think if you want to use it on one side you have got to use it on the other side.

Mr. MEISTRELL. Well, I agree with you, Senator Lehman. I think there are perhaps two considerations. One is what property you are going to cover and the amount of liability you are going to assume. And I should state that we have examined into the figures that your committee compiled and you will recall the very substantial variations between the estimates made by various agencies that have worked on this problem. But the \$240 million annual average figure that we used was taken from the Weather Bureau, and I believe they testified before your committee along these lines.

Excuse me. I am informed that they testified before the House Committee on Banking and Currency.

Senator LEHMAN. Well, if you will proceed, please.

Mr. MEISTRELL. All right.

The average annual figure of \$350 million includes losses on types of property such as growing crops and indirect damages which would not be eligible under the bill. When these two major classes of losses are excluded, the \$350 million is reduced to approximately \$165 million. The figures on which estimates of flood damage are based do not lend themselves to a determination of the portion of the total damage which would be excluded by virtue of either the \$250,000 limitation or the \$300 deduction provided in the bill. However, an adjustment was made for the 10 percent deduction by reducing the figure of \$165 million by 10 percent, leaving approximately \$150 million as the estimated average annual loss from flood damage on property eligible for indemnity contracts under the bill.

Of course, the amount of average annual losses under indemnity contracts would not be \$150 million unless all of the eligible property in the United States were covered by those contracts. This would not be true under the proposed experimental program having a limited authorization of \$2.9 billion. Nevertheless, we believe that the authorization proposed is adequate as an initial step in an experimental program. If it later appears that the demand for the indemnity

contracts is heavy, the Congress could increase the authorization at that time.

S. 3137 also provides for a total authorization of \$3 billion. According to that bill, this amount is to be available for insurance or reinsurance, without specifying a division as between insurance and reinsurance. In the bill we are recommending, the total authorization is also \$3 billion, but it is divided so that \$2.9 billion would be available for indemnity contracts and \$100 million for reinsurance. We see no objection to restating this total authorization as \$3 billion, to be used in the judgment of the Administrator, either for indemnity contracts or for reinsurance.

The fifth limitation deals with borrowing authority. The recommended bill would authorize the Administrator to borrow from the Treasury up to \$500 million at any one time as an initial reserve for the indemnity and reinsurance program. In our judgment the borrowing authority in this amount is necessary in the event of a large catastrophe prior to the accumulation of reserves from contributions, fees and premiums. It is also our view that this amount would be adequate in relation to the total authorizations under the bill. S. 3137 would authorize borrowing from the Treasury up to \$1.5 billion, or such greater amount as may be approved by the President.

Our views on the five limitations in the recommended bill which I have discussed—namely, the \$250,000 limitation per person, the minimum deductible provision, the limitation of flood peril, the indemnity and reinsurance authorization limitation, and the borrowing authority limitation—represent in our judgment, reasonable limitations for the experimental programs under the bill. However, I wish to emphasize that we do not consider these limitations inflexible, but believe they could be varied to some extent without adversely affecting the feasibility of the programs.

The program of indemnities for flood losses under the recommended bill recognizes the responsibilities of both the Federal Government and the participating States. As previously explained, the indemnity program authorized by this bill would be administered by the Federal Government in consultation with State officials. It would apply only in those States which elect to share in the contributions to the indemnity fund. Hardship caused by losses from floods is a matter of national concern and appropriate for Federal expenditures to promote the general welfare, but we also believe that the States have a responsibility for sharing in the financial burdens involved. As the prevention of financial loss from floods aids the economy of the Nation, it also aids the economy of the individual States affected. Hardships to citizens of the States will be lessened and the restoration of the tax base of communities will be accelerated.

The contributions required from a State would be related to the protection from flood peril afforded the people of that State. States with large exposures to flood losses covered by indemnity contracts would contribute more than States with smaller exposures. We feel that this provides for a more equitable sharing of losses among States than would be the case where no State contributions were required, as under S. 3137.

The required participation by the State gives the legislative body of the State the authority to decide whether the Federal indemnity program should apply to the citizens of that State. The extent to

which the indemnity program could be applied in a particular State would also be determined by the legislative body of the State, as the State's contribution would determine the maximum amount of the indemnity contracts which could be issued to the people of that State, within the maximum prescribed pursuant to Federal law. The contribution could be made in the form of an appropriation to the Federal Flood Indemnity Fund, or the State legislature could authorize a State official to advance funds from time to time as a condition to further indemnity contracts in the State, in accordance with such standards as the legislature may prescribe consistent with the Federal legislation.

It may be pointed out in this connection that 45 of the State legislatures convene in regular sessions early next year.

This program, as other Federal-State programs now established, may present special legal and financial problems to some States. We should not assume that the contemplated State participation should present difficulties any greater than experience has taught us were overcome in other areas of Federal-State partnerships, such as the unemployment insurance and the old-age and survivors insurance programs.

Senator BUSH. Mr. Chairman, may I ask a question?

Senator LEHMAN. Yes, sir.

Senator BUSH. I would like to ask the witness this about State participation: Do you not feel that the way this bill handles State participation and brings the State in would give the States an incentive to work for flood control and to encourage the towns to stop these encroachments on the riverbed and on the flood plain of the river? The fact that the State is an interested partner in this program, it seems to me, would have that stimulating effect on flood protection. And, as the Senator and I have often agreed, what we really want is to avoid the damage rather than reimburse for it.

But do you not think the State participation has that very important advantage?

Mr. MEISTRELL. Oh, very definitely, Senator Bush. I believe that this question of protecting citizens from losses due to floods is a primary obligation of the States. Not all States have floods, and not all States need that protection, but where there are recurring floods I think it has the tendency to cause a State to become aware of the burdens when they have to pay something. And I think it would tend to stimulate flood-plain zoning and flood control, and act as a stimulation to States to undertake to reduce the exposure rather than to reimburse for the loss.

I agree entirely with what you say, Senator Bush.

Senator LEHMAN. May I point out very respectfully that I do not think the so-called Federal-State partnerships which you have mentioned are analogous to this. You mentioned unemployment insurance and the old-age and survivors insurance programs. Those are programs that are conducted through taxes or contributions made by the workers and the employers in the case of unemployment insurance, and in the case of the old-age and survivors insurance program also between the employers and the employees. It is no real partnership between the State and the Federal Government.

Mr. MEISTRELL. Senator Lehman, I did not mention those programs with respect to a partnership solely. The purpose of referring to

those programs was to illustrate that some of the anticipated difficulties in bringing the States in are more in theory than in fact, for the reason that in both the unemployment insurance and old-age and survivors insurance programs, substantially the same legal questions arose, namely, to what extent can a State contribute to a program using taxpayers' money where directly or indirectly individuals are to be benefited?

Those problems I think to a large measure are behind us, and I mention them in this statement only to illustrate that we should not assume that the contemplated State participation would present insuperable difficulties and therefore would eliminate State participation at the outset.

Senator LEHMAN. I do not want to extend this colloquy too long, but I do want the record to show that in the case of the old-age and survivors' insurance program there is no participation on the part of the States. The States do not pay a cent toward that. That fund is raised entirely through contributions from the employers and the employees. The State does not pay a cent. New York does not, Arizona does not, and I think that same thing is true with the unemployment insurance and many others.

But what you are proposing is a direct partnership in which the State would have to assume very considerable responsibilities without having any voice, as a matter of fact.

Mr. MEISTRELL. Well, Senator Lehman, I am informed that under the old-age and survivors' insurance programs the State does make a contribution with respect to the employees of the State and local public bodies which has, as a matter of fact, raised the same constitutional question we have here—whether it is constitutional to furnish contributions which will aid particular individuals. I do not want to hold myself out as an authority on this, quite frankly.

Senator LEHMAN. I am glad you do not, because I had a good deal to do with the enactment of that in the State of New York—the participation of the State of New York.

Mr. MEISTRELL. Yes; I know you did.

Senator LEHMAN. I do not think that they have a thing to say about the amount. What they do say, what they have got a right to say, and the legislature does, is that on unemployment insurance they specify the duration of the aid that is given and also the amount. In other words, some States have 16 weeks and \$20 per week, and other States have 20 or 24 or 28 weeks of benefits with higher or lower amounts. But certainly that is all they have to do.

In the old-age and survivors' insurance programs they have nothing to do with it at all as far as that goes. I wonder whether you may be thinking of public-assistance programs?

Mr. MEISTRELL. No. What I had in mind was the legal questions that arose which required amendments to State constitutions and a resolution of the legal difficulties inherent in programs where there was contribution by either State or Federal Governments to programs which in their inception appeared to be conferring benefits on individuals.

Senator LEHMAN. Well, I will not pursue the matter any further, but I did want the record to be correct on these things.

Mr. MEISTRELL. Well, I assure you, Senator Lehman, I have no intention whatsoever to misinform you, and perhaps I should withhold remarks on this subject which I do not know too much about.

Senator LEHMAN. All right. Will you proceed?

Mr. MEISTRELL. The recommended bill would vest authority for the program in the Housing and Home Finance Administrator and provide that he appoint a Commissioner to assist him in carrying out the program. Under this authority, considerable economies could be realized from consolidating administrative services, such as accounting, budgeting, legal, and personnel, with similar existing services of the Administrator. Such economies would not be possible under S. 3137, which would establish a new constituent agency within the Housing and Home Finance Agency and vest all of the program operations under a Commissioner. Such an organizational structure would also be contrary to the recommendations of both Hoover Commissions and would be inconsistent with the long-standing position of the executive branch.

It should be noted also that, since the Housing Agency was established in 1947, the Congress has placed three additional constituent units within the agency—to handle urban renewal, community facilities, and secondary mortgage market functions. In all three cases the Congress vested final operating responsibility in the Administrator. Only in the case of the two constituent agencies, the Federal Housing Administration and the Public Housing Administration, which are older than the overall Housing Agency, does final operating responsibility continue to remain in a Commissioner appointed by the President and subject only to the Administrator's supervisory and coordinating authority. Moreover, under the provisions of S. 3137, the Administrator's general powers to supervise and coordinate the programs of the new constituent would, in fact, be less than is now the case with respect to these two older constituent agencies.

In the operation of the programs under S. 2862 the Administrator would be required to use the facilities and services of private insurance companies, insurance agents, and insurance adjustment organizations and to pay reasonable compensation for such services. The programs could be used only to the extent necessary to afford protection against flood losses that are not available from private insurance companies. They are designed to serve as an aid to the eventual underwriting of such risks by private companies without Federal aid.

This concludes my prepared statement. I wish to suggest several minor technical amendments to S. 2862 and to have them inserted in the record.

(The suggested technical amendments to S. 2862 follow:)

SUGGESTED TECHNICAL AMENDMENTS TO A PROPOSED AMENDMENT IN THE NATURE OF A SUBSTITUTE TO S. 2862

1. On page 3, line 21, insert the words "direct physical" after the word "for".
2. On page 3, line 24, strike the words "as a result of" and substitute the words "caused by".
3. On page 4, lines 15 and 16, strike the words "in establishing such fees the" and substitute the word "The".
4. On page 4, line 17, strike the word "necessary" and substitute the word "adequate".
5. On page 4, line 17, insert the words "produce sufficient proceeds to" after the word "to".

6. On page 4, line 18, strike the words " : *Provided*, That no" and substitute the word "No."

7. On page 5, line 12, strike the words "may decline any application or risk and" after the word "Administrator".

8. On page 5, lines 19 and 20, strike the words "any possible inducement which the indemnity program may have to" and substitute the words "the undesirability of encouraging".

9. On page 5, line 24, insert the word "insurance" after the word "flood".

10. On page 6, lines 6 to 11, strike the words "No claim under any indemnity contract shall be approved in an aggregate amount which exceeds the actual cash value of the damaged or lost property or the cost of replacing, repairing, or rebuilding the said property with material of like kind and quality (less depreciation at the time of damage or loss), whichever is lower: *Provided*, That" and substitute the words "Each indemnity contract shall require that."

11. On page 6, lines 12 and 13, strike the words "under an indemnity contract shall" and substitute the word "thereunder".

12. On page 6, line 15, strike the words "in the indemnity contract" and substitute the words "by the Administrator".

13. On page 7, line 11, strike the period and add the words "at reasonable rates and upon reasonable conditions."

14. On page 7, line 18, insert the words "produce sufficient proceeds to" after the word "to".

15. On page 7, line 24, and on page 8, lines 1 to 3, strike the words "(2) the maximum premium rate permissible to be charged for any policy of insurance reinsured under the provisions of this Act, (3)" and substitute "(2)".

16. On page 8, line 4, strike the designation "(4)" and substitute "(3)".

17. On page 8, line 5, strike the designation "(5)" and substitute "(4)".

18. On page 8, line 10, insert the word "insurance" after the word "private".

19. On page 8, line 11, strike the word "reinsurance" and substitute the words "obligations under reinsurance agreements".

Mr. MEISTRELL. I shall be very pleased to answer any questions.

Senator LEHMAN. Is it true that under the bill S. 2862, under the administration bill, no indemnity contract could be issued unless the State in which the property which is covered is located pays a portion of the fee for the contract?

Mr. MEISTRELL. Yes, that is correct. If a State does not choose to participate, the direct indemnity contract would not be issued by the Federal agency. However, private carriers, of course, would be free to come in and write the coverage.

Senator LEHMAN. Do I understand you to recommend that the State pass on each one of these contracts?

Mr. MEISTRELL. Oh, no, Senator Lehman. No, indeed. I apparently misunderstood your question.

Senator LEHMAN. Well, will you explain how you interpret this then?

Mr. MEISTRELL. If the State of New York should determine that they chose to participate in the program, they would indicate the extent to which they chose to participate financially, and based on that determination their citizens would be eligible to purchase coverages up to that limit.

Senator LEHMAN. Well, I understood you to say earlier in the day that no survey had been made to determine how many States would be likely to participate in the program.

Mr. MEISTRELL. That is correct.

Senator LEHMAN. Under the plan is it not likely that the proposed indemnity contract program will never get into operation in some States?

Mr. MEISTRELL. Yes; that is likely. If a State legislature should not determine that they wanted to have their citizens participate through

their own participation, the indemnity coverages would not be available.

Senator LEHMAN. Does the administration bill allow the States to have a voice in determining the terms and conditions in indemnity contracts beyond the provisions of section 402 which permit—I am asking these questions largely for the record—which permit the Housing and Home Finance Administration to consult with State representatives at the Administrator's discretion?

Mr. MEISTRELL. Nothing beyond the provision in the bill that would provide for consultation between the Administration and the various State officials.

Senator LEHMAN. I want to put something in the record.

Mr. MEISTRELL. You will observe, Senator Lehman, section 402 of S. 2862 provides the Administrator may from time to time consult with the representatives of the various States to the extent——

Senator LEHMAN. What are you reading from?

Mr. MEISTRELL. I am reading from section 403, S. 2862, at page 12, line 12. That provides:

The Administrator may from time to time consult with representatives of the various States to the extent he deems necessary to effectuate the purposes of this Act. He may also from time to time consult with representatives of the insurance industry and shall make continuing studies and investigations for the purpose of facilitating the ultimate assumption of all flood risks by private insurance carriers.

That is the only provision in the bill with respect to a State having a voice in the operation of the program.

Senator LEHMAN. But even that very meager cooperation between the Federal Government and the States is purely permissive.

Mr. MEISTRELL. That is correct.

Senator LEHMAN. It is left entirely to the discretion of the Federal Administrator as to whether or not he wants to consult with the State.

Mr. MEISTRELL. That is correct.

Senator LEHMAN. If the Federal Government decides as a matter of public policy that it is advisable to offer insurance or indemnity to potential flood victims, why should the States be placed in a position where they in effect can veto the entire program by inaction?

Mr. MEISTRELL. Well, it is not quite a veto by inaction. It is more of an opportunity to participate by action. It is our view that these floods are of a nature wherein they not only affect the national economy but, perhaps much more importantly, the local economy, and that States should determine on their own whether or not they choose to participate in a program wherein the Federal Government is assuming to pay half of the unpaid premium cost for protection.

You will recall, Senator Lehman, that the New England floods which caused such devastating damages created the problem of States turning to the Federal Government for complete relief and hoping to obtain through relief some measure of help to the victims. Some States responded very generously. The State of Connecticut, for example, through their legislature, appropriated some \$36 million, which I think would have been greatly in excess of what their contribution would be under any insurance program.

And, as I recall, Governor Harriman, of New York, announced that the State of New York had no money to contribute.

In any event, both of them were down here asking that they be taken care of.

And to the extent that the Federal Government can take care of victims of any disaster, whether it be flood or war or whatever it may be, that is an obligation we I think as Americans all realize and certainly will do all we can. But that is relief. That is food, that is shelter, that is clothing—of a very temporary nature.

When you get into this program, I think we are talking about a matter of political philosophy: Should the Federal Government be called upon to carry the whole load or should a State that has the problem recurring year after year recognize its obligation? That is a matter of judgment. My judgment and the judgment expressed in this bill recognizes some obligation on the part of States to do something.

My own personal opinion is that it is properly a matter for States to assume some obligation. There are many States that are not troubled with floods and have no occasion to be concerned on the probability of floods, and there are others where floods recur with great frequency. And I think if a State has this problem they have some obligation to their citizens. And I think further it will tend to bring into focus the necessity for States to take some action to prevent these catastrophes rather than sit back and let the Federal Government carry the entire burden with no great motivation to prevent these disasters.

Senator LEHMAN. It may be a question as to whether or not the Federal Government should declare it to be a matter of public policy that it would help the victims of floods and high waters. But if they do do it, if the Federal Government does decide it as a matter of Federal public policy, then I think that there is no question at all that the States do hold a veto power in this matter.

In other words, if the State of New York should decide not to put up 20 percent of the premium in connection with this, it would immediately prevent all of its citizens from obtaining this insurance from the Federal Government at what we hope will be a reasonably low rate.

Mr. MEISTRELL. That is correct.

Senator LEHMAN. I have never heard of any procedure of that sort, when the Federal Government has decided on and adopted a public policy that any of the States should by inaction, by failure to take any action, prevent its citizens from benefiting from that legislation.

Mr. MEISTRELL. Well, I think that it is not quite preventing them so much as it is giving them an opportunity to participate.

What I am saying is this: The Federal Government is saying to the States: "Here is a program. If you choose to participate in it, that is a matter for local determination. If there is sufficient public interest in your State, sufficient need, sufficient desire by your citizenry to want to get into this program, here it is. If you do not like it and you do not want to come in, that is a matter for you to determine." And you put the option up to the State to make that determination. And if they choose in the interest of their citizens not to want to make this program available to them, that is a matter for local determination.

Having made that, I do not think we are penalizing those citizens who cannot come in because their State legislature does not want them to come in. They can get the insurance through private sources.

Senator LEHMAN. No; they cannot. You tell me where they can get it.

Mr. MEISTRELL. Under the reinsurance program, if the private carriers chose to write policies in the State of New York and come in and reinsure them under our program, that would be available.

Senator LEHMAN. If they chose to write policies—I thought we had agreed several hours ago that this does mean a subsidy of one kind or another.

Mr. MEISTRELL. Yes; we did agree at one time.

Senator LEHMAN. That subsidy, whether it be X, Y, or Z percent, will have to be met by the taxpayers of the country.

Mr. MEISTRELL. That is correct.

Senator LEHMAN. The citizens of New York or Connecticut or Arizona or of New Mexico will have to pay their taxes to provide that subsidy just the same way as somebody who lives in a different State.

Mr. MEISTRELL. Correct.

Senator LEHMAN. The States should not have it in their power to say to their citizens that "Here is a matter that has been declared as a public policy by the Federal Government, and you cannot participate in it except at much higher rates."

Senator BUSH. Mr. Chairman, I would like to compliment the witness on having given a very able piece of testimony here. I think he has pointed up the issues very clearly that are involved in these bills. Also, I would like to recall—I believe I am correct—that as far as the States are concerned, enabling legislation did have to be passed by each State who participated in the unemployment compensation program as well as the old-age and survivors program. So there is nothing new in this as far as requiring State participation is concerned. The more I have heard the witness argue this point about State participation, the more satisfied I am with that. I particularly like the way he brought out the incentive that this gives the State to do something along preventive lines, and require their towns to police these rivers and reduce the hazards. It is much better to avoid the loss of life and property than it is to compensate for it. I feel that Mr. Meistrell has done a very good job in that connection.

Senator LEHMAN. He may have done a very good job. I am not criticizing Mr. Meistrell. I am sure he is able to take care of himself. But I have no hesitation in saying that he has not in the slightest degree convinced me that this plan is going to be practicable if you are going to let the State decide that. In the first place it may very well be that some of the States will adopt this by statutory or constitutional provisions. However it is a fact that some of the legislatures will not meet for a long time. Take the State of New York. It will not meet until sometime next winter.

But beyond and above that, it seems to me that where the Federal Government sets a public policy, it is inconceivable to me that the State should be in a position to block it by failure to permit their citizens to participate. That is really the long and short of it here. That is what they will be doing. They said they would not come in under it and accept their responsibility. I want to point out that the share of the States is only for those policies that have been written for their own citizens.

Mr. MEISTRELL. That is correct.

Senator LEHMAN. The State of New York would not have to pay 20 percent on an insurance policy written for a man in Arizona.

Mr. MEISTRELL. No; that is correct.

Senator LEHMAN. Then Arizona would not have to pay 20 percent for a policy written on a man in New York. So it seems to me it is a blocking operation. We will be discussing this, Senator, in a number of hearings, I am quite sure.

Senator BUSH. Yes. I am sorry if I, myself, am in disagreement with the chairman on this point, very strong disagreement, because it seems to me that it is not a question of blocking. It is a question of giving the States the right to get into this program and the obligation to do something about it so as to keep the cost down. So I think the shoe is on the other foot, very much so.

The States must and I think should very definitely have both the opportunity and responsibility to participate.

Mr. Chairman, may I ask a parliamentary question. How long are you going to run this afternoon?

Senator LEHMAN. I had expected to run for some little time more. But I have a hunch they are going to want you and me on the floor after a while. So that I will just keep you a very short time, Mr. Meistrell. If they should ring for a rolloall, I will immediately recess.

Senator BUSH. Yes, sir.

Senator LEHMAN. Let me ask you this. Why did the administration remove section 407 from S. 2862 as introduced on January 5? This section protected indemnity and reinsurance claims from attachment or other legal processes in order to assure receipt of claims proceeds by the persons entitled to them under the indemnity contract or reinsurance claim.

Mr. MEISTRELL. We removed that, Senator Lehman, because the Bureau of the Budget felt that it was an unnecessary provision to have in the bill. We have no strong feeling about it either way. I think that provided an exemption from attachment and levy, and I don't think there is any objection to having it included in the bill.

Senator LEHMAN. In section 102 you speak of a reasonable period of years over which probable losses will be incurred calling for payment of claims. Can you tell us what period of years the administration would deem reasonable under these circumstances?

Mr. MEISTRELL. That is largely an actuarial and underwriting consideration. Underwriters and actuaries differ as to how long a period of time they think reserves, premium income, should be accumulated to take care of losses. That would be determined by the Administrator, and I would be expressing an uninformed opinion if I attempted to say what an actuary or an underwriter would consider reasonable.

Senator LEHMAN. I wonder whether Senator Bush could tell me—I have been asked by some of my colleagues—under the definition of “flood” included in section 101 of the administration bill, would the Administrator be authorized to include mud slides?

Mr. MEISTRELL. That could be included, Senator Lehman, under this definition. It would be a matter for analysis and determination by the Administrator, by regulation, as to whether he would include mud slides or not.

Senator BUSH. That has been specified on the top of the page 4—what Mr. Meistrell has said.

Senator LEHMAN. They are not excluded.

Senator BUSH. I would say he is exactly right. It says such further meaning as shall be prescribed by regulation of the Administrator. So I certainly would think it would have that additional scope, if the mud slide came from water caused by tide, wind, or rain.

Senator LEHMAN. During the hearings at Raleigh, N. C., it was directed that the staff communicate with the appropriate authorities in South Carolina in regard to the hurricane losses sustained in that State. (See p. 872, pt. 1.)

I have a letter from Mr. J. M. Smith, State auditor, enclosing an estimate of damage. It will be inserted in the record.

(The information referred to follows:)

STATE OF SOUTH CAROLINA,
OFFICE OF THE STATE AUDITOR,
Columbia, January 14, 1956.

Mr. J. H. YINGLING,
Clerk, Senate Committee on Banking and Currency,
Washington, D. C.

DEAR Mr. YINGLING: Since writing you on January 5 concerning hurricane damage in South Carolina I have received the attached communication from the county treasurer of Horry County estimating hurricane damage in that county amounting to a total of \$77,075,000.

I have not yet had any estimate of such damage in Georgetown County, but in my judgment I believe it would be safe to say that the damage in that county would not exceed one-half of the amount estimated for Horry County, or somewhere in the neighborhood of \$40,000,000.

I hope this will help in your investigation.

Very truly yours,

J. M. SMITH, *State Auditor.*
OFFICE OF TREASURER, HORRY COUNTY,
Conway, S. C., January 10, 1956.

Mr. J. M. SMITH,
State Auditor, Columbia, S. C.

DEAR Mr. SMITH: The following requested in your letter of December 23, 1955, concerning damage caused by Hurricane Hazel in 1954, and Hurricanes Connie, Diane, and Ione in 1955.

Hurricane Hazel in 1954

1. Public utilities.....	\$1, 500, 000
2. Highways and bridges.....	2, 000, 000
3. State-owned property.....	200, 000
4. Farm crops.....	2, 000, 000
5. Farm property.....	10, 000, 000
6. Dwellings.....	48, 000, 000
7. Timber.....	1, 000, 000
Total.....	64, 700, 000

Hurricanes Connie, Diane, and Ione in 1955

1. Public utilities.....	\$150, 000
2. Highways and bridges.....	1, 700, 000
3. State-owned property.....	25, 000
4. Farm crops.....	4, 500, 000
5. Farm property.....	1, 000, 000
6. Dwellings.....	2, 000, 000
7. Timber.....	3, 000, 000
Total.....	12, 375, 000

There are other unestimated losses on which statistical information has not, and possibly cannot be compiled. An example of such is the owners of beach

lots whose intentions were to erect business establishments or dwellings and now find it practically impossible to secure a loan to build. These property owners are not eligible to borrow under the small-business loans through the Government because they were not already established before the storm. To secure a loan through other means involves the requirement of wave-wash insurance which is too high for the borrower to buy, and too risky for the lender to loan. Therefore, such property owners' hands are tied. They are unable to build or resell because the next owner would, subsequently, fall into the same circumstances.

From this example you can see there are other conditions equally as serious, and which needs some definite action in order to prevent an economic crisis.

Yours truly,

W. H. JORDAN, Jr.,
County Treasurer.

Senator LEHMAN. I am not going to keep you any longer, or your associates. Thank you very much for coming. I enjoyed your testimony, even though I did not always agree with it.

Mr. MEISTRELL. Thank you, sir.

Senator LEHMAN. I understand there is no objection to the inclusion in the record of all these documents.

(The documents referred to follow:)

THE NEW ENGLAND COUNCIL FOR ECONOMIC DEVELOPMENT.
Boston, Mass., December 1, 1955.

HON. HERBERT H. LEHMAN,
New York, N. Y.

DEAR SENATOR LEHMAN: We at the New England Council were very pleased that you brought your Senate subcommittee to this area to discuss with New Englanders the very pertinent problem of flood insurance.

At the time you held your hearings in Boston we were unable to submit a prepared statement to you. We now would like very much to have the enclosed paragraphs read into the record of your committee.

Our sincere compliments for the splendid work you are doing.

Very truly yours,

WALTER RALEIGH.

STATEMENT OF THE NEW ENGLAND COUNCIL

The New England Council is a regional economic development agency. It is nonprofit and nongovernmental, financed by more than 3,000 members. Its relations with Government agencies—both State and Federal—are close.

The council integrates the development work of the business community, State and local Government agencies, the New England Governors' Conference, interstate official conference groups, and the New England congressional delegation.

Interest of council members in the subjects of flood or other disaster insurance upon which your committee is holding hearings is obvious.

We believe that some type of insurance is necessary along with a program of flood control. We believe it should be a part of a general program for preventing flood damage wherever possible, for aiding in recuperation from damage when it occurs and for minimizing the seriousness of the effects of damage on the general economy.

We welcome the interest of this and other committees of the Congress in seeking to determine how best the Federal Government can assist in carrying out such a program.

The council already has had an opportunity to present its views on flood control to the Special Subcommittee on Water Resources and Power of the House Government Operations Committee. For your information a copy of the testimony presented to that committee on behalf of the New England Council at Springfield, Mass., on October 24, 1955, is attached.

As you will see, the major point made in that testimony is support of the program presented to the President of the United States and the Congress by the New England Governors' Conference (copy also attached for reference).

We believe that Federal participation is needed to solve New England's present and potential flood problems, because of the size and complexity of the projects. But we do not believe that recourse to any such device as a Federal river valley

authority or other imposition of Federal control over New England's natural resources is required to carry out this program. We believe that regional, State, and local agencies and private enterprise should be a part of the team which carries out flood control.

In the case of insurance we believe the same principle should apply.

We fully realize that the insurance industry is not at present in a position to cope with the enormous losses which can and have accrued from floods and rising waters. We also realize that these tragedies are not the problem of New England alone. The apparent shift in weather patterns has brought them into sharp focus, however, in an area which is heavily industrialized and extremely vulnerable to these onslaughts of nature. Controls and zoning will help, but it is not the complete answer to this urgent problem—no matter how thorough man's preparedness there will continue to be disasters from unforeseen sources. Another way to protect our economy is through some form of insurance.

At this time we would like to go on record with your committee as heartily endorsing your energetic search for some way to provide adequate disaster insurance for individuals and industry.

The council hopes that the insurance will cover disasters for which insurance is not now available and that private industry backed by Federal Government funds will offer the insurance. We are in favor of Government participation for so long as it is deemed necessary by the insurance industry.

The council stands ready to render any assistance and cooperation possible to your committee and thanks the committee for giving all New England the opportunity to express itself on this subject.

NEW ENGLAND COUNCIL STATEMENT PRESENTED TO THE SPECIAL SUBCOMMITTEE ON WATER RESOURCES AND POWER OF THE HOUSE GOVERNMENT OPERATIONS COMMITTEE, SPRINGFIELD, MASS., OCTOBER 24 AND 25, 1955

The New England Council is a regional economic development agency. It is nonprofit and nongovernmental, financed by more than 3,000 members. Its relations with Government agencies—both State and Federal—are close.

The council integrates the development work of the business community, State, and local government agencies, the New England Governors' Conference, interstate official conference groups, and the New England congressional delegation.

The council itself is an example of the kind of nonpartisan teamwork which is operating in many fields in New England. We believe that private State-Federal teamwork is a sound pattern for flood-control programs.

Council members believe in planning public projects by seeing first how much of the project can be accomplished best by private citizens or private business enterprise; next, if necessary, by maximum use of local government agencies to supplement private enterprise; then, by turning to State agencies to meet the broader problems not confined to local government jurisdiction nor capable of being met with local resources.

On matters of still broader interest, New Englanders have developed interstate compacts to further regional projects.

Only after these steps have been taken and after the maximum use has been made of local, State, and regional resources to meet problems do we favor asking the Federal Government for assistance.

Our understanding of the purpose of the Hoover Commission is that it was authorized to review public policy from the same viewpoint. The policy of Congress set forth in Public Law 108 which created the Commission repeatedly uses such phrases as "reducing expenditures," "eliminating duplication," "consolidating services," "abolishing * * * functions unnecessary to efficient conduct of Government"—and most important of all—"eliminating nonessential services, functions, and activities which are competitive with private enterprise."

Members of the New England Council believe these are worthy objectives and that all possible efforts should be made to accomplish them.

We believe, furthermore, that the Hoover Commission's recommendations, if adopted, would further these laudable purposes. Therefore, we support the recommendations of that Commission.

This approach to flood problems does not preclude the use of Federal funds. In fact the Commission's report to the Congress specifically recommends: "That the Federal Government should assume responsibility when participation or initiative is necessary to further or safeguard the national interest or to accomplish broad national objectives, where projects, because of size or complexity or potential multiple purposes or benefits, are beyond the means or the needs of local or private enterprise." We endorse that recommendation.

We believe that Federal participation is needed to solve New England's present flood problems and we are in support of the program presented to the President of the United States and the Congress by the New England Governors' Conference.

We do not believe that recourse to any such devices as a Federal river valley authority or other imposition of Federal control over New England's natural resources is required to carry out this program.

As Laurence F. Whittemore, a former president of the New England Council, once said:

"The more we study New England's economy, the more we are impressed with the fact that it has forged ahead despite a long history of Federal aid to other sections of the country. Our part of the country grew up and reached a high state of industrial development during that period of the Nation's history before Federal aid became fashionable and before the means to finance it—primarily the corporate and personal income tax—were available. We built our railroads without Federal grants, developed our water power with private capital, and our economy in each separate situation rose and fell under the free exercise of competition based on the laws of supply and demand.

"In progressive social legislation and in our treatment of labor we led the Nation, sometimes at the expense of our own pocketbooks. Partly because of a tradition of self-reliance and partly because we had already attained a high state of industrial development, we have not in recent years led the raids upon the Federal Treasury for aids and subsidies of every type and description."

On the subject of flood control (which we understand is the issue upon which the call for this hearing was based) the New England Council already has placed itself on record with the Commission on Organization of the Executive Branch of the Government. At a hearing in New York City, June 14, 1954, the council said:

"An 'ideal' flood-protection system for New England requires a combination of large and small dams on the region's principal rivers and their tributaries. Past developments have been in that direction, and the New England Council believes future installations should continue the same pattern.

"Under the Flood Control Act of 1944, the United States Army engineers have made a good start on flood-control work in New England. In addition to the Federal activities and in connection with their flood-control program, the legislatures and governors of the four New England States in the Connecticut River Basin have ratified an interstate flood-control compact which Congress approved in June 1953. Primarily the purpose is to formulate the means of reimbursing the States of Vermont and New Hampshire for their losses resulting from the taking of land for flood-control measures which benefit other States.

"Since most flood-control projects are financed largely by the Federal Government, their costs are distributed by taxation over the entire country. Those persons located in areas subject to overflow pay through taxation but a small proportion of the bill for their own protection. Those who live in areas free from floods help pay for the protection of others. This is desirable if the determination of needed projects employs accurate and reasonable criteria of costs and benefits and if the criteria are applied uniformly in all parts of the country.

"New England and its people should lend their continuing support to the design and construction of an adequate and fairly conceived flood-control program on a national scale. The standards of evaluating proposed projects are of particular importance. In its sharing of the costs through taxation and the benefits through new construction, the region should exercise the same restraint and objectivity that it desires in other parts of the country.

"The most important flood problem in New England is the protection of life and property. If shortages of water were foreseeable, extreme measures combining flood control and conservation might be justified. But at the present time a continuation of the compromise method followed in the past is clearly indicated.

"The interstate compact seems to us of the council to be the proper vehicle for giving full recognition to these problems, and it provides a most generally satisfactory basis for selection of sites, with equitable allocation of costs in proportion of benefits."

We still are of the opinion expressed at that time.

To this should be added the observation that interstate compacts also provide an excellent vehicle for regional cooperation with Federal Government agencies.

And finally, we hope that the members of this subcommittee will lend their support to the congressional action which will be required to carry out the New England flood-control program recommended by the New England Governors' Conference.

RESOLUTIONS ON SUBJECT OF FLOOD CONTROL ADOPTED BY THE NEW ENGLAND GOVERNORS' CONFERENCE, SEPTEMBER 23, 1955

EMERGENCY FUNDS

Resolved, That the governors of the several New England States, here assembled, recognize the need for the immediate initiation of planning, construction, and detailed survey by the Chief of Engineers in order to preclude a repetition of the disastrous hurricane flood of August 1955, either in the areas then affected or in others potentially exposed to similar devastation; and be it further

Resolved, We do respectfully request the President of the United States to authorize the expenditure of emergency funds in the sum of \$1,500,000 by the Chief of Engineers for the immediate initiation of planning and the drawing of specifications for those flood-control structures presently authorized in the affected and potentially affected areas; and that in order that such emergency expenditures may in noway interfere with the prosecution of the vitally important civil-works construction and study program of the Chief of Engineers already in progress during the present fiscal year, that the President of the United States urge the Congress to reimburse this and associated emergency expenditures by necessary supplemental appropriations for fiscal year 1956; and be it further

Resolved, We do respectfully request the President of the United States to urge the Congress of the United States to provide, in addition, a supplemental appropriation by February 15, 1956 (for fiscal year 1956) in the sum of \$3,400,000 for the purpose of initiating construction on those authorized flood-control projects in the affected and potentially affected areas of the New England States upon which necessary planning has been completed; and be it further

Resolved, We do respectfully request the President of the United States to urge the Congress to authorize surveys and immediately appropriate funds in the sum of \$100,000 for the purpose of initiating the detailed studies necessary to determine the extent and nature of such additional flood protection over and beyond those structures presently authorized, as may be required to insure that no foresight, skill, or effort shall be spared to prevent a recurrence of the devastation and anguish sustained in the hurricane flood of August 1955; and be it further

Resolved, We do respectfully urge that the President of the United States and the Bureau of the Budget take aggressive action to provide for fiscal year 1957 the sum of \$34,300,000 for the accelerated accomplishment of New England flood control projects as recommended by the Army engineers and approved by the New England governors; and, similarly, that aggressive action be taken by the President and the Bureau of the Budget to provide the sum of \$12,453,000 for construction in fiscal year 1957 of New England navigation and beach erosion projects as recommended by the Army engineers and approved by the New England governors.

INCREASED APPROPRIATION FOR EXPANDED HURRICANE SURVEY

Resolved, That the Governors of the New England States, here assembled, do request the President of the United States to urge the Congress of the United States to provide supplemental appropriations for fiscal year 1956 in the sum of \$200,000 with a view to expanding and expediting the authorized hurricane survey for the New England States in order that no effort may be spared to develop adequate plans in time to preclude the recurrence of such appallingly costly hurricane disasters as have overtaken the New England States in recent years.

STATEMENT ON BEHALF OF THE CHAMBER OF COMMERCE OF THE UNITED STATES

Natural disasters always produce difficult social, economic, and governmental problems when they strike a community, large or small. For a temporary period the normal way of life in the stricken area is interrupted and emergency measures must be applied to restore the essential services and government functions.

Government—Federal, State, and local—has a responsibility in preventing natural disasters to the extent that effective measures are economically sound. After a disaster has occurred, the emergency conditions may require a great many governmental services. Responsibility for such services is determined by the area involved, the damages inflicted, the services interrupted and other con-

siderations which normally indicate local, State or Federal Government concern. The primary responsibility is local and the extent of Federal service required, if any, depends upon the magnitude of the emergency and the jurisdictional areas affected.

It is proposed that the Federal Government provide indemnities for flood-caused losses, by contracting in advance and charging for the Government assumption of risk. The procedures would be patterned from the insurance business, but the results would be financial aid or subsidies—not insurance.

The national chamber is concerned with the proposed method, by which Government would assume responsibility for damage caused by floods. To the extent that Congress determines that financial aid shall be provided for flood losses, it is important that Government expenditures shall accomplish the greatest possible relief for the affected areas.

The proposals to have a pseudo-insurance service perform a flood relief function do not suggest an efficient way for Government to provide assistance and it seems unlikely to prove effective. Moreover, the establishment of an agency to operate in this way would have the effect of obscuring essential facts concerning the costs of the Government activity in excess of fees paid by contracting property owners. Those who participate in such a plan, as well as the general taxpayers, might tend to believe that it is, in fact, an insurance service, without an appreciation of the extent to which it is financed by general taxation.

If it is decided, by the Congress, that Federal aid is needed in flood disasters, the administration of such aid should not be described as insurance. Beneficiaries and the taxpayers are entitled to the facts and no misconceptions should be placed in their way.

Government agencies are expensive. Why should a special one be set up to meet flood problems? It would be far less cumbersome, more manageable, productive of more general assistance and much less expensive to apply any needed aid directly and positively to the objective—the relief of disaster victims. Here we have proposed Government operations to underwrite individual flood losses, without regard to their extraordinary or disastrous proportions.

The creation of a Federal flood indemnity agency would extend Federal responsibility and authority far into areas of local and State concern. The national chamber urges that the intergovernmental relationships of municipalities, States, and the Federal Government be respected and that these proposals shall not result in another shifting of Government control farther away from the localities affected.

Whether the owners of fixed property can be insured against losses resulting from flood disasters, is a question studied by private and governmental agencies on several occasions, prompted by the occurrence of floods and the problems in relieving victims.

After the Midwestern floods of 1951–52, legislation was proposed to establish, in the Federal Government, an agency to provide insurance against flood losses. Hearings were held by a subcommittee of the House Committee on Appropriations, of the 82d Congress. In the course of these hearings, leading authorities on insurance were called upon for advice. As the record shows, these witnesses carefully distinguished between situations indicating a need for insurance services and those which could be met only with direct relief or subsidized activities. After pointing out the reasons that flood insurance on fixed properties is not generally available, the representatives of private insurance assured the Congress that, in the event it should determine that some form of indemnity plan be inaugurated, their facilities would be made available, to aid in its administration.

The devastating floods of 1955, along the eastern seaboard, and the recent floods in the West, inspired legislative proposals similar, in effect, to those considered 3 years ago. Current studies are considerably aided by the existence of information and findings from the previous exhaustive investigations; the validity of the earlier findings has not been impaired by subsequent events or studies; it has been strengthened.

It is not possible to define the areas that will suffer damaging fires and identify the property owners who will experience losses. Therefore, insurance companies can sell fire insurance to most owners of property, all of whom are exposed to the peril. On the other hand, a flood plain is not too difficult to define; at least that portion of it subject to periodic flooding can be zoned. Having defined such an area, we eliminate practically all of the prospective purchasers of flood insurance situated outside of the danger area. They will not be interested in flood insurance; there is no reason they should be.

NATIONAL FLOOD INDEMNITY ACT OF 1956

The experimental national flood indemnity and reinsurance facility proposed in S. 2862 is not described as insurance and does not purport to establish an insurance operation in a realistic sense. However, the bill would provide a Government agency to operate with many of the commonly understood procedures of private insurance underwriting. This would create an outward appearance of insurance, but the result would not be an insurance service. The Federal agency would simply operate as a means of providing financial relief on a heavily subsidized plan. In our opinion, it would not work, and to the extent adopted, it would introduce many inequities.

A property owner would participate in the cost of paying a specified percentage of an estimated rate, but a very substantial portion of the cost, plus all of the contingent loss in excess of "feeds," would be borne by the Federal agency. The property owner would be charged 60 percent of the estimated rate and the State in which the property is located would pay 20 percent. The Federal Government would assume the remaining 20 percent and all administrative costs.

The bill would authorize Government obligations aggregating \$1,900 million, with executive authority to increase this amount by an additional \$1 billion.

FEDERAL FLOOD INSURANCE ACT OF 1956

S. 3137 would empower a Commissioner to prescribe rates "based insofar as practicable upon consideration of the risks involved and upon calculations of amounts needed to cover all administrative and operating expenses, as well as reserves for probable losses." However, it is provided that "such basis shall be used only to such extent as in the judgment of the Commissioner shall be consistent with the aim of offering insurance and reinsurance at rates reasonable enough to make available to those who need it, at rates they can afford, the protection intended to be provided by this Act." Obviously, this contemplates a Government relief or subsidy plan, to the extent necessary to induce property owners to buy flood insurance. It would, for that purpose, substitute rates "they can afford" for those deemed adequate to cover costs. The remainder of the cost would be subsidy.

The bill would provide that government assume losses to residential properties up to \$10,000 on a single property and, on other single pieces of real property, not to exceed \$100,000; personal property located thereon would be included in both cases. Policies would contain loss-deductible clauses, excluding liability for the first \$100, or up to \$200, as the administrative official may determine.

For reasons explained in this statement, this bill should not define the plan as "insurance" and it is believed unlikely to prove successful as a relief plan.

NATIONAL FLOOD INSURANCE ACT OF 1956

S. 2768 differs from other proposals only in administrative procedures. Its basic purposes are the same and financing would include the charging of premiums, as in S. 3137. It would be entirely Federal and the amount of subsidy is not specified, as it is in S. 2862. Like both other bills, however, this one would leave to the Federal Government the contingent liability arising from catastrophe.

Early drafts of S. 2862 provided for direct payments from the Treasury, from general revenues, in case the Administrator should be unable to pay claims from the funds available. The absence of such a provision in the bills does not seem to alter the Federal obligation to respond to such cases to prevent a default by the Administrator.

FLOOD EMERGENCIES

There are several things that can be done to relieve the situations arising from disastrous floods. These seem to fall in four major classes, and they should be weighed in any consideration of governmental responsibility. They are in the order of their importance:

1. *Prevention and control.*—The best answer to the problem of losses is prevention. Measures designed to prevent or minimize losses are limited only by engineering feasibility, economic soundness, and the availability of funds. Government responsibility is greatest here.

2. *Surveys.*—The river basins and other areas, where there is danger of flood, should be surveyed to determine the locations subject to the greatest flood damage. These surveys would enable property owners to identify and avoid areas of great peril in locating fixed property.

Adequate forecasting makes possible evacuation of such areas in time to save lives and protect property.

Governmental authority is essential to the success of these activities, and there should be a maximum of local control.

3. *Relief.*—The urgency of the need for relief measures and the adequacy of local facilities to cope with flood disasters can be determined only by the magnitude of the disaster. The needs are completely determined by the circumstances of an actual occurrence. They may consist of rescue service, some form of damage control, salvage operations, temporary restoration of essential services, and the installation of emergency facilities. These are the first requirements, after a flood disaster has occurred, and they are entitled to priority over any financial aid that may be needed.

The variety and complexity of the disaster problem is so great as to defeat insurance solutions. There are many causes of disaster and they occur at locations and under circumstances which cannot be anticipated. The nature of problems arising from natural disasters such as floods depends upon a great many factors which vary with time, place and circumstances. For these reasons, the needs, readily identifiable after the occurrence of disaster, may not be clearly foreseen.

4. *Financial aid.*—Normal financial facilities of a community may have their functions interrupted by emergency conditions brought about by catastrophic events. Services may be temporarily overtaxed when there is a severe economic impact on a community or region, produced by widespread property losses. The bills would provide a Federal facility, the sole function of which would be to provide financial aid to those who are victims of flood damage and who have previously purchased a contract for indemnification. Assistance, based upon contracts made in advance, does not seem an appropriate way to meet Government responsibilities in a disaster emergency.

INSURANCE OR SUBSIDY

The insurance plan for spreading losses among all exposed to a common peril has become increasingly popular and more widely utilized for many years. It is generally acclaimed as a fair method of providing protection to owners of property. The spreading of the uncertain losses over the entire group makes protection possible at a cost that is attractive. Too often, proponents of Government welfare or subsidized programs have chosen to call them insurance. It lends appeal that is not necessarily merited by the true nature of the activity and it is inimical to private insurance, because its participants often conclude that they are being insured at most favorable rates, completely failing to appreciate that they are reaping benefits paid for by the taxpayers.

The insurance plan would not work, because it would not be uniformly accepted in the various areas where losses might occur, and so any catastrophe might still strike an uninsured area, leaving us then just where we were before the plan was adopted. Acceptability would be limited to places where great danger is apparent and losses practically certain.

It would be inequitable because in event of a disaster, at the time uninsured, the same questions of disaster relief would be presented that we now face, relief would likely be granted, and thus the uninsured would get about the same treatment they would have gotten had they entered the Government indemnity plan.

A Government plan for indemnifying flood-caused losses would be confronted with every one of the obstacles to private flood insurance, where the property owner is in position to exercise a selection of risks against the insurer. In other words, insurance cannot be successful where the only property insured is virtually certain to become a loss. Nothing is gained by averaging 100 losses of 100 people, plus administrative costs; there is no spread of risk.

If ways can be found to insure properties located in flood plains, the private insurance companies will offer the service; they will compete for it. Risk taking is the essence of insurance business, and there is no hesitancy to engage in any underwriting that can be operated on a sound plan. Therefore, the fact that flood insurance on fixed properties is not generally available indicates that insurance authorities have found that it will not work. However strong

the desire to reach some happy solution to any problem, prudence requires that great weight be given to the judgment of those best qualified in a particular field of endeavor. Congress should consider flood-insurance proposals with great care before establishing an elaborate Federal agency, likely to result in heavy expenditures and disappointing results.

The reasons that private insurance has not proven workable for flood losses apply with equal or greater force to any program instituted by Government. There is no way that Government operation can modify the basic principles of insurance. True, Government can resort to taxation and subsidies when insurance techniques do not work, but these are not insurance and should not be confused with it by name or in practice.

Some of the proposals are described as experimental in nature. How long must an experiment continue before results are entitled to credibility? A glance at the experience of the country indicates that there is wide fluctuation in annual flood losses. Catastrophes are so infrequent and of such varying magnitude that an experiment of the type suggested could not produce meaningful experience in any reasonable experimental period. Five years, without the occurrence of a major disaster might tend to indicate financial success, but in reality it would have proved nothing. A 5-year period with the occurrence of one or more major disasters would tend to produce just the opposite indication—financial failure, but no valid indications. There remains the possibility of 5 uneventful years and a series of catastrophes in the sixth year.

An experimental program conceivably could issue contracts to a very great percentage of property owners in river valleys known to be subject to flooding. The concentration of risks in these hazardous areas would make the cost prohibitive, assuming rates calculated to be reasonably adequate.

A great number of suggestions have been made to overcome some of the difficulties in making flood-insurance work, particularly in support of proposals that the Federal Government undertake such a venture, as an experiment or otherwise. There is no reason to distinguish an undertaking by Government and private business; the same fundamental principles apply to both. One of the suggestions would include floods, along with the other coverages, in standard insurance policies issued on fixed property. It is proposed that this coverage be added to the extended coverage provisions in the usual fire insurance policy. The defects in such a plan are obvious upon examination.

Covering perils, to which property is not even remotely exposed, violates fundamental concepts of insurance—distribution of losses among those exposed to a common peril. Furthermore, the inclusion of a coverage—and a premium charge for it—which the policyholder does not need, and does not wish to buy, amounts to compulsion. Regulatory laws do not permit such practices and competition would quickly prove that such a plan will fail. A competitor would promptly provide insurance, without the unneeded coverage, and again the flood insurer would have only the sure losers.

If an insurance company should include the risk of flood damage in all of its property insurance policies we would have this situation: Where properties are not exposed to any flood peril and where no loss could possibly occur, the insurance company would be receiving a premium for a peril that does not exist. Therefore, it would realize profits from the additional premium until competitors offered insurance without flood coverage and at a premium correspondingly lower. This would be the immediate result of attempts to thus force upon those who are not exposed to the peril, a charge for flood damage indemnities.

If a Federal flood indemnity plan should be inaugurated, and operated by procedures resembling insurance, the question immediately arises: Would Government aid or relief be limited to the holders of indemnity contracts? That it would not, seems apparent. When a disaster occurs and there are widespread demands for assistance, it seems utterly unrealistic to visualize Government administering relief funds from general revenues only for the benefit of those holding contracts. Whatever the area of Government responsibility may be, and however it may be defined, it seems perfectly clear that it is not satisfied by the proposed plans. Perhaps it is never realistic or economically sound for Government to "sell" its welfare services by advance contracting.

COMPETITION

Most of the bills under consideration purport to avoid having Government engage in an activity that directly competes with private business, but some of them, in fact, would result in competition with private insurance. Covered perils are defined in such broad terms that they include tornadoes, hurricanes,

and other natural causes of loss for which private insurance has long been available. Even those limited to floods may include perils presently insurable, such as comprehensive coverage of motor vehicles and inland marine coverages: these include the peril of flood.

The chamber believes that any plan introduced by Government should carefully avoid areas that compete with private business. This is not accomplished by provisions that Government indemnities shall not be offered "If flood coverage, for the property involved, is obtainable at reasonable rates and upon reasonable conditions from private insurance companies * * *". The areas in which coverage is privately available should be removed from legislation by the Congress. This is a legislative matter and the responsibility should not be imposed upon an administrative agency.

CONCLUSION

Each emergency situation requires consideration in the light of actual conditions, and any Federal financial aid should be provided with full recognition that it is supplementary to local and State services which have the primary responsibility.

Plans for mobilizing facilities and resources—public and private—local, State and Federal—for most expeditious application to emergency needs seem to be the most promising measures that can be taken now, for events that may transpire next week or in the next decade.

Advance planning, to meet emergencies caused by floods, should include full utilization of private facilities and any supplementary Government aid should be applied directly to the most urgent needs. Government responsibility, in situations of distress, is to the whole community and only when it is so administered can there be assurance that Government expenditures will accomplish the greatest possible measure of assistance at minimum cost—the real objective.

STATEMENT OF W. H. INGRAM, ASSISTANT PROFESSOR OF MATHEMATICS, COLLEGE OF THE CITY OF NEW YORK, NEW YORK, N. Y.

I am an assistant professor of mathematics at City College and have a summer cottage at Ocean Beach, Fire Island, now partly insulated. I will have reached retirement age in about 4 years and plan to finish insulating the house and to live in it permanently.

Ocean Beach is an incorporated village with about 500 cottages of which about 50 are occupied all the year round by retired people, plumbers, carpenters (who commute to the mainland for out-of-season work), small-hotel keepers, village employees, etc. There are half-a-dozen other communities on Fire Island, some of them nearly as large as Ocean Beach.

No hurricane, in the memory of the oldest inhabitant, ever hit Fire Island before 1938 but since then four have hit. The eye of the 1938 hurricane passed over Ocean Beach, did little damage generally but did wash away 3 or 4 houses on the ocean front. Neighboring Saltair, where they had deliberately leveled off their dunes on the ocean front, 90 to 100 houses were washed away. The 1944 hurricane did no damage to Ocean Beach other than to wash away most of the sand pumped from the Great South Bay at great expense to replace losses along the ocean front due to the 1938 hurricane. Carol passed over the eastern tip of Long Island and Edna passed by a little further east; neither did great damage. My guess is that not more than 25 houses have been washed away since the 1938 hurricane, or very roughly 150 houses in 1,500 in a 20-year period. An insurance rate of 0.5 percent per annum would accordingly be a fair nonprofit rate on the assumption that the 20 years since 1938 are typical and the 40 years before 1938 not typical.

The Insurance Company of North America (1600 Arch St., Philadelphia) is the only company that has ever offered wave-insurance. This was first done in 1945, evidently on a tentative basis, but was dropped in 1954 after severe losses from Edna at a new development without dune protection at Hampton Beaches, near the eastern end of the sandbar known as Fire Island. Their original rate was 1.1 percent per annum for ocean-front property. This figure agrees with my estimate of 0.5 percent of a nonprofit rate: I have been told by an executive of another insurance company that North America probably would double the actuarial rate as computed by them to afford a margin of safety and profit.

I have been informed that North America raised their rate to 3 times the rate mentioned above in 1954 and then stopped issuing this kind of insurance at any rate the same year. This exorbitant rate possibly reflected an indecision as to permanent policy.

In view of the fact that wash-away hurricane insurance cannot now be purchased at any price, I think it is right that the United States Government provide this insurance, directly or indirectly. I feel that only true disasters should come within the scope of any contemplated bill: in the case of a hurricane, for example, mere flooding and damage to furnishings is not to be recompensed—only major damage to “immovable” property, e. g., walls and foundations. The purpose of Federal insurance should be primarily, if not exclusively, to protect individuals from crushing personal loss (e. g., loss of a home but not of a garage or hunting lodge) and to reactivate economically important businesses (e. g., a factory or farm but not a soda-pop factory).

Some well-organized communities maintain their protective ocean-front sand dunes and should be given a lower rate, perhaps on a community basis. On an actuarial basis, if the only community to be insured were Ocean Beach, the wash-away hurricane insurance rate would be trivial, so that if we were to be charged the rate for the whole island we would be paying for other people's less fortunate situation. Nevertheless, I think everybody in Ocean Beach would be more than glad to get the insurance at the 0.5 percent computed above. Moreover, if a lower rate still, say 0.3 percent, were offered on a community basis, for all houses from ocean to bay, to be added to the taxes of the village, I am sure the village would vote in favor of the same. In view of the history of losses in the village, this would not be an indemnity or charity rate and it would have the further advantage of preventing adverse selection. The latter factor might make it desirable to require the village to charge a higher rate for waterfront property.

To keep the rate down, the policy should contain a high deductible clause: say \$1,000 or a \$10,000 policy. Surely damage no greater than this amount could be called catastrophic to the individual. Protection given by insurance should not be so great as to relieve a builder of responsibility as to the safety of the location or of a community for the upkeep of ocean-front dunes.

The problem of adverse selection may be less in the case of hurricanes than in the case of river floods, for the ocean either breaks through the ocean-front dunes, as in the case of Saltair in 1938 where 90 to 100 houses were swept into the Great South Bay, or fails to break through as at Point o' Woods, 6 miles from Saltair, where no house was seriously damaged.

I hope Federal disaster insurance can be put into effect in the very near future but on a sound actuarial basis, or at least with some pretense to such a basis. Reasonably accurate statistics could be obtained within a couple of weeks for the ratio of the number of houses washed away in the 20-year period 1935–55 to the number of houses standing in the year 1945, say, for houses on Ocracoke, Hatteras, Fire Island, and similarly exposed ocean-front communities from Florida to Maine, to give a fair enough basis for an insurance rate for this category of risks. My guess is that this rate would be as fair on Long Island as in North Carolina, for while North Carolina is more frequently and harder hit, Long Island is coping with a new (since 1938) whim of nature.

After an insurance rate for one category of risk has been computed it should go into effect immediately and not be held up for computation of the others.

In deciding on any specific division point, such as the \$10,000 of S. 3137, page 3, between the province of the proposed Federal Flood Insurance Administration on the one hand and the province of the private insurance companies, or implied province, on the other, two questions naturally arise:

(1) Is the surcharge over the statistically computed rate (*a*) to cover cost of administration and (*b*) to give a profit, margin of safety, or add to the capital reserve to be determined by the FFIC and used by the participating private companies, or vice versa?

(2) Is it proposed that the Government completely reinsure the private insurance companies?

One set of answers to these two questions make any arbitrary figure, such as \$10,000, completely meaningless. Another set of answers makes it appear that the purpose of the \$10,000 division point is to give the private companies new and profitable business.

In section 5, S. 3137, page 5, line 25, a social-philosophical question arises with regard to the rate to be charged. A well-based statistically computed rate may be found to come out well within the ability of any home, business, or farm owner to pay, for any category of risk or any locality, even after a surcharge for operating and administration costs. What has kept private insurance companies out of flood insurance is not that statistics preclude a rate the customer can

afford to buy in sufficient quantities for good business but because of the danger of equation of sudden losses to capital reserves. But because this is so, there is no point in equity why, by means of the device of reinsurance, profitable business should be created and given to private insurance companies. And surely there should be no discrimination against a homeowner with a \$15,000 home in order to give a share of the profit to an outsider.

The proposed bill takes no cognizance of the characteristic feature of disaster insurance well known to the insurance companies, namely that of selective participation, and which will be present and which will tend to force up the actuarial rate to a level endangering the broad social purposes of the bill. I know of no way, and have heard of no way, to cope with this phenomenon except to keep the rate down by keeping administration costs down, foregoing profit, and making no attempt to build up a reserve capital at the expense of the policyholder. (See sec. 5, p. 5, line 21, and provision of sufficient capital in sec. 14 (e).) If the rate is low enough, everybody who should insure will insure. If this prognosis is correct and the recent experience of the Insurance Company of North America is of any significance, then to make possible the lowest possible rate—

(1) The loss-deductible clause should be much higher than the \$100 of section 8 (a), line 14;

(2) The provisions of the bill with regard to (a) cost of administration, (b) margin of safety, (c) profit, (d) buildup of capital reserve, should be as conservative as to ensure the lowest possible rate and thereby maximum participation;

(3) No relaxation of policy recommended in (2) should be countenanced with the intent of turning over any part of the business now or at any later date to private companies to run at their usual rates of profit unless the statistically computed rate in some category turns out to be very small;

(4) The personal-property feature should be omitted entirely in the case of homeowners and in the case of home renters the indemnity should be \$1,000 maximum with a much higher than \$100 deductible clause. On Ocracoke Island, N. C., which has been continually inhabited since colonial times, the inhabitants expect and usually get annual flooding in their houses, the water often rising several feet in their living rooms; the cost per home per flood now seldom amounts to more than \$2 or \$3 but, under this bill new comers and those that seemingly honestly think that they are entitled to get back from the insurance company as much as they put in, would soon be making claims for 100 times \$2 or \$3, and every year. I suggest that the household and personal effects categories be left to the private insurance companies with guarantee to them of capital loans at low interest in case of the equation mentioned on page 2 of this memorandum.

The province of the FFIC should be primarily, surely, to give personal disaster protection and that as soon as possible and then, at some later time perhaps, to provide insurance on a business basis for the comparatively petty privations and inconveniences of floods and hurricanes for those who wish to buy such.

A good feature of S. 3137 is that there is no provision requiring State participation. The proponents of such must expect a partly charitable operation which, it seems to me, need not be the case. Nor is State participation in anywise necessary to avoid the fatal equation mentioned before (p. 2) in view of the centralization of financial powers in the Federal Government. This feature of S. 3137 has the advantage also that it should make possible its more rapid putting into effect.

The matter of providing insurance against catastrophic losses to the homeowner and the owner of economically important and socially valuable industrial plant is now urgent and I propose that a commission of some sort be created by the President now to decide on the various categories of insurance and to compute the basic statistical rates in said categories. The necessary surveys and calculations should not require more than a few weeks. After these figures are in hand, then the question of what to charge the customer, whether to double the rate, add 10 percent, permit insurance of furnishings, etc., may be left to the decision of the final authority as decided by Congress.

The committee and staff deserve great praise for their vigilance and industry for taking up Federal disaster insurance and the encyclopedic report.

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FLOOD AND OTHER DISASTERS: WHAT'S TO BE DONE?

Most of us have never been dragged through a major disaster.

But that doesn't mean our luck's bound to hold.

Natural catastrophes have a way of swooping down unexpectedly on every section of our Nation and elsewhere.

Take floods. Since the start of history and before, floods have been man's scourge and enemy. The most famous is the one described in the Bible.

In 1955, floods were widespread throughout the United States. New England got caught because of Hurricane Connie and Diane. Floods also raised havoc in the Middle Atlantic and Southern States. Texas had trouble on the tributaries of the Red River and along the Nueces. In the Midwestern and Plains States, floods took place even near the Continental Divide when the Snake River twisted over its banks. And the west coast suffered damage and loss of life from Washington through California when rain-swollen rivers routed over 50,000 persons from their homes just at the start of the holiday season. Many spent Christmas Day in improvised shelters, while the Red Cross and other agencies did what they could to bring relief and cheer. In some of the towns from which people had been driven, toys, foodstuffs, and household goods bobbed in water that rose 25 feet or more in the streets.

What's in store for 1956, and after? Already, repeat performances have visited some of these west coast towns.

And how about manmade disasters like war?

It's not just floods we must reckon with. Tornadoes show us the destructiveness of wind once it gets going. Bad winter weather brings blizzards, sleet, and freezing rain to the North, and, to the South, frosts that ruin crops worth millions of dollars. Droughts cause dust bowls. Hail, earthquake, volcanic eruptions, and tidal waves are among the other natural disasters that plague mankind.

In his state of the Union message, the President said: "Disaster in many forms * * * can destroy on a massive scale in a few hours the labor of many years. * * * Disaster assistance legislation requires overhauling."

The chances favor something getting done. Because natural catastrophes have recently hit so many areas, Members of Congress from almost all sections are familiar with the need. Since October 1955, the Senate Committee on Banking and Currency has been asking citizens what should be done.

Bills for Federal disaster insurance or indemnity have been introduced in Congress. Senate Majority Leader Lyndon B. Johnson has said the topic will come up for legislative action.

But man's memory is short. Unless fresh disasters strike to remind us of this vital issue, we're apt to forget. Let's look further into the matter.

WHEN DISASTER STRIKES ¹

It makes little difference what causes the catastrophe—what goes on during the first moments and hours and for some time to come looks and is pretty much the same.

To the eye-witness, the destruction and confusion seem at first almost unbelievable.

What's needed right away is rescue and relief. What's needed over the longer pull is a chance for the stricken community to get back on its feet. For a disaster is something much too big for any one place or region to take care of alone.

All of us, through the universal kinship of mankind, are concerned. Our tax money supports the various agencies of Government that bring organized aid. Our donations to the Red Cross, the Salvation Army, and other private organizations help pay for the relief of victims.

Maybe it's a tornado that has ripped right through one or more towns, leaving behind a track of death and destruction. Maybe it's an earthquake. Maybe a flood.

¹ Much of the material and many of the statistics used in this Guide are drawn from the informative 419-page report of the staff of the Senate Committee on Currency and Banking, December 10, 1955, supplying facts concerning natural and man-made disasters and the problems raised in seeking to cope with them.

It is hard to realize that water can twist iron bridges into stringy tangles and bend steel rails like wet pretzels. But that's what happened when the big rains came to the East. If floods strike heavily industrialized areas, the damage can be appalling.

In the West, weeks after swollen rivers had gone down, silt-choked waters still covered thousands of acres of rich farmland. There were whole villages along the north coastal area where only a scattering of wrecked buildings remained.

North of San Francisco, outside flooded Yuba City, many feet of sand lay on top of what used to be fertile soil. Peach, prune, and walnut orchards lost thousands of trees. Along the Eel, Klamath and Mad Rivers thousands of dairy animals drowned. In a dry summer, you can wade across the Eel. Flooded, it becomes a destructive monster 10 to 15 miles across. The Kansas and Missouri Rivers, back in 1951 and 1952, have done a good deal better—or worse—than that: two to three hundred thousand persons driven from their homes, thirty to forty thousand buildings flooded, ten to fifteen thousand houses destroyed, at least 5 million acres of some of the most productive farmland in the Nation gouged and eroded, with topsoil carried away or buried under tons of wet silt. And, in thickly settled districts, stores and factory buildings swept away, merchandise and equipment ruined.

We've been learning by experience, of course. Over a considerable time, we've been working on various preventive measures.

Since the passage of the Disaster Relief Act of 1950, we've begun developing a system for coping with disasters.

Here's how it works: When serious catastrophes of any kind occur, it's up to the governors of the States affected—if they want and need help—to ask for it from the Federal Government. Then the President must decide whether the flood, drought, fire, hurricane, earthquake, storm, or whatever else, was severe enough to be classed as a "major disaster." If in his opinion it was, he declares that region a disaster area. This authorizes all departments and agencies of the Federal Government to swing into action.

By Executive order, January 16, 1953, the Civil Defense Administrator has been put in charge of disaster assistance. It's his job to—

1. Direct the Federal agencies in what they do to help, and see that they function smoothly together.

2. Work out plans to be ready for future disasters.

3. Foster the development of such State and local organizations and programs as may be necessary to cope with major disasters (some States are well equipped and organized to assist their local governments when catastrophe strikes. Others are prohibited by their own constitutions from doing much about it. Some take the problem and their responsibility very seriously; others don't. What's the situation in our State?).

Let's look in at a disaster, and see just what goes on. Saving life and property comes first, and is the duty of everyone who can help. Local police and firemen, Army, Navy, and Coast Guard teams, and trained civil-defense workers are generally among those best equipped and organized for this. Especially in floods, many victims who might otherwise have drowned are rescued these days by expert crews in helicopters.

Refugees from disaster look to the Red Cross and similar organizations for immediate relief. Through an understanding with the Federal Civil Defense Administration, the Red Cross carries out its traditional role of furnishing emergency help. The food, clothing, and shelter it provides, along with nursing, registration, and information service, are the outright gift of the American people who through their contributions support the Red Cross.² Of the hundred or so trained Red Cross workers who got busy when west-coast rivers rose, most were veterans of the east-coast floods, where they had been winding up long-range rehabilitation.

As for help from Government agencies, it's of many sorts: First, there's the mess to clean up. Here's where the Army take a major role. For the Army there is also guard duty, which includes keeping out sightseers and possible looters.

The Army Corps of Engineers plays a large part in clearing away debris and making emergency repairs. Bailey bridges go up so traffic can flow. Temporary

² In 1953, the Red Cross spent 18¼ million to aid hurricane and flood victims in the Northeastern States, then 8 million more when floods struck the West. These and other recent catastrophes have cut heavily into its disaster resources.

mains bring in water that's drinkable, and usable in case of fire. Roads of all sorts, if blocked by washouts or landslides, need to be opened. Here the Department of Commerce, which is responsible for the Federal system of highways, comes in. The idea is to help rather than take over.

As soon as the first shock of disaster has passed, much of the repair work and cleaning up is carried out by local people with the assistance of or under contract with the Army or other Government outfits. In cities, the Department of Labor's local public employment offices recruit workers for carrying on the task of rehabilitation. Volunteers, too, are organized and pitch in. In many smaller towns and villages, the job done in very large part by volunteers is something we Americans can be proud of.

In a disaster, such public utilities as telephone, power, and light are of the utmost need. The work of restoring service asks for and gets from utility employees efforts that go far beyond the normal call of duty.

Always present is the threat of sickness. The Department of Health, Education, and Welfare, coming to the aid of local services, supplies extra doctors and nurses. Its experts help with sewage disposal, inoculation against typhoid and other communicable diseases, and, among other things, the setting up of improvised schools if the regular system is paralyzed.

Food has to be supplied and kept safe. Here the Department of Agriculture can be of great help. Its technicians inspect meat and other products to make sure they're safe. It also makes produce available from its surplus commodities.

The Government's General Services Administration is in charge of other Federal supplies useful in emergency.

Helping to furnish temporary shelter is one of the duties of the Federal Housing and Home Finance Agency.

And whenever there's disaster, there are always drastic financial losses and costs. Under the 1950 act, householders and businessmen in a disaster area—within limits and if they qualify—can get low-interest Federal or federally guaranteed loans to help replace destroyed or damaged building. Such loans are obtainable through the Small Business Administration. In recent catastrophes, the American Bankers Association, various State associations, and individual banks have processed loan applications and helped in other ways. But a loan is something that's got to be paid back. It's a postponement of settling one's loss.

The customary protection against loss is through insurance. But though insurance is issued to cover most types of loss, including damage from tornadoes and hurricane winds, insurance against floods is not at present generally available either from private or public organizations.³ The reasons for this, and what should be done, are things we will wish later to look into. But first let's take up—

DISASTER WARNING AND PREVENTION

So far, there's no way of warning as to when there'll be an earthquake—though we can, and do, build shock-resistant structures in regions where quakes are most likely to occur. But where weather plays a part in bringing disaster we do have various agencies to warn us that something's coming. Chief among these is the Weather Bureau. It not only watches the weather. Along with the Army's Corps of Engineers, it keeps tab on what the rivers are doing and maintains a flood-warning service.

Because of hurricane damage in recent years, the Weather Bureau has been given the green light to intensify its research and warning activities. In his budget for 1956-57, the President is requesting that \$35½ million go to the Bureau—an increase of \$3 million over the previous year. This boost is to expand the Bureau's system of storm detection by radar and to step up its research on tornadoes and hurricanes.

The Nation's weathermen have come a long way since the time when they had to rely mostly on reports about hurricanes from ships and islands along the path of a storm. In the past 5 years, new methods of forecasting not only hurricanes but floods and tornadoes have been made part of the Bureau's daily activity. Radar permits the continuous tracking of storms. Hurricane-hunter aircraft battle their way into the heart of the trouble to supply data on wind velocity, general course and speed of the storm's advance. Other government

³ Only 5 percent of the \$1 billion 1951 Kansas-Missouri flood loss was covered by insurance.

agencies, too, and private institutions, are carrying on weather research. As our knowledge increases and our records of storm and flood behavior grow, it is not too much to hope that eventually both storms and floods will hold fewer surprises and we'll be better prepared to meet what comes.

All this costs money. In recent years annual appropriations for flood forecasting just by itself have averaged a bit less than a million dollars. But if more than that amount is saved (estimates put resultant savings at \$27 million yearly), such expenditures may be justified.

Quicker and more efficient warning services can accomplish much. But even better would be weather and flood control.

So far, there's not much we can do about the weather. Flood control is a surer thing.

The 1936 Flood Control Act gives the United States Army Corps of Engineers the assignment of setting up a water taming system along the country's major rivers. The act assigns to the Department of Agriculture the job of slowing up runoff at headwaters and on watersheds where floods are apt to get going. This the Department does by encouraging farmers to check soil erosion through various programs and practices such as contour plowing, use of cover crops, improved range and woodland management.*

Lower down in the river basins the Army's Corps of Engineers constructs reservoirs to delay the passage of flood waters. Along the main stem of our big rivers the waters are confined as much as possible to their channels by levees and dikes.

The new Federal budget includes 194 million, plus, for flood control—an increase of 42½ million over the previous year.

Do we approve or disapprove? What are our views in general on Government warning and control services?

One thing to remember is that floods are not abnormal happenings but a regular part of the way nature works. Because the intervals between floods are next to impossible to predict we are apt to forget to expect them. But as long as there are times when it never rains but it pours we're going to have floods.

The cost of flood protection is steep. But if the damage which is prevented at least equals the expense of flood prevention construction, figured on a 50-year basis, it's considered that the outlay may be economically justified. What is our opinion as to this?

Perhaps the greatest long-run need, in this problem of disaster through floods, is to work out planned and coordinated programs for soil and water conservation, use, and control. And for rehabilitation, too. What are our opinions as to that?

DISASTER INSURANCE

Let's get back to the question of advance protection against possible financial loss due to disaster.

The theory of property insurance, put very simply, is this: Suppose you own property which you may lose through fire, theft, or any number of causes. If you have to meet this loss by yourself it may wipe you out. You therefore decide along with others to work out a system for sharing the loss. You each agree to pay money—premiums—at regular intervals into a pool. This pool, which keeps right on filling up, is to be dipped into to pay any participant's loss.

Of course insurance today is infinitely more complicated than that, and a very big business. But the general idea remains the same. From the point of view of the company or organization that handles the pool, the flow of premiums into it must be sufficiently great to take care of calculated losses and at the same time—usually—permit a profit. From the point of view of the man who's insured, the premium rate must not be so high that being insured doesn't make practical sense. Actuarial figuring (as it is called) and accumulated statistics plus state supervision to make sure all's fair and square are the basis of the complicated details involved.

That insurance, by and large, works satisfactorily for both insured and insurer is pretty well proved by the way the insurance business keeps increasing.

Yet there are several places where it can't seem to be made to work. One is floods.

There appears at present to be no way for private insurance companies to collect big enough pools of premiums on flood insurance from which to pay losses.

* See the Center's Guide, *Our Natural Resources*, first printed in October 1954.

In the first place, only people and industries which know they're apt to suffer damage from flood want to insure. That is a very different situation, for example, from insurance against fire. Almost everyone owning property is willing to insure against fire. Therefore big pools of premiums can be gathered to take care of losses, with the individual premiums themselves not so high as to discourage those insured.

For flood insurance, however, premiums would have to be so high in order to build similar reserves that there'd be practically no takers. And even if flood insurance were attempted, losses from a single flood could be so catastrophic that paying up would bankrupt even the strongest insurance company.

WHAT'S AHEAD

Already a dozen or so bills designed to set up some form of Federal disaster insurance or indemnity have been introduced into Congress. Schemes range from the Government's doing it alone, with the help of the people in private insurance companies, to Government guaranties to protect insurance companies faced with emergency claims.

In his budget message, the President offers the administration's views: "Legislation should be enacted authorizing, on an experimental basis, an indemnity and reinsurance program, under which the financial burden resulting from flood damage would be carried jointly by the individuals protected, the States, and the Federal Government."

Where a Federal program would differ from a private one is that it can operate on a break-even or perhaps a subsidy basis. Subsidy or indemnity means paying out more than would come directly back. Eventually the loss has to be made up through taxes.

The argument favoring Federal insurance, or indemnity, is that it is needed for the general good of the Nation.

There are already Federal insurance programs in other fields, such as old-age and unemployment insurance, veterans' life, and crop insurance to protect farmers. What in general are our views as to the Government's paying indemnities or taking part in insurance programs?

A Federal program could take several forms. These are set forth in various bills already presented, with more likely to follow. Since ours is Government of, by, and for the people, we should study these proposals as they come up. On the basis of what we now know concerning the problems involved, and what else we find out, what do we think our representatives should do? What are the arguments for and against the whole idea of flood or disaster insurance?

Let's keep tabs on and weigh the arguments for and against each major bill.

One more thing: several measures propose that disaster insurance should cover damage from war. What are our views as to that?

[From Meriden (Conn.) Record, February 6, 1956]

1955 BROKE ALL RECORDS FOR HURRICANE DAMAGE

By E. V. W. Jones

MIAMI, February 4 (AP).—The cost of almost everything keeps going up, and hurricanes are no exception.

The lashing ladies from the tropics dealt the Western Hemisphere a \$2 billion blow in 1955, half of it in the United States.

It was far and away the most destructive hurricane season in history so far as property damage is concerned. And out of it came a new champion in the field of death and havoc. Her name was not Connie, nor Diane, the highly publicized pair who dealt the east coast a one-two punch.

JANET WAS WORST

It was Janet, who concentrated her fury in the southern waters but spread disaster wherever she struck. She rates with the great storms of history in power, in damage, in death. No one will ever know how many people she killed.

Once more the fury of many storms was pointed at the Northeastern States, raising anew the question whether they are following a cycle in that area. Their old stamping ground, Florida, was entirely free of hurricane winds and is suffering from drought because no hurricane rains have fallen on the State for 5 years.

FOR SECOND YEAR

Gordon E. Dunn, chief storm forecaster in the Miami Weather Bureau, opened his final report on the 1955 hurricane season with this doleful summary: "For the second consecutive year all records were broken for hurricane destruction."

"A conservative estimate of hurricane casualties is 1,518 but probably many more than that number died in Mexico alone from hurricane-induced floods," said Dunn.

He pointed out that 3 hurricanes struck within 150 miles of Tampico, Mexico, within 25 days and "the resulting floods culminated in the greatest natural catastrophe in the history of that country." Damage in Mexico was in excess of 200 million dollars.

Tropical storm Diane, striking the United States, became the first billion-dollar storm the world has ever known.

DIANE'S DEATH TOLL

Most of the year's 218 storm dead in this country resulted from Diane. This storm moved in as a hurricane on the North Carolina coast on August 17, lost strength as it moved over land, and became a rainstorm of record proportions.

Coming only a week behind another heavy rain producer, Connie, the new hurricane sent normally peaceful rivers on a rampage which will long be remembered for its drama as well as its destructiveness.

Other entries from storm-by-storm roundup:

Alice.—A rare winter hurricane, reached hurricane strength January 1, struck the islands of the Lesser Antilles. Many boats were sunk, and crops destroyed but no lives were lost.

Brenda.—A tropical storm which never reached hurricane strength, crossed the Louisiana coast August 1, caused flooding and damage to crops and highways. Two lives lost.

Connie.—First of the year's big storms, battered across the North Carolina coast near Cape Lookout August 12, moved up Chesapeake Bay and dissipated August 14 over Lake Huron. Total damage was estimated at \$86,065,000 more than half of it in North Carolina, Virginia, and Maryland, Connie killed 25 persons, 16 of them when a boat capsized in Chesapeake Bay.

Edith.—Passed east of Bermuda, affecting no land.

Flora.—Also stayed far at sea.

Gladys.—The first of Tampico's deadly trio of storms. She gyrated around the Mexican port for 3 days beginning September 4, poured 25 inches of rain into the area and kicked up seas and rains that caused half a million dollars damage as far distant as Corpus Christi, Tex.

Hilda.—Brushed Cuba September 14, killing four persons; crossed the Yucatan Peninsula and slammed across Tampico September 19, with winds of about 150 miles per hour and torrential rain. About 300 persons died and damage reached \$120 million in the Tampico area.

Ione.—Third hurricane of the year to move inland across North Carolina. Poured as much as 30 inches of rain on some coastal spots. Storm damage practically all confined to North Carolina, was \$88,035,000, with 7 deaths.

Janet.—One of the great hurricanes of history, carrying disaster wherever it struck. First hitting Barbados and the Grenadine Islands, it killed 160 persons and caused \$3 million damage. Next it hammered from the sky a United States Navy hurricane hunter plane with 10 men aboard, including two Canadian newsmen. No trace of the plane was ever found after it entered the storm south of Jamaica. Then believed to contain winds of 200 miles per hour, Janet slashed across tiny Swan Island, destroying all installations of weather and civil aeronautics outposts. Next it hit the Yucatan Peninsula, where at Chetumal an airport wind recorder showed 175 miles per hour before being blown away. Only 4 buildings remained standing in Chetumal, a town of 2,500 persons. About 120 bodies were found in the ruins, but the sea rose to 6½ feet at a point 1,600 feet inland, and many other victims were never found. In British Honduras, Corozal was destroyed, and 16 died. In all, about 500 or more died in Yucatan.

Katie.—Final convulsion of the 1955 hurricane season, Katie developed near Panama and moved to the island of Hispaniola, which is shared by Haiti and the Dominican Republic. Her 115 miles per hour winds destroyed much property and killed 7 persons. The storm passed into the Atlantic and dissipated.

Senator LEHMAN. We will recess until 10:30 tomorrow morning. (Whereupon, at 4:10 p. m., the committee recessed until 10:30 a. m., Friday, February 17, 1956.)

FEDERAL DISASTER INSURANCE

FRIDAY, FEBRUARY 17, 1956

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
SUBCOMMITTEE ON SECURITIES,
Washington, D. C.

The subcommittee met, pursuant to recess, in room 301, Senate Office Building, at 10:40 a. m., Senator Herbert H. Lehman (chairman of the subcommittee) presiding.

Present: Senators Lehman, Robertson, and Bush.

Senator LEHMAN. I am sorry to have been a little late, gentlemen.

The first witness is Mr. George D. Riley, legislative representative of the AFL-CIO.

Glad you are here, Mr. Riley.

STATEMENT OF GEORGE D. RILEY, LEGISLATIVE REPRESENTATIVE; ACCOMPANIED BY PETER HENLE, AMERICAN FEDERATION OF LABOR-CONGRESS OF INDUSTRIAL ORGANIZATIONS

Mr. RILEY. Thank you, Mr. Chairman.

Senator LEHMAN. Have you a prepared statement?

Mr. RILEY. I do have one, and if I may be indulged I would like to read it.

Mr. Chairman, my name is George D. Riley. I am legislative representative for the American Federation of Labor and the Congress of Industrial Organizations. Present with me is Mr. Peter Henle of our research department.

Senator LEHMAN. Glad you are here, too, Mr. Henle.

Mr. HENLE. Thank you, sir.

Mr. RILEY. He may wish to offer some thoughts as we go along.

During the past few years, the Nation has been shocked by the catastrophic devastation that has been wrought by a series of natural disasters. The recent floods, hurricanes, and other types of disasters affecting almost every section of the country have enacted a heavy toll in terms of homes destroyed, businesses wiped out and property damaged.

The damage that these recent disasters have inflicted has been particularly severe. For floods, we have Weather Bureau estimates showing that in 1955 damage by floods amounted to slightly over \$1 billion. From only \$150 million between 1926 and 1950, the annual average damage has increased to \$500 million during the past 5 years.

Damage from tropical storms and hurricanes has also increased substantially. The last 2 years have witnessed the greatest property damage, over \$755 million in 1954 and substantially more than \$1 bil-

lion in 1955. There has also been extensive damage as a result of tornadoes, tidal waves, and earthquakes.

These recent disasters have caught the Nation unprepared to face the devastation left in their wake. Yet as always the American people have proved very generous with their resources in time of emergency. Through the Red Cross, private relief agencies and other organizations they have contributed millions of dollars to assist those who have suffered such heavy losses. This has provided at least the minimum relief to those who have been hard hit by these disasters.

However, despite the innate generosity of the American people, private charity has not proved the most effective method for meeting the devastation that comes in the wake of these natural disasters. Such assistance is necessarily limited. It cannot meet the cost of more than a small fraction of the damage that has been sustained. This committee is right in conducting this inquiry to determine whether or not a more effective system for bearing the cost of these natural disasters cannot be devised.

For certain types of disasters, commercial insurance is readily available. However, for such catastrophes as floods and tidal waves, such insurance is not offered by the commercial insurance companies. The need here is clearly for a Government-supported system under which individual property owners and businessmen can, by regular payments, provide protection for themselves in the event of disaster.

We appear here today because it is the Nation's workers collectively and individually who have been most seriously hit by these disasters. It is the workers who find their homes, their personal belongings, and their very means of livelihood wiped out by flood or hurricane. They are the ones who have to obtain what little relief is available from the hard-pressed American Red Cross and other private agencies.

Their homes may be located in an area which has historically been subject to flood conditions and, on the other hand, they may be living in an area which is normally considered safe from floods or other types of disasters. The experience, for example, of the city of Worcester, Mass., which was hard hit by the tornado of June 1953, is one example of a disaster which struck in an area where it was least expected.

In behalf of these workers, we endorse the committee's search for a sound, workable system of insurance against the effects of these natural disasters. At the founding convention of the AFL-CIO last December, the delegates approved a resolution urging the Congress—to create a system of Federal insurance to protect citizens from the loss of houses, furniture, factories and heavy equipment in floods, hurricanes and other natural disasters.

Senator LEHMAN. Mr. Riley, could you provide us with a copy of that resolution for the record?

Mr. RILEY. Be very happy to do it. I am sure it is just an omission. That will be supplied the committee.

(The following was received for the record:)

AMERICAN FEDERATION OF LABOR AND
CONGRESS OF INDUSTRIAL ORGANIZATIONS,
Washington, D. C., February 17, 1956.

HON. HERBERT H. LEHMAN,
Chairman, Subcommittee on Disaster Insurance,
Senate Office Building, Washington, D. C.

DEAR CHAIRMAN LEHMAN: During today's discussion of your bill, you requested that the resolution of the AFL-CIO convention last December in New York City be supplied for the record.

I am pleased to include it as a part of this letter. The resolution was adopted:

"FEDERAL FLOOD INSURANCE RESOLUTION

"Insurance to protect real and personal property from the ravages of floods and hurricanes is rarely available, and then at almost prohibitive premiums. Damage from recent floods in six Northeastern States alone is estimated at nearly \$2 billion, 98 percent of which is uninsured.

"Federal and State grants to disaster areas are limited exclusively to the removal of debris and the restoration of public property and buildings, utilities, streets and highways. Other assistance to the victims of floods and hurricanes is severely limited by the meager resources of voluntary agencies such as the national Disaster services of the American National Red Cross and other forms of community relief.

"Flood victims often become debt victims because of the mortgage and personal loans they are forced to obtain to rehabilitate themselves after disaster. Many families, such as retired workers, are, however, not eligible for loans: Now, therefore, be it

"Resolved, The AFL-CIO urges the Congress of the United States to create a system of Federal insurance to protect citizens from the loss of houses, furniture, factories, and heavy equipment in floods, hurricanes, and other natural disasters."

With best wishes, I am,

Sincerely,

GEORGE D. RILEY,
Legislative Representative.

Mr. RILEY. The thinking behind this resolution is very simple. The damage that in recent years has been wrought by these disasters has been so widespread that it is no longer an issue of only local importance. It has become a matter for action by the Federal Government. These natural disasters have not been confined to any particular State or region. The Northeast, the South, the Ohio and Mississippi Rivers, and more recently the Far West area, all have had experience with their devastating effects. Only the Federal Government is in a position at this time to meet this critical need which is not being met in any other way.

We do not appear here as possessing any expert knowledge of the insurance business. We do not have the professional competence to assess the damage that has been wreaked by floods and to determine properly the type of insurance system that would prove most effective.

What we have done is to review as carefully as we can the various types of legislation that have been proposed to deal with this problem. This includes primarily the bill introduced by Senator Bush, S. 2862, embodying the Administration's proposals and the bill introduced by Senator Lehman, S. 3137. A number of other Senators, including several members of this committee, are cosponsors of this proposed legislation.

We would like to present our views regarding a few of the major issues involved in this legislation.

1. RISKS TO BE COVERED

We believe that the new insurance program should be applied as broadly as possible. Essentially, it should attempt to provide insurance against all those types of disasters which are not subject to coverage by a normal insurance policy. This would definitely include floods, tidal waves, and water damage from hurricanes.

If practical, we also believe that the same type of insurance could be adapted to certain other natural disasters such as earthquakes and drought, as well as the manmade type of disaster conditions that might follow an atomic attack on the United States. However, we recognize that complex administrative problems might prevent inclusion of all these types of disasters in any legislation at the present time. We do think that additional studies should be made to determine whether these additional risks can be covered now or at a later date.

2. ITEMS TO BE INSURED

We believe that insurance should cover damage to real and personal property, business inventories, farm animals, and agricultural commodities. Arrangements should also be made to give State and local governments the opportunity to insure such property as highways, bridges, buildings, and other public improvements.

3. METHOD OF FINANCING

The insurance companies have not found it possible to provide the normal type of commercial insurance against the damages resulting from these natural disasters. If the Federal Government is to develop a practical program to meet this problem, it must face the fact that a certain degree of Federal subsidy will be absolutely essential. Because experience in this type of insurance is so limited, it is difficult to judge at this time the extent of Federal participation that may be necessary. In any case, however, we believe that the Federal Government must be prepared to pay at least one-half of what would be considered the normal premium for this type of insurance. In addition, the Federal Government must be prepared to pay the costs of administration.

The program recommended by the administration and included in the Bush bill requires financial participation by the various State governments. We see no reason for such a provision. Requiring such participation would complicate administration arrangements, delay the development of the insurance program, and in some States may prevent its adoption altogether.

At present, State governments are being called upon to meet ever-increasing demands for their limited resources. There is no reason to burden them further by requiring them to contribute to this program. For this reason, we think the States should be omitted from the program and any government participation confined to the Federal Government.

4. PARTICIPATION BY INDIVIDUALS

We believe that any individual who is insured under the program should definitely participate by paying an appropriate share of the cost.

In addition, it would manifestly be impractical for any new insurance program to cover the cost of the entire damage sustained by any individual claimant. For this reason, we believe that the insurance program must include a provision under which relatively minor damage up to a certain minimum dollar amount would be borne entirely by the claimant. However, we do not think it necessary to require claimants to bear the cost of an additional proportion of the damage sustained above this minimum amount and we, therefore, oppose this type of provision in Senator Bush's bill.

We also believe that a specific maximum limit should be set on the amount of insurance which any individual or business firm should be allowed to carry.

5. RATEMAKING

In many respects this problem of setting the level of insurance premiums represents what might be called the \$64,000 question. It is clear that premiums must not be set so high that they discourage participation in the program. At the same time, premiums must to a certain extent be related to the risks involved; otherwise, they might provide an incentive to locate in a high-risk area.

It may be true, as various insurance companies contend, that adequate data are not available for determining exact actuarially sound premiums for this type of insurance. In our opinion, the lack of such data must not be considered an excuse for delaying action on this legislation.

Congress must recognize that any flood insurance program it adopts will have to be somewhat experimental in character. At least at the start, Congress may have to delegate to the administrator of the program authority to decide certain major policy issues, including the level of premium payments to be required.

We believe that the Lehman bill has approached the question of premium rates in a more realistic and flexible manner than the Bush bill. We particularly like the language in section 5 in which the administering agency is given the following congressional direction in establishing the various types of premium rates:

Such rates shall be based insofar as practicable upon consideration of the risks involved and upon calculations of amounts needed to cover all administrative and operating expenses arising under this Act, as well as reserves for probable losses, to be accumulated over a reasonable period of years, but such basis shall be used only to such extent as in the judgment of the Commissioner shall be consistent with the aim of offering insurance and reinsurance at rates reasonable enough to make available to those who need it, at rates they can afford, the protection intended to be provided by this Act.

We have one further suggestion to make regarding this question of ratemaking. We recognize that in high-risk areas, the level of premiums might easily be higher than the average homeowner can afford to pay. Only experience can demonstrate whether this is true.

One way to meet this situation, it seems to us, might be for the administering agency to require a relatively lower premium rate on residential property than on commercial or industrial property.

6. COOPERATION WITH INSURANCE COMPANIES

We believe that the program should be operated if possible with the cooperation of the private insurance companies but, if necessary, directly as a Government undertaking. Up to now, we have seen

no evidence that the private insurance companies are genuinely interested in bringing a workable insurance program to the potential victims of future disasters. They seem far more inclined to issue technical criticisms from the sidelines than to offer constructive advice about developing a practical program. If this attitude continues, the Government should have no hesitation about operating the program directly as a Federal enterprise. If the insurance companies elect to participate in the program, they should be permitted to do so only on the condition that they cannot obtain any special profit or benefits as a result of this legislation.

7. ADVISORY COMMITTEE

Because of the experimental nature of this new program, we think it advisable for Congress to establish a special advisory committee to the Administrator of the insurance program. Membership on this committee should include individuals with expert knowledge of insurance business but should also include individuals broadly representative of the public interest and more particularly in the interest of the policyholders. The Lehman bill, but not the Bush bill, makes provision for such a committee.

8. ADMINISTRATION OF THE PROGRAM

Both the Bush and Lehman bills provide that the administration of this program be lodged within the Housing and Home Finance Agency. We have no objection to this proposal, although it would be equally satisfactory from our viewpoint to establish a separate agency of Government to handle this new program.

We are not in a position, because of our limited knowledge of this field, to give unqualified endorsement to any of the bills currently before this committee. We have, however, noted several instances in which we feel that the provisions of the Lehman bill, S. 3137, would provide a more effective and workable program than those in the Bush bill, S. 2862.

In any event, we urge the committee to move promptly with its consideration of this problem so that Congress can offer the potential victims of future disasters a self-respecting opportunity to protect themselves against at least the heavy financial burden which such disasters would otherwise bring.

Senator ROBERTSON. Mr. Chairman, may I ask a question?

Senator LEHMAN. You may.

Senator ROBERTSON. You have presented your views very clearly, and I am glad to follow your statement.

Mr. RILEY. Thank you, Senator Robertson.

Senator ROBERTSON. Do you see any inherent and fundamental difference between a farmer who loses his entire new crop by drought and a merchant who has his store and business washed away in a flood?

Mr. RILEY. Not a bit, and I think we have attempted to develop that fact, that everybody is in the same boat here.

Senator ROBERTSON. I notice that.

Of course, you will recall that when we provided for drought insurance we anticipated the Government was going to take a loss on

it. The fact that any type of insurance that was so hazardous that private insurance writers won't write it, if the Government makes a rate that people can afford to pay, the Government might as well be prepared to take a loss on it.

Mr. RILEY. Right.

Senator ROBERTSON. But in the farm insurance—and you say there is no difference between them—we didn't provide that the farmer pay 50 percent and the State pay 20 percent and the Federal Government pay 20 percent. We said go ahead and fix a rate that you think would be fair; let everybody pay the rate and the Government adjust itself to whatever was the loss.

In Kansas the Government took quite a substantial loss. I think you are absolutely on sound ground that we are going to mess up this program if we try to bring the States in it for contributions.

I doubt if some State constitutions permit it and other State governments, as you say, are rather hard put right now.

Mr. RILEY. Yes; they are.

Senator ROBERTSON. That is the point I mentioned yesterday, that I believe under this program—I asked the opinion of our Attorney General—some States couldn't get in on this program at all. I wouldn't want to be sitting here framing a law that didn't give my State any protection.

There is another principle involved here that ought to be looked at a little bit, and that is, does the Federal Government owe any duty, moral, legal, or any other kind, to a business that writes off every dollar of insurance premium paid before it pays any taxes to give them a cut rate on insurance against floods.

Let us assume the Government, if it fixes a uniform—not only uniform; I am going to bring that up later—fixes an area rate they think is fair. If the businessman takes out that insurance, he deducts the entire costs of premiums paid from his business income before he makes any tax return on that net taxable business income. In effect, the Government says "Now you are doing mighty well in business. You don't have to pay any taxes on what you pay in insurance premiums. We are going to give you a saving of about 50 percent." I just don't see why that would be necessary; do you?

Mr. RILEY. No.

Senator ROBERTSON. All right. I got a notice a few days ago that because we had made a real improvement in our fire protection system in my hometown of Lexington—we are going to employ 2 or 3 full-time firemen instead of just looking to the patriotic boys in the middle of the night who when the gong sounds are all going to hop up and get there in time and put the fire out—they gave a little reduction in rates.

Isn't the policy of all private insurance companies in fixing rates to consider the fire hazard involved and if you have a good fire protection to give you a lower rate; if you haven't got any at all, a higher rate?

Mr. RILEY. That is right.

Senator ROBERTSON. Therefore, the Government should give some consideration in the matter of rates for the protection of the general taxpayers that are not going to have any floods at all that those in a hazardous position should pay just a little more if they want to continue to live there—

Mr. RILEY. It seems realistic.

Senator ROBERTSON. A little more than those in a relatively safe position that maybe don't have a flood but once in 50 years but they have to pay for 50 years for that 1 year's protection. Don't you think the Government should?

Mr. RILEY. Oh, yes. All of these factors are part of this consideration.

Senator LEHMAN. May I interpose one word: That is provided for in my bill.

Senator ROBERTSON. I notice he quoted with approval that provision in your bill that there might be a varying rate. He also quoted with approval your provision that instead of having States and all parties participate the Federal agency would set a rate, participate in the loss, of course, but fairly, that an insured would have to pay 50 percent or 60 percent of it and the State wouldn't have to pay any.

Senator LEHMAN. In talking about participation, I was only pointing out that the bill does provide that the risk involved would be taken into consideration.

Senator ROBERTSON. I think undoubtedly that should apply.

I don't quite follow your recommendation that in view of the fact that private insurance companies now write insurance on personal property, that the Federal Government should go into competition with them. Providing the United States where there is any liability of any flood damage can write insurance on personal property.

That would greatly enlarge the program, and if we are going to write a rate that is practically below the cost of what the program is going to be, you certainly would have complaint from private insurance companies and from a great many private insurers that you are giving a special advantage on property to one man that the other man can't get, don't you see.

Mr. RILEY. I understand that.

Senator ROBERTSON. And it is not necessary in your opinion to include personal property?

Mr. RILEY. We haven't urged it. We put it in as something the committee would want to have in front of it.

Senator ROBERTSON. Sort of for good measure, but that wasn't the essential point?

Mr. RILEY. No.

Senator ROBERTSON. The essential point is that flood damages in recent years have been more frequent and more severe than they have in the past.

Mr. RILEY. They have indeed.

Senator ROBERTSON. It may mean a catastrophe for a whole community. No private insurance company will underwrite it. The local community just can't afford to stand that loss and hope to be rehabilitated; it wipes the capital out that can't be replaced.

You would like to see the Federal Government step into a plan in those communities that wouldn't reimburse them for a hundred percent of what is lost but a reasonable percentage of what is lost on the basis on which they make a fair contribution in carrying the program forward?

Mr. RILEY. I don't think anybody could expect to be made whole as a result of this, but it would certainly take a tremendous shock out of a great deal of the main situation.

Senator ROBERTSON. Thank you. That is all.

Senator LEHMAN. Senator Bush, do you want to ask any questions?

Senator BUSH. Yes.

Mr. RILEY. Mr. Chairman, before we leave the point, if I may, that Senator Robertson is making about the financial competence of the respective States, I think you need only to look in any reference book, including Moody's and others—Senator Bush would be close to the situation—to see that the variable credit ratings of those States, their ability to sell bonds at certain rates, and that sort of thing, all the way from AAA down to BAA, and so on, those ratings are changing constantly as those who appraise those situations get around to finding new situations which may change them. But that in itself shows how difficult it would be to work the States into this sort of thing.

The credit rating of the States, I think, is a very important thing to regard at the time. I know that the chairman will be close to this, too, at the time when you want to evaluate what position, if any, the States should get in.

Senator BUSH. Mr. Chairman, on the question of personal property, I certainly agree with the witness that we have got to be covered in this bill because most of the lawsuits that took place in the areas which I observed, as in the Naugatuck Valley and other places, were personal property losses. It was furnishings, possessions that families had taken years in acquiring, and it would seem to me the bill would be well—its usefulness would be very seriously and adversely affected if it did not include personal properties.

Do you agree with that?

Mr. RILEY. I should say this, Mr. Chairman, Senator Bush: It was because of certain personal experiences and losses that we knew about of friends of ours and those in the labor movement in the very valley that you mentioned, the Naugatuck Valley, that this was brought to mind and we had it included as part of our presentation.

Senator BUSH. Some of your people gave very eloquent testimony before our committee when we held hearings in connection with that matter.

I would like to go back to your comments, in the middle of page 4 of your statement, where you discuss the question of rates. That clause starts out with the thought that rates should be based upon consideration of the risks involved, and so forth, but then at the end it comes down to the point where it says that insurance should be made available to those who need it at rates they can afford.

Who in your judgment should decide that question of what rates can be afforded? How would you think that should be determined?

Mr. RILEY. Well now, there again I think you are suggesting we get over on ground that we don't qualify as experts on. We have put the thought up or rather, we have endorsed the general thought that is contained in this particular bill before you and have commended the idea of it.

Now then, it is time for the technicians to take over from that point.

Senator BUSH. I am most sympathetic with the purpose that you have in mind, namely, that these rates should be low enough so that most anyone who is a homeowner or home occupant would be able to afford insurance fees in a threatened area. That I am very sympa-

thetic with, but I would like to suggest that if we get into a program which is discriminatory, neighbor versus neighbor—and I think of neighborhoods there where I could show you where we might have 20 houses, and I saw one in the Naugatuck Valley that reminds me—I have it in mind right now—houses all about the same size. They are all in the broad flood plain of the river, and the risks may vary a little bit from one to the other, but they are all about in the same boat.

I certainly would hate to be the fellow to decide to say "Look, you only have to pay so much, but over here, you have to pay so much."

You appreciate that would present some substantial difficulties.

Mr. RILEY. I wonder if we could ask Mr. Henle to give his viewpoint on that.

Senator ROBERTSON. If the Senator would yield, I will tell him how the Government got around that.

During the depression, they made rates according to States. They gave us a rate of about \$23 a month in Virginia.

Senator BUSH. For Virginia.

Senator ROBERTSON. And in Pennsylvania, it was seventy-some.

Senator BUSH. Yes, but if the Senator will yield, that is a question—

Senator ROBERTSON. Then, in 1936, 4 percent on relief in Virginia and 19 percent in Pennsylvania; and that lends itself to a very pleasing administrative—

Senator BUSH. I agree that there might be something to be said for that, but that is very different than saying that No. 10 North Main Street should have one rate and No. 12 should have a different rate.

Senator ROBERTSON. I don't think they cut it that thin.

Mr. HENLE. I was going to—

Senator BUSH. I would love to get an answer, if these people want to answer my question.

Senator LEHMAN. I will be very glad to have you answer it, and then I want to make an observation.

Mr. HENLE. As we visualize the scene, naturally we didn't know what was in Senator Lehman's mind, but as we would visualize the operation of this particular section with this congressional direction, the Commissioner involved, the Administrator, would probably want to obtain quite a bit of technical data relating to the level of incomes in the various States, in the various river valleys that are affected by floods. He would want to get that data for the whole United States. He would want to get whatever actuarial data was involved, and the decisions he would make about the level of premium rates, in our opinion, would not be decisions that would decide that for 10 North Main Street it was something and for 12 North Main Street it was something else.

Rather, he would try to set up more or less levels, areas of risk, and would try in considering the general level of income in those areas—the general level of income, rather than the level of income of any particular occupant, of any particular house—he would take that general level of income into account in setting the rates for a particular State or a particular river valley.

Senator LEHMAN. May I say that there is nothing at all in the provision, nothing at all in the language of section 5 of my bill that

would indicate that rates would be based on the means and the ability to pay of an individual. It would be considered on a schedule which would involve the risks and on a general area.

The crux of the situation, the crux of the provisions, I think, is that there would be consideration given to the risks involved.

Senator BUSH has said we might charge the house owner at No. 10 X Street one rate and No. 12 X Street a different rate. There will be variations, of course, in the rate based on the risks. That is a most important, the most important, part of this whole plan.

Obviously in an area if a man had a house which was only situated 50 feet from the beach, he would be a greater risk than a man who had a house a half a mile from the beach. There would be a variation because of the risks involved in the making of rates. But there is no thought so far as I know, and certainly it was not my intention in writing this bill, that there would be a variation in rates between individuals, assuming that the risks were identical.

Senator BUSH. The language is so broad that it could be easily susceptible of the other interpretation.

Mr. RILEY. The interpretation I would prefer to put on that, Mr. Chairman—

Senator LEHMAN. If you would agree with the theory, the principle of the thing, I don't think there would be so very much difficulty, and if you feel it isn't clear—I think it is clear—but if you feel it isn't clear, I don't think there would be much difficulty in clarifying it.

Mr. RILEY. I have this belief, that the thinking behind that phrase there is not to allow discrimination as between insurees but, rather, to bring the whole level down to some realistic point.

It was suggested in the Banking and Currency Committee of the House deliberation on this type of legislation recently that perhaps 75 cents a thousand or \$7.50 a \$10,000 risk would perhaps get in the area where there would be ability to pay. I believe that that is the kind of thinking that must have been behind this phraseology that you have got in there, rather than opening the door to discrimination as between one person or another whose risk is being carried.

I think that is really it. In other words, if you said \$7.50 for \$10,000, that would not be in the reach of very many persons and their ability to pay. That is the type of thing that I read into this thing, if I am not too far off the beam on what was intended when this section was written.

Senator ROBERTSON. I have another question.

Senator LEHMAN. May I just—I yielded to you and to Senator Bush willingly, but I would like to ask a few questions.

You mentioned in your very good statement the fact that you believe that the time may come or possibly is here today when other natural catastrophes could be included. I wonder whether you would not agree with me that flood insurance, damage from floods, protection of those who suffer damage from floods is the most pressing catastrophe to be protected against at this time?

Mr. RILEY. It has certainly been the most dramatic in recent months and recent years.

Senator LEHMAN. I do want to point out, which I am sure you are aware of, that S. 3137 provides for study of other risks that might be considered.

STANFORD LIBRARY

Would this provision meet the point you made in your testimony favoring wider coverage?

We are trying to get you a bill to cover at this time the most pressing need, but we certainly want to continue to make the study.

Mr. RILEY. That is right. We have not attempted to exclude any potentials here but, rather, to include them at such time as you get to considering them.

Senator LEHMAN. I do want to comment on this question of insurance on personal property.

First of all, I wish to repeat that we are not, the Government is not, trying to compete with the insurance companies. I wish with all my heart that it was not necessary to consider this whole legislation, in other words, that the insurance companies would handle the problem. But the fact remains that the insurance company will not handle the problem. They are not willing to write insurance and that goes, of course, to personal property as well as to real property; and, therefore, if we should exclude personal property there would be no way of this man getting any protection whatsoever, and in many cases the losses of personal property are as great, in some instances possibly greater than, the losses of the damage suffered on real property.

Mr. RILEY. I think a summary of the concept of this statement we have presented to you gentlemen this morning is the idea of no competition with insurance operations but if there are areas where insurance companies cannot or will not step in, this becomes an unusual type of thing and the Government is the one big enough to do the unusual.

Senator LEHMAN. I assume that you agree with our efforts and the statements that many of us made that if the insurance companies are able and willing to undertake this we certainly would encourage them?

Mr. RILEY. Sure. Exactly.

Senator LEHMAN. I want to make one observation in response to a question asked by my colleague from Virginia about insurance with private business.

While I see merit in his point, yet it is true that private insurance companies do not at this time, practically, offer any flood insurance whatsoever. I think he has made a good point in bringing out the fact that the business concerns can write off the cost of insurance as part of the cost of doing business.

Senator ROBERTSON. I just wondered if we would adopt a policy of giving the business concern insurance and not making it look like money available as bonus.

Senator LEHMAN. I see that.

Senator ROBERTSON. I wouldn't want to say to a businessman, "Here is insurance you need. We are going to make it available. You only have to pay me half the cost of it." Even then the Government will take a big loss on it.

I just don't see the principle involved of handing out bonuses to business people on a financial risk of this kind. I would give them insurance, sure.

Senator LEHMAN. Without expressing any opinion as to the complete merit of the proposal, I certainly think it should receive very careful consideration by this committee because it is not only a factor as you have pointed out, that they could bring this off as a legitimate expense of business but they can get 52 percent allowance on their income tax.

Senator ROBERTSON. That will be better than 27½ percent on depletion.

Mr. HENLE. Senator?

Senator LEHMAN. Mr. Henle.

Mr. HENLE. If I might point out, we did have one suggestion to make on this discussion between yourself and Senator Robertson. On page 4 of our testimony we suggest that perhaps one way of both limiting the Federal Government's participation and at the same time assuring the residential small property owner adequate coverage at a rate that he could afford to pay would be to either direct or to allow the administering authority to set rates at a lower level on residential property and at a higher level on commercial or industrial property.

Senator LEHMAN. Well, I noticed that, and I think it is a point that certainly should be given very careful consideration.

Mr. HENLE. It is a point that meets Senator Robertson's point.

Senator LEHMAN. We have had a lot of talk about the question of making rates which the people who want and deserve the protection can pay. I want to point out that the whole purpose of this legislation so far as my bill provides is to include the greatest number of people.

I see no use in writing legislation which would require rates so high that there would be no use made of it at all, and my whole purpose—and I think it is true that Senator Bush feels the same way, that we want to get this rate down to a point which people can afford to pay as a group, not as individuals, with the full understanding that the risks involved in the writing of insurance policies must be taken into consideration.

Senator ROBERTSON. Mr. Chairman, I have just got one other point: You suggest that we do not extend this insurance to publicly owned property.

Mr. RILEY. No, we make no reference to that.

Senator ROBERTSON. It is just privately held property?

Mr. RILEY. That is right.

Senator ROBERTSON. But Senator Lehman takes partial recognition in his bill of the fact that something should be done to insure loss in the housing programs, and so he provides on future loans—that doesn't cover the \$35 billion that is already held—that the Government can require a man to take out this insurance before they can insure for him a mortgage on terms of no down payment and 25 to 30 years maturity.

I don't know the exact figure, perhaps \$80 billion outstanding of private mortgages represents the equity holder's biggest interest, by far, in what happens to the property.

Should we have in this bill about future loans that mutual savings banks and Federal home loan bank members make—I mean mortgage companies, and what not—can require the owner, if they get a loan, to take out this kind of insurance so that the equity owner can share in this protection?

I don't know of anybody that makes a loan on real-estate buildings that doesn't require fire insurance. That is a universal practice. The Government does it on all of its loans. All private lenders, of course, require it. They just can't take the risk of leaving the property uninsured.

No sensible man could think that he can take it and yet a lot of them don't bother about it until they go to get a loan from somebody that makes them take it.

The question is what should we do in this bill. Are we going to put in here a provision that hereafter the Government can require them to take it out? How about private lenders? Can they require it, too?

Senator LEHMAN. Well, I think——

Senator ROBERTSON. Mr. McKenna shakes his head. Maybe we could let Mr. McKenna get the answer. He seems to know it.

Mr. McKENNA. The only point I draw, Senator, is that the Government in extending financial aid can lay down constitutional requirements as to the conditions under which that aid is extended, so that it seems to me clearly legal to authorize the Federal Government to do that if you choose to do it as a matter of policy.

When you come to private corporations that are lending their own money without any direct tie-in to the Federal Government, I think you do have to consider the policy and legal question of whether we can force them to do it.

I understand as a matter of——

Senator ROBERTSON. I wouldn't say "force them," but permit them to participate.

That is going to be the position of the mutual banks. They have filed a statement. They won't present it personally, but they have filed a statement. They want to get in on this program.

Mr. McKENNA. May I say this, Senator: I understand in practice that if such insurance is available, it is entirely likely that mortgagees will require the mortgagors to carry it as a matter of private policy decision.

Senator ROBERTSON. Well, will this bill sufficiently cover it without any specific reference?

Mr. McKENNA. It would authorize them to require it, wouldn't compel it.

Senator ROBERTSON. Is there anything in the law about fire insurance for FHA?

Mr. McKENNA. No, sir, not as such, although there is general language in the National Housing Act stating that to be eligible for FHA insurance, a mortgage shall contain such insurance provisions as the Commissioner may in his discretion prescribe.

Senator ROBERTSON. Then why do you have to put this in for FHA?

Mr. McKENNA. You probably don't have to. They may be authorized to do it by regulation. By putting it in the statute, we make it perfectly plain they are authorized to do it. I understand they do require the taking out of fire insurance as a matter of regulation. This provision in the bill, however, also applies to property receiving Federal aid from other agencies than FHA.

Senator ROBERTSON. Of course they do.

Mr. RILEY. Mr. Chairman, before you get too far away from the first question that Senator Robertson asked about public property, I didn't get the full import of your inquiry, Senator, but I will give you the answer to it.

Senator ROBERTSON. I understood that municipalities that have property that will be damaged by flood, you wouldn't let the Government underwrite that.

Mr. RILEY. On page 2—have you got a copy of that—the last sentence:

Arrangements should also be made to give State and local governments the opportunity to insure such property as highways, bridges, buildings, and other public improvements.

Senator ROBERTSON. I read it very hurriedly and just understood the very opposite of it.

Mr. RILEY. Public works.

Senator ROBERTSON. I see.

Senator LEHMAN. My judgment is that if a rate could be set that is reasonable and fair within the means of the property owner to pay, there will be a great disposition on the part of the private lenders to insist on the homeowner, the property owner taking out a policy. But in that connection I want to emphasize again that the rate must be reasonable and fair and within the means of the man who pays, not the kind of rate that has been quoted by Lloyd's of London of as much as \$250 a thousand.

Of course, it is just a mere gesture, but I think if you can determine a reasonable rate and a rate within the means of people generally to pay, that private owners will demand that kind of insurance in connection with that.

Senator ROBERTSON. Here is a statement of the National Association of Mutual Savings Banks. It says on page 3 of the statement that will go into the record:

Federal insurance against flood damage and loss should be financed principally by those private property owners who receive the protection, and should be optional as to participation. Whether protection on an optional basis is feasible will depend to the extent to which the rate to be charged appears reasonable to property owners in relation to their separate risks and, secondarily, whether secured creditors may reasonably require debtors to carry such insurance.

They raise the issue there.

Senator LEHMAN. It is a very interesting statement representing the testimony of the National Association of Mutual Savings Banks, and if there is no objection, I would like to put this into the record.

(The statement referred to follows:)

STATEMENT OF THE NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS

The National Association of Mutual Savings Banks represents 520 of the 527 mutual savings banks of this country. These mutual savings banks are located in 17 States. As of December 31, 1955, they had total assets of \$13,350 million, total deposits of \$28,188 million, and 20,990,000 depositors. As of the same date these mutual savings banks held \$17,294 million in mortgage loans representing approximately 55 percent of their total assets.

The mutual savings banks are heavily invested in mortgage loans in Connecticut, Massachusetts, Rhode Island, New Jersey, New York, Pennsylvania, and the Pacific Coast States, particularly California—all areas that have suffered unusually heavy losses from high water and flood in recent months. Hence, the interest of the mutual savings banks in some form of flood insurance is immediate and real. It is with this background that we submit our views.

Pending before this committee are many bills ranging in purpose from insurance or indemnity against the single hazard of flood to protection against every conceivable hazard, whether of natural or manmade origin. The bills before this committee also differ widely in the kinds of properties that would be insured against loss or damage. All bills appear to insure against loss or damage to privately owned real property. Some bills would include all personal property and others would limit protection of personal property to certain categories such as business inventories, stored agricultural products, et

cetera. Still other bills would extend coverage to public properties, both real and personal.

The National Association of Mutual Savings Banks believes and recommends that legislation should be enacted by the Congress to enable the Federal Government to make available flood insurance protection for private owners, both corporate and natural, of real property. In the year 1955 we have had several disastrous examples of vast damage by flood on both the east and west coasts. The problem is national in character, and, at the present time, does not appear to be subject to solution by private insurance companies at rates within the practical means of the average homeowners.

We urge that the various proposals to insure public properties against flood and other hazards be excluded from any bill which this committee may approve. Repair and replacement of public property, municipal, town, county, city, or State, should be provided for by the State legislature. In addition, Federal insurance of industrial and commercial real property should be definitely limited in amount as is provided by several of the bills pending before this committee. Large industrial and commercial enterprises are usually capable of purchasing general or selective protection and, in many instances, are so well fixed as to act as self-insurers.

We recommend that Federal risk insurance be limited to damage or loss resulting from flood. Many of the other natural risks included in some of the pending bills are now insurable and are being insured against at reasonable rates by private insurance companies. This legislation, being in the nature of emergency action, should not result in the Federal Government entering into competition with the insurance companies in areas of coverage adequately serviced by the private insurance companies.

As to the proposals in several bills that Federal insurance be made available against manmade disasters such as war, we believe that these measures would be entirely impractical and almost impossible of sound administration insofar as any realistic rate structure is concerned. None of us can know if or when or where or how badly we might be hurt by an enemy assault. In the event of the awful contingency of attack, Congress can and will act in the best interests of our people with calculated measures patterned to known or imminent danger. To endeavor to tie in protection against these unknown and immeasurable war dangers with protection against flood damage would result in a hodgepodge insurance coverage impossible of reduction to a realistic and reasonable rate to the insured.

Federal insurance against flood damage and loss should be financed principally by those private property owners who receive the protection, and should be optional as to participation. Whether protection on an optional basis is feasible will depend to the extent to which the rate to be charged appears reasonable to property owners in relation to their separate risks and, secondarily, whether secured creditors may reasonably require debtors to carry such insurance. The rate for such insurance will necessarily depend upon technical actuarial considerations beyond the scope of this statement, but we should like to point out at this time that the inclusion of business inventories and personal property in the coverage would tend to raise the rate. We have advocated the exclusion of personal property but, if these items are to be included in any measure passed by the Congress, we urge that the administrator of the Federal flood insurance program be empowered to fix separate rates for the different categories of property encompassed within the legislation.

Several of the flood insurance bills before this committee would provide for payment in part of the insurance premiums by the State in which the property is located. We believe this to be a highly impractical provision, dependent as it is upon the action of State legislatures. The State participation might also lead to the increased possibility of the adverse selection of risks, that is, the possibility that only those States having historically high flood loss records would participate. If we are to get a Federal flood insurance program into operation before the next season of threatened floods we must, and we believe we should, keep the whole program within the jurisdiction of the Federal Government.

We have noted that some of the pending bills would prohibit the issuance of insurance contracts in the areas where private insurance is available. We believe that this exclusion would make the Federal program impractical of operation since private insurance is available in areas where the record of loss is least. This would result in the Federal program covering only the high risk areas, with the imbalance in rate structure because of restricted spread.

No provision should be made in any final enactment covering indirect losses due to flood. Such provision would open up a world of indefinite claims at the expense of the Federal Government and to the detriment of insured homeowners having direct losses.

In summary, this association wishes to urge the following recommendations:

1. That the Congress enact a Federal program to make available to private owners of real property insurance against damage and loss by flood;
2. That no provision be made in such program for the insurance of public property;
3. That the Federal insurance be limited to damage or loss by flood;
4. That the Federal insurance program be financed principally by the private owners of the real property insured;
5. That no participation in payment of premiums be required of the several States;
6. That Federal flood insurance should be available regardless of availability of private flood insurance; and
7. The Federal program should not insure against indirect losses.

Senator LEHMAN. Have you any further questions?

Senator ROBERTSON. No questions.

Senator LEHMAN. Thank you very much indeed, Mr. Riley and Mr. Henle, for your very helpful testimony.

Mr. RILEY. Thank you, gentlemen.

Senator LEHMAN. The next witness is Mr. Ambrose Kelly, general counsel of the Associated Factory Mutual Fire Insurance Companies.

Mr. Kelly, we are glad that you came and are ready to testify again. (See p. 632, pt. 1.) Have you a written statement?

**STATEMENT OF AMBROSE B. KELLY, GENERAL COUNSEL, ASSOCIATED FACTORY MUTUAL FIRE INSURANCE COMPANIES—
Resumed**

Mr. KELLY. I have a written statement, Senator, which I will take the time to read. It is shorter than most written statements, and I will go through it as briskly as I can and then expose myself to the questioning of the committee.

I am Ambrose Kelly, counsel for the Associated Factory Mutual Fire Insurance Companies.

The Associated Factory Mutual Fire Insurance Companies consist of eight mutual companies. Three of these companies, the Manufacturers' Mutual Fire Insurance Co., the Firemen's Mutual Insurance Co. and the Blackstone Mutual Insurance Co. are domiciled in Providence, R. I. Three more, the Boston Manufacturers Mutual Insurance Co., the Arkwright Mutual Fire Insurance Co. and the Industrial Mutual Insurance Co. have their home offices in the Boston area. The Protection Mutual Insurance Co. is located in Chicago, and the Philadelphia Manufacturers Mutual Insurance Co. is in Pennsylvania. In addition to these companies, the Affiliated F. M. Insurance Co.—the wholly-owned factory mutual subsidiary—is also located in Providence.

From the organization of the first company in 1935 by a group of textile manufacturers, the factory mutuals have specialized in insuring industrial property. Within the last 20 years we have widened our field to include mercantile and institutional risks which meet our standards. Risks are not insured unless they meet or are made to conform to rigidly-enforced standards of construction, with protection adequate for the particular type of occupancy, and unless the manage-

ment is willing to cooperate fully in carrying out the recommendations of the factory mutual engineers for the prevention of loss.

This preamble is necessary to make it clear that the factory mutuals operate in a unique way in a specialized field and may be able to offer insurance to their policyholders not available in the general insurance market.

The problems arising as a result of damage from flood have been of concern to the factory mutual companies for many years. After the severe floods of 1936 and 1937, a study was made of the losses suffered by our policyholders, and special studies of the flood exposure to particular plants have been made from time to time by our engineering division.

When public attention was focused on this problem by the major flood in Missouri and Kansas in 1951, several of our companies asked the cooperation of their policyholders in a study of flood exposure and losses. At the same time, we requested a statement of opinion as to whether our policyholders wished the factory mutual companies to provide flood insurance and whether they would purchase it if it were available. The results of this survey were incorporated in the study of Federal disaster insurance made by the staff of your committee. You will find it on page 239.

Less than 10 percent of those to whom we wrote, and less than half of those who replied, were interested in purchasing flood insurance, and almost one-third of these, the interested people, would only be interested if the cost was low. We, therefore, made no effort to develop a program of flood insurance at that time.

The New England floods of 1955—I hope that the Senators from New York and Pennsylvania will pardon me for referring to them as the “New England” floods; I know there was severe damage in other areas as well—occurred in the area in which the factory mutual companies have a very heavy concentration of business. A survey made by our engineering division indicated that 134 of our policyholders had suffered flood losses which were estimated at \$85 million. Fifteen plants suffered losses of over \$1 million each. These figures we think show graphically the exposure to catastrophic loss which is involved in writing flood insurance.

In other words, if we had been writing full flood coverage at that time, our losses in that year would have been \$85 million from that flood alone.

Both our engineering division, which is primarily interested in loss prevention, and the technical committees of the Factory Mutual Rating Bureau, interested in possible forms and rates, are still studying the flood insurance problem. At the present time, our conclusions might well be summarized as follows:

1. Priority must be given by Government and property owners themselves to the prevention of flood loss. Federal, State, and local governments, each in their own sphere, can do much to reduce the damage now resulting from floodwaters. The individual or corporate property owner, however, has an equal duty to do those things within his power, and they are legion, to prevent loss.

2. We are still studying the possibility of making flood insurance available to factory mutual policyholders. Our research has not established whether or not this hazard is insurable for the plants we currently insure, even though proper underwriting safeguards are

incorporated in the plan. A most serious question, still unanswered, is whether a sufficiently large number of our policyholders would be interested in order to secure the necessary spread of risk.

3. Obviously, any program of flood insurance, whether public, private, or a combination of the two, must be actuarially sound. Any plan which simply provides Government relief for flood victims should not be disguised as "insurance." Any insurance program should, therefore, be self-supporting over a reasonable period of time in accordance with basic insurance principles.

4. Any program of flood insurance should be designed to use to the greatest extent possible present insurance facilities. In common with the remainder of the private insurance industry, we would be glad to cooperate in every way in the administration of any program which Congress may enact.

5. Our efforts, and those of other insurance carriers, to develop a practical flood insurance program would be assisted by a modification of the tax laws to make it possible to accumulate reserves for catastrophic losses, such as those likely to result from flood, without having such reserves subject to tax as profits.

I think, Senator, that concludes our formal statement. I will be glad to answer any questions that I can.

Senator LEHMAN. Well, now, you make the categorical statement that any rates must be actuarially sound. What do you mean by a program that is actuarially sound?

Mr. KELLY. We mean, very simply, a program which over a long period of time will take in from the people insured sufficient in premiums to pay the losses and expenses involved in the program.

In other words, as we see it, insurance is a mechanism for spreading risk. It is a means of spreading loss over a large number of people exposed to loss and over a long period of time. But we feel that, given that long period of time, the premiums collected should in the last analysis pay the losses and the expense of running the program.

Senator LEHMAN. How would the Administrator—and both the bills provide for an Administration—go about establishing a firm actuarial base? Would it not be experimental under any circumstances?

Mr. KELLY. It very definitely will be experimental. And in establishing those first rates, although, as is provided in your bill, he would have the advice of a group of people who presumably were familiar with actuarial calculations, he has to make a number of assumptions which cannot be proven. He has to try and determine whether a recurrence, say, of the floods we had in the New England and Northeastern States this year will happen in 10 years, in 20 years, or will ever recur.

In other words, he might very well calculate that the flood control programs which will be separately enacted as a result of that disaster will be in place before there is a likely possibility of another occurrence, and he might then estimate the degree to which the loss would be reduced by such flood-control programs.

In other words, he will study not only the past. He will have the same job that any other insurance company does in trying to make a rate calculation. In establishing that first set of rates he has to make certain assumptions as to future experience that may turn out to be wrong. The rates which he charges may be higher than the

rates which you need to pay to the losses and expenses over a period of time. In such case, of course, the rates should be reduced as soon as is reasonably possible.

On the other hand, the rates may be too low. You may find as the result of, say, 10 years' experience that the basic assumptions on which the rates were established did not turn out to be right. For example, one of those assumptions will have to be on the number of people who will be willing to purchase this insurance. In all of the discussion it seems to me that the point has been made that this is a voluntary plan. No one is going to be forced to buy flood insurance. He is going to be given an opportunity to buy flood insurance. He still has the right to determine for himself whether the rate which is charged is one which he is willing to pay. And no matter how low you make the rate there will be some people who may feel that the exposure to loss of their property is such that they cannot afford or they do not want to pay it.

May I point out that we now operate in the field of fire and other hazards. There are some people who are still self-insured. We are operating in the industrial field. There are very large concerns today, including some of our largest, who do not purchase any insurance although it is available at rates which nearly everyone else thinks is reasonable. They do not because in the judgment of their directors the possibility of loss in their plants is, from the standpoint of sound business risk, so much less than the average that they are willing to be self-insurers and to pay from their own funds any losses which they may have.

Senator LEHMAN. I did not want to interrupt you.

Mr. KELLY. That is perfectly all right. I am afraid that is much too long a lecture anyway.

Senator LEHMAN. Is it not a fact that those who are self-insured make that choice largely because their risks are pretty widely separated? I mean I can see perfectly well why a company with 10 or 20 or 30 plants widely separated should say, "Well, we can take this risk ourselves because we are not going to be caught with fire in all our plants together all over or even a substantial number."

The State of New York has always taken that position. They have a great deal of property spread all over the State, of course, and they are self-insurers. When it came to war risk insurance they were very glad indeed to join in. But except for that, so far as fire or other catastrophe is concerned, they are self-insured. Is that not true with virtually all the companies that—

Mr. KELLY. Yes, I would say it is true in most cases, Senator. There are still some concerns which as an insurance man I think are taking much too large a possibility of loss in certain locations who nevertheless have exercised their judgment in deciding not to insure. And I know of a few cases—but not many I must concede—where substantial individual risks are self-insured.

Generally though you are entirely correct in saying that as an inherent part of a self-insurance program a concern needs to have some spread of risk within its own properties.

Senator LEHMAN. In your statement on page 1 you say:

Within the last 20 years we have widened our field to include mercantile and institutional risks which meet our standards.

It is not quite clear to me whether that includes flood insurance.

Mr. KELLY. No, Senator. You see, we started out in the textile field. The first companies Factory Mutual insured were all textile manufacturers. Then we moved into industry generally. Within the last 20 years we have gone into, as I say, the mercantile field, the wholesaler. We insure many wholesale hardware houses, for example. We insure many national distributors. And we have also gone into what we think of as institutional property, which are such risks as colleges, hospitals, and a large number of housing projects. I think one of our companies is one of the largest insurers of Federal housing projects.

We need to have a risk which is sufficiently large so we can economically apply it to our engineering service.

We write practically no business—we have a very small amount—on private residences, because the whole purpose of the Factory Mutual plan is to make available to the property owner a loss-prevention service, and when you are dealing with a small risk the unit premium at current rates is so small that it is not possible to do any engineering work in connection with such a risk.

Senator LEHMAN. Do you know of any insurance companies in this country that write flood insurance?

Mr. KELLY. Not on real property, Senator. I think it has been attempted once or twice. There has been some wave-wash insurance written by American companies in limited amounts. But by and large, subject to some qualifications, the statement can be properly made that flood insurance on real property at fixed locations is not now available.

Senator LEHMAN. Well, is there any insurance available on personal property?

Mr. KELLY. There is insurance—

Senator LEHMAN. Personal property insurance against loss—

Mr. KELLY. By flood?

Senator LEHMAN. That is right.

Mr. KELLY. There are now a number of types, and I think some of the testimony afforded your committee in the past has brought out the fact that there are some types of insurance on personal property against flood loss.

For example, I myself carry a personal property floater on my own household effects. It includes loss from flood. Many businessmen have floaters of various kinds which cover the flood hazard as well as other hazards. In such forms as the recently-developed manufacturers' output policy, it is possible to purchase a limited amount of flood insurance on personal property.

It apparently is the feeling of the business that on such personal property the flood hazard can be minimized through the fact that the property can be moved out of the path of the disaster. However, in the experience in the last flood it has shown there is an awful lot of it that does not get moved out of the path of the disaster, and flood losses have been very substantial.

Automobiles, for example, which are also personal property, are a conspicuous example of a type of property which is currently being covered by the insurance business against the flood hazard.

Senator LEHMAN. Specifically against the flood hazard or—

Mr. KELLY. No; they write what is called a comprehensive cover, which includes all risks, including flood, but there is no flood exclusion. In my own city of Providence, the losses suffered by the insurance companies on automobiles which were total losses as a result of the flooding of the city during the 1954 hurricane were very, very substantial.

Senator LEHMAN. Is this writing of comprehensive insurance on a selective basis, or can anybody come in and get it?

Mr. KELLY. No; it is not selective, Senator. As a matter of fact, it has come to the point where it is practically the only way against which physical damage to automobiles is insured. No one now would buy merely fire and theft coverage, which was the original coverage, because the difference in cost between fire and theft coverage and comprehensive coverage is very, very small. It has been found that if you can put this insurance or afford this insurance to everyone across the country and everyone buys it that the loss experience is well within the predictable limits and that it is possible for the business to handle this loss.

Senator LEHMAN. Well, that covers automobiles?

Mr. KELLY. Yes.

Senator LEHMAN. But how about residences? Would that be on a selective basis?

Mr. KELLY. In the residential field where you are, for example, writing the personal property floater, I think you will find that the companies are making some effort to underwrite their risks, and they would be a little reluctant to afford that insurance to a policyholder whose property was subject to regular, recurrent flooding.

Of course, Senator, I think that from an insurance standpoint, not thinking of it from the standpoint of your committee, it would definitely be the feeling that there are certain flood risks which are and will always be uninsurable. When I say that, the rate for such risks, because of the abnormal exposure to loss, would have to be so very high that no one would be willing to pay it.

There are certain risks which are uninsurable as far as fire is concerned for practical purposes. In other words, the risk represents such a loss exposure either by reason of its occupancy or its construction or the absence of any protection against fire loss that the rate has to be so high that such property is seldom insured.

The same thing could very well be the situation, although our own studies have not come to the point where we can say "Yes" or "No" with reference to flood insurance. That does not mean that the person who owns that property is being discriminated against by the fact that he cannot secure either under a Government plan or a private plan insurance against that particular hazard any more than the man who cannot buy fire insurance because his house is in such bad shape or the occupancy is so hazardous need feel he is being discriminated against.

Senator LEHMAN. Do you not think that if you could—this is a little bit a vicious circle—set a rate within the means of people to pay that it would attract so many people and spread the risk so widely that a low rate could be obtained or even possibly improved?

Mr. KELLY. Senator, that is the \$64 question. If our companies knew the answer to that one, we would be able to clarify our own thinking more than we have at the present time. We do not know.

We made a survey in 1951, and at that time, despite the very heavy losses that had been suffered, we found most of our policyholders were not seriously interested in flood insurance. We do not know whether if you offered them a program now they would be willing to pay even what you regard as a reasonable rate for it.

I am inclined to feel with you that if we set an actuarial rate based on our best calculations which might be higher than the rate you would think of as a reasonable rate the chance of selling the coverage would be reduced. But I do not know.

Senator LEHMAN. I gather from your statement that you feel that without a subsidy, Government subsidy, insurance against flood damage is impracticable?

Mr. KELLY. I do not, Senator. I may have seemed to hint in that direction. First of all, my companies are definitely against a subsidy in any program which might be adopted by the Government. We feel that there should be no subsidy. That is, we do not feel that, either by the Federal Government or the States, part of the cost of this coverage should be assumed by all of the taxpayers. We feel that the program should stand on its own feet and that the rates established should be over a long period of time.

You may say to me then: Does that not mean that most people will not buy it? I do not know. But our feeling and our position is simply this: If the rate is fairly set taking into account the fact that you do not expect to recover in a single year for the losses sustained in a major disaster, if you are dealing with a reasonable spread of risks geographically and in time, we feel that any program developed should carry its own weight, should pay its own way.

Senator LEHMAN. Well, what is the alternative? On the one hand you say that the insurance companies won't write insurance, won't give coverage against damage by floods, that the risk is too great, and on the other hand, you say that you are not in favor of any Government subsidies—call it by whatever name you want, it would be a Government subsidy—in order to make insurance available to people who deserve and are entitled to coverage at a reasonable rate. Now, what is left to us except to let these poor devils remain without any coverage at all, without any protection?

That does not seem to be sound.

Mr. KELLY. Unless they were offered an opportunity to buy that protection.

The complaint has been that insurance is not available. It is not now available from the private carriers. We are still studying it. I am in no position to predict what we will come up with. You are now proposing that there be a Government insurance plan. The only difference between—

Senator LEHMAN. Only if the insurance companies cannot—

Mr. KELLY. Agreed, only if the private insurance carriers are not able to come into the picture. And so set up it would both encourage private insurance and would provide perhaps reinsurance facilities for them if they were willing to embark on it—

Senator LEHMAN. That is right.

Mr. KELLY. With I think very fine provisions under which the whole program is reviewed at regular intervals to see whether we have now reached a position where the private carriers, having seen

a demonstration, can themselves come in and carry the loss. So far I do not think there is any substantial difference between us at all.

Now we come to this question of rate, and there we start going off, and perhaps the difference is more apparent than real. You feel that at the beginning of such a program, after an actuarial calculation of the proper rate has been made—and I think we are in agreement that different risks located with different exposures to loss should have different rates—you then want an arbitrary amount of that to be undertaken by or to be taken off the shoulders of the policyholders and assumed by the Government. In other words, we are saying that the hazard of flood causes such widespread damage to our people, that it is imperative that people be able to insure against it at a price they can pay even if that price is not enough to spread the loss, and that we therefore are going to set up a program of this kind.

Senator, the same argument could be well advanced against every other hazard against which we now insure. We have had many very substantial windstorms in the United States in the past few years.

Senator LEHMAN. But you can insure against them.

Mr. KELLY. Yes; but we insure against them on the basis where the premium paid over a reasonable period of time will pay the losses and the expenses of carrying on the program. There are some people who say that the cost of insuring against windstorm is now too great. I am told in my own New England that there are some people who are now dropping their windstorm coverage because they are unwilling to pay the premium.

I think that the argument which you have advanced—and this I would oppose and I think so would everyone else in the insurance business—which you have made with reference to a single peril is equally applicable to loss from every other cause.

Senator LEHMAN. Well, I think it may be. That is why in my bill I provided for further study to see whether we should include other natural disasters.

At the moment we believe that flood damage insurance is the most pressing problem, and, therefore, we are concentrating on that. But we are certainly not closing the door to other matters.

Let me ask you this: You and some of our other witnesses are shrinking away from the use of the term "insurance." If this proposal was called something else than "insurance," would you still have an objection to a subsidy?

Mr. KELLY. I do not believe so, Senator. I think the real reason we are shrinking away from the use of the term "insurance" is that we hate to contemplate a plan under which a program labeled an "insurance program" is really not in that category and part of the cost is being made up by the Government. We think that if the term "insurance" is used someone might feel, as I have just been discussing with you, that the same basic principles could be applied to all other types of insurance and that in all of those other cases people who found it difficult to pay the premium required on an actuarial basis should also have the help of a Federal subsidy in paying the premium.

I think that if Congress wishes to enact a program—and I think several such programs have been discussed—under which there would be provision made for the relief of people who suffered flood damage, there could be no objection to it.

But there is one important point here which I am sure troubles you as it troubles me. Any such program has to be based on the assumption that the individual concerned is not able to look after himself.

You see, when we are discussing an insurance program—and let's just discuss it with reference to those people whom we do not insure, the residences, the homeowners. I heard Mr. Riley discuss and felt a great deal of sympathy for the position of his group, the workers in Connecticut whose houses—representing a substantial part of their means—were swept away in the flood. But in the same block of houses you might have one that was owned by a man who is working in the foundry of American Brass at Naugatuck, another that is owned by someone who is perhaps an executive of the same company. You might have another one that is owned by a widow whose husband is dead and who is dependent entirely upon such insurance as he left her. And you might have another which is owned by, let us just say, a lawyer in town who has had a very good practice.

Those people are not in the same position with reference to their ability to pay insurance premiums.

I think the point that was discussed with reference to your bill when Mr. Riley was testifying is one that needs careful thought. If you are trying to determine what is a reasonable premium, what is a premium that these people can afford to pay, each one of them really falls in a different group.

Senator LEHMAN. Now you are getting into the field of individual differences, and that is not intended at all. We are taking the American public as a group.

Mr. KELLY. I agree with you.

Senator LEHMAN. Frankly, we are giving very careful consideration to this matter—

Mr. KELLY. But there—

Senator LEHMAN. May I finish?

Mr. KELLY. Surely.

Senator LEHMAN. We are giving careful consideration to the man of small-earning capacity and small means who just cannot possibly protect himself.

There is no thought in the mind of anybody in making a difference in the rate between John Smith at No. 10 Avenue B and Tom Brown at No. 12 or No. 14, regardless of the personal resources of those two men. It is on a broad basis. I mean I think there has been a lot of confusion on that point, and I think it is unfortunate that that point, which is completely unsupportable, has been raised in this thing—

Mr. KELLY. But, Senator, I—

Senator LEHMAN. There is no such thought at all.

Mr. KELLY. Yes, sir.

Senator LEHMAN. We do, as I said a little while ago—I imagine you may have heard me—make a difference in the rate based on the difference in the risk involved.

Mr. KELLY. Yes, sir.

Senator LEHMAN. That is sound, completely sound.

Mr. KELLY. No question about it.

Senator LEHMAN. But I do not care what the means of a man are or his ability to pay as an individual. Of course you cannot do that.

Mr. KELLY. You see, that comes to my basic point. If we do this under the guise of an insurance program, all of those people whose property is there equally enjoy the Government subsidy, because their rate takes into account the fact of the risk to which their houses are exposed. Just to name a figure out of the air as was I believe in one of the bills, Senator Bush's bill, 40 percent of the cost would be paid by the Government. That means that I would enjoy it, the man down the block who has a smaller house, and perhaps whose means are not as great as mine would also enjoy it to the same degree. Because my house is more valuable than his, I would really get a bigger subsidy in dollars than he would.

On the other hand, if you set this up as a relief program and leave the insurance angle out of it, then you are in a position where you can give relief to those people who need it. And in that case, suppose that we both suffered \$1,000 in damages as a result of a flood, myself and John Doakes down the block. That leaves me paying it and it leaves John in a position where if he needs help he can get help. I have no complaint with that at all.

Senator LEHMAN. Well, I gather that you object to the term "insurance"—

Mr. KELLY. I am afraid most—

Senator LEHMAN. For fear that it may affect the insurance business in other lines.

Mr. KELLY. Very definitely, sir.

Senator LEHMAN. I hope it never will, because I hope the insurance companies themselves will be able to do this business. But they are not able to do it. I say they are not able. Maybe they are not willing to do it. I do not know.

Mr. KELLY. I do not think we know quite yet.

Senator LEHMAN. But, at any rate, there is no insurance available. This proposal is not just a matter of relief or a gift. The man who takes out this insurance policy will still have to pay a premium, not necessarily the actuarial premium based on actuarial computations, but he nonetheless will pay a premium.

On the testimony of the insurance companies—some of them—it has been demonstrated that the rate would have to be very high. We feel that that could not be borne by the property owner, and, therefore, we say if necessary the Government will give a subsidy which will reduce the rate to reasonable dimensions.

Subsidies are nothing new in this country, you know. We give subsidies to a great many industries. You enjoy those, the benefit of those subsidies, and the fellow who is making \$40 or \$50 a week enjoys them too to a certain extent. But they are subsidies nonetheless. I think in many cases they were not only justified but necessary.

All we are proposing here is to give a subsidy. The amount of the subsidy is indefinite and it must be indefinite until this thing has been worked beyond purely an experimental basis for a year or two. But I have always said this cannot be done without Government subsidy, and it cannot be. I am more convinced than ever of that.

But I think that it is a subsidy that is justified for the protection of the citizens of the country. Nobody is forced to do this, to take out the insurance, but he can take it out. Sometimes the fellow may be surprised that disaster hits his area when he is not expecting it. He has the right to protect himself against that.

I really think that what you are afraid of is the word "insurance," and I have been perfectly frank in saying that while this is insurance certainly—I would not change the term—it nonetheless presupposes and necessitates a subsidy.

Mr. KELLY. Well, I think I have made my point clear, Senator.

Senator LEHMAN. You have.

Mr. KELLY. I do not agree, and there is no sense in exploring it further between us. I think you might find some interesting testimony on the same point from the other insurance men who will appear before you within the next week or so.

Senator LEHMAN. Well, now, let me ask you this. These are based on assumptions.

Mr. KELLY. Surely.

Senator LEHMAN. I want your evidence as an experienced insurance man. Assuming there must be a limit per policy contract—and both bills have said that—do you think it would be more advisable to place this limit on a per property rather than on a per person basis?

Mr. KELLY. I would think definitely on a property, on a location, rather than a person basis.

Senator LEHMAN. Do you have any opinion on the practicability of requiring State participation in the writing of each insurance contract issued by the Government under a program such as those proposed in the bills pending before the subcommittee?

Mr. KELLY. Senator, in view of the fact that I have taken such a strong position against any subsidy or participation, I think I will have to say I was against a State participation. As to whether or not—

Senator LEHMAN. Wait a minute. You are against both Federal and State. Let us assume now there is going to be a subsidy.

Mr. KELLY. I would imagine the bill—

Senator LEHMAN. Can you express any opinion as to the practicability of having the States assume part of that?

Mr. KELLY. Speaking only for myself—this question has not been considered by our companies—I would think a single Federal subsidy would be far more workable, because of the fact that you would have to wait for legislation in all of the States. From my experience with State legislatures, I doubt that you would get uniform action by all of the States within a reasonable period of time.

Senator LEHMAN. If the Government offered a reinsurance program—and I very much hope they will—would your group be willing to write insurance against loss due to water component of hurricanes on the specialized types of industrial property normally covered by policies issued by members of your group?

Mr. KELLY. I think, Senator, we would have to study the Government's plan when it was out. I can say that we would give it very careful attention to see whether it would be possible for us to provide insurance on the basis which you outline.

I cannot now say that we would or would not because we would have to know just exactly what the conditions were.

Senator LEHMAN. Well, this is also an "iffy" question, because I fully understand and I respect your reservations with regard to this. But assuming now that a bill is enacted, do you believe it more advisable to let the agency administering this program determine how much

of the total protection will be made available in the form of insurance or indemnity on the one hand—that is, straight insurance or indemnity on the one hand—and how much will be made available in the form of reinsurance on the other hand, rather than have the statute earmark top limits for each of these two types of protection?

Mr. KELLY. Senator, I have a definite opinion on that. If this bill is to be enacted, I think you should have a single, overall limit which the Administrator can use in either field. I think you have made it clear that you would prefer a plan under which the private insurance companies through their present machinery offered such protection with the help of Government reinsurance. It is impossible to determine yet what way the plan will work out, and you should therefore enact your bill to give the greatest possible flexibility.

In other words, the Administrator should have an overall amount which is the limit Congress is willing to set and then should be able to use it either through a program of direct Government insurance or through reinsurance of private carriers, whatever develops at the time. He may want to switch as the program develops.

In other words, it might start as basically a program of direct Government insurance administered through private carriers, and then as the private carriers perhaps became more familiar with it there would be the possibility of a switch in the program over a period of years, so that my only suggestion would be to make the bill as broad in its terms as is possible on that point so that the Administrator would have the greatest possible freedom of action.

Senator LEHMAN. I want to emphasize before you leave something that I have said very frequently during these hearings. And that is that it is not the intention of this committee—I think I am safe in saying it will not be the intention of the Congress—to compete with the insurance companies. That we will be delighted to have the insurance companies take over and operate this whole plan if they are willing or able to do it.

There is, I think, some fear in the minds of some people that this is another competition of Government with private industry. It is certainly not that.

We are anxious—I am anxious, and I speak for at least some of my fellow members on this committee—to see that means are made available at reasonable prices through which a property owner can protect himself. But that is our only desire. We certainly do not wish to compete with the insurance companies. We will surrender the field in this kind of insurance very, very cheerfully and willingly to the insurance companies if and when the day arises that they are able to handle this thing.

I want to thank you very much indeed, Mr. Kelly, for coming here. I have differed with you, as is obvious, on some parts of your testimony, but I want to thank you for your cooperation. You have been very cooperative, not only here as a witness but during the consideration of this legislation at other times, and your testimony today is very helpful and I am sure will be read with a great deal of interest by the members of the committee.

Mr. KELLY. Thank you, Senator.

Senator LEHMAN. The last witness today is Mr. Arthur D. Condon, representing Trucking Industry, Inc.

Mr. Condon.

STATEMENT OF ARTHUR D. CONDON, GENERAL COUNSEL, INDEPENDENT ADVISORY COMMITTEE TO THE TRUCKING INDUSTRY, INC.

Mr. CONDON. Good morning, Senator. Senator, I have a brief prepared statement which I will read if I may.

Senator LEHMAN. If you will. Will you proceed?

Mr. CONDON. May I express the appreciation of the organization I represent for the opportunity you are affording me as its spokesman to testify here before your honorable committee.

The organization is the Independent Advisory Committee to the Trucking Industry, a labor-management group known as ACT. The principal directors include Mr. Dave Beck, who, as general president of the International Brotherhood of Teamsters, represents labor; Mr. Roy Fruehauf, a leading manufacturer who is president of the Freuhauf Trailer Co.; and two leading truck owners and operators, namely, Mr. Walter F. Carey, board chairman of the American Trucking Associations Foundation, and Mr. B. M. Seymour, president of Associated Transport, Inc.

Within very recent days a rather large number of statements of scientists, administrators, and other interested people have been widely publicized in the press and magazine stories challenging the adequacy of the Nation's civil-defense readiness.

Senator LEHMAN. Mr. Condon, I am afraid I will have to get down to the floor, because I think there are some votes down there. I would therefore like to recess until 3 o'clock this afternoon—

Mr. CONDON. Surely.

Senator LEHMAN. Because I am afraid we will not be able to get through.

Mr. CONDON. Actually the statement is very brief. I was not going to read the appendix.

Senator LEHMAN. Maybe you would read this and then place the balance in the record.

Mr. CONDON. Yes, sir.

Senator LEHMAN. That would obviate the necessity of having it all read.

Mr. CONDON. It will take about 2 or 3 minutes more. Is that all right?

Senator LEHMAN. Yes. You may proceed.

Mr. CONDON. I spoke of the challenge to the adequacy of the Nation's civil-defense readiness. Actually, the degree of readiness depends upon the extent of cooperation from the trucking industry. This is so because, beginning at the time the widespread disaster effects of the H-bomb were recognized several years ago, the civil-defense policy changed from the basic plan of having city people go underground in time of a threatened or actual bombing attack to a program for evacuating our cities. The percentage of people of any metropolitan area which could be removed in advance of an attack would, of course, depend in the first instance upon the amount of advance warning. But it would also depend upon the speed with which trucks and other highway transport could be diverted from their normal operations and employed in the transportation of people, and in supplying the necessities of life to the evacuated people during the period they would have to remain away from their homes.

The Independent Advisory Committee to the Trucking Industry represents the trucking industry in working with the Federal Civil Defense Administration authorities and other officials engaged in this work at State and municipal levels.

Several of the insurance problems which would arise under threat of a hostile attack, or actual attack, and the consequent employment of trucks are dealt with in the bills under consideration here, but not all. Let us see what would actually happen in such an event, which might occur at any time as we understand it.

In the first place, an attack on this country would inevitably place upon the trucking industry the burden of national transportation, for the in-place marshaling yards necessary for the operation of the mass transportation facilities of the railroads are extremely vulnerable to nuclear attack. Trucks on the other hand offer flexible, easily dispersed facilities which will of necessity become the principal means of insuring continuing national effort.

Take the particular case of a large truck-trailer loaded with merchandise stopped by the military or the police or someone else working for the local civil defense authority. The vehicle is wanted to transport people quickly. In many circumstances, the cargo would have to be dumped on the side of the road. The services of the truckdriver would be needed because of his skill and experience and his familiarity with the particular vehicle.

At that point, I am sure we are all in agreement that the driver is entitled to two things. Assuming that his own family is in the area to be evacuated, he must feel assured that his family is being taken care of. The arrangement with civil defense provides for an official to be in charge of personnel for an operation of this type. This arrangement provides for looking after the families of truckdrivers and is a source of reassurance to the drivers themselves. But the truckdriver also should have insurance covering injuries which he may suffer while working for civil defense, and insurance to protect him against claims for personal injuries and damages made against him while engaged in civil-defense activities.

In the situation I referred to involving commandeering of a truck for civil defense, insurance covering the merchandise in the truck, and also covering damages which might be inflicted by the truck during its use by civil defense, are necessary and cannot be provided through normal insurance channels.

Then too, there is the broader question as to insurance covering injuries and damages to other persons and property caused by the personnel and property being operated under civil defense, including injuries and damages for persons and property serving under civil defense. In response to an earlier committee request, a draft of a suggested bill modeled to some extent after the War Damage Corporation provisions of previous statutes was submitted to this committee's staff and is attached hereto as an appendix to this statement.

I realize that the contemplation of mass evacuation of an American city may well conjure a fear of incredible panic and chaos in which the highways and streets would become choked with struggling people to the point where they would be impassable and all medical and other vital services would be blocked off. We realize that a great deal of education must take place promptly if this program is to work. Tests are being made and continue to take place. There is no substitute for

the role of the trucking industry in the civil-defense program. It seems obvious that the kind of insurance referred to in this statement is essential.

We desire to make it clear that we do not know to what extent, if any, private insurance either approves or disapproves the submitted draft. We do believe that the problem properly belongs in the study your committee is making. Although representatives of several segments of private insurance have participated to some extent in the discussions which led to this draft, there has not been time to obtain the views of the private insurance industry as a whole on the draft. It is considered of primary importance that the matter be brought to your committee's attention.

Senator LEHMAN. Thank you very much, Mr. Condon. Your statement with the proposed draft bill and your September 23, 1955 letter explaining it will be placed in the record.

Mr. CONDON. Thank you, sir.

(The material submitted by Mr. Condon follows:)

DAVIES, RICHBERG, TYDINGS, BEEBE & LANDA,
Washington, D. C., September 23, 1955.

SENATE BANKING AND CURRENCY COMMITTEE,

Senate Office Building,

Washington, D. C.

(Attention : William F. McKenna, esq., Counsel.)

GENTLEMEN: Pursuant to the conversation the undersigned had with Mr. McKenna, the enclosed draft of a bill is submitted herewith with the request on behalf of the Independent Advisory Committee to the Trucking Industry, Inc., that the bill be considered as part of the study of Government participation in disaster insurance being made by a subcommittee headed by Senator Lehman.

For the further information of your committee a summary of the background leading up to the preparation of this draft will be set forth as follows. Beginning about 2 years ago at the time the widespread disaster effects of the A-bomb were publicized, the Federal Civil Defense Administration policy changed from a plan to have city people go underground in time of a bombing attack or threat of such attack, to a program for evacuating cities in advance of such attack. This program for speedy evacuation, and its concomitant plan for supplying the necessities of life to the people evacuated during the period they would have to remain away from their homes, has been built around the trucking industry as the major transportation factor. The Independent Advisory Committee to the Trucking Industry (known as the ACT Committee), a labor-management group, is the trucking industry representative in working with the Federal Civil Defense Administration authorities and other officials engaged in that work at State and municipal levels.

From the beginning of the meetings between Federal and ACT Committee representatives it was recognized that insurance protection for the personnel and property to be utilized in connection with evacuations and subsequent supply missions constituted a vital consideration. A study of war risk insurance, the activities of the War Damage Corporation, and other Federal legislation of the past, particularly during the two world war periods, were studied, as was the legislation under which these organizations functioned. None of these former insurance provisions met the needs of today's potential A-bomb attacks and threats of attack.

The scope of the insurance problem presented in anticipation of A-bomb attacks or threats thereof can be brought to mind by visualizing what would actually occur. For example, at some point the civil defense authorities (and they might actually be policemen or soldiers acting at the moment under the authority of Federal Civil Defense) would, in effect, commandeer trucks to be used for evacuating people and vital supplies. The freight on board these trucks would be dumped off on the side of the road. The truck drivers would be ordered to operate their trucks under directions of the civil defense authorities. It is obvious that adequate insurance coverage must exist for the protection of the truck drivers, the trucks, and the unloaded freight during the period of operation under civil defense. We submit that it is essential that Federal legislation be

adopted promptly providing this type of insurance, and that the existence of these insurance provisions be widely publicized as soon as they become law. These steps are essential to the degree of cooperation which civil defense evacuation plans demand of the personnel and equipment owners.

In this letter reference has been made to just a few of the practical eventualities which must be insured against under the civil defense plans. Another facet is insurance covering injuries and damage to other persons and property caused by the personnel and property being operated under civil defense, including injuries and damage to persons and property also being utilized by civil defense in the operation.

We would like to make it clear that we don't know at this time to what extent, if any, the private insurance business of the country approves or disapproves of the proposed legislation. Representatives of several segments of private insurance are serving on the Insurance Committee of the ACT Committee and have participated to some extent in discussions which led to this draft. However, we believe that this problem properly belongs in the study your recently created subcommittee is going to make and there isn't time between now and your subcommittee's deadline for obtaining the views of the private insurance groups on the proposed bill.

It is requested that the Independent Advisory Committee to the trucking industry be afforded an opportunity to testify before your subcommittee on the subject covered in this letter.

Sincerely,

ARTHUR D. CONDON.

DRAFT

A BILL To establish the War Damage Corporation to insure against loss of or damage to property, real and personal, which may result from enemy attack, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That—

(a) There is hereby created a War Damage Corporation (hereinafter referred to as the "Corporation") which shall insure, as hereinafter provided, against loss of or damage to property, real and personal, and loss of life or injury to persons engaged in Civil Defense activities while under the direction of the Administrator of Civil Defense which may result from enemy attack, or threat thereof.

(b) The management of the Corporation shall be vested in a board of directors consisting of three members, one of whom shall be the Comptroller of the Currency, and two of whom shall be citizens of the United States to be appointed by the President, by and with the advice and consent of the Senate. One of the appointive members shall be the chairman of the board of directors of the Corporation and not more than 2 members of such board of directors shall be members of the same political party. Each such appointive member shall hold office for a term of seven years and shall receive compensation at the rate of \$17,500 per annum, payable monthly out of the funds of the Corporation, but the Comptroller of the Currency shall not receive additional compensation for his services as such member. In the event of a vacancy in the office of the Comptroller of the Currency, and pending the appointment of his successor, or during the absence of the Comptroller from Washington, D. C., the acting Comptroller of the Currency shall be a member of the board of directors in the place and stead of the Comptroller. In the event of a vacancy in the office of the chairman of the board of directors, and pending the appointment of his successor, the Comptroller of the Currency shall act as Chairman.

(c) There is hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, the sum of \$150,000,000, which shall be available for payment by the Secretary of the Treasury for capital stock of the Corporation, which shall be subscribed for by him on behalf of the United States. Payments upon such subscription shall be subject to call in whole or in part by the board of directors of the Corporation. Receipts for payments by the United States for or on account of such stock shall be issued by the Corporation to the Secretary of the Treasury and shall be evidence of the stock ownership of the United States. Such stock shall have no vote and shall not be entitled to the payment of dividends.

(d) The Corporation shall have power—

First: To adopt, alter, and use a Corporate seal.

Second: To have succession until dissolved by an Act of Congress.

Third: To make contracts.

Fourth: To use its funds to provide through insurance, reinsurance, or otherwise,

(i) Reasonable protection against loss of or damage to property, real or personal;

(ii) Reasonable protection against such liability as may exist under any workmen's compensation or occupational disease act, or by way of employer's liability for injury, disease or death suffered by employees and arising out of or in the course of employment;

(iii) Reasonable compensation for personal injury or death suffered by any civil defense worker in the performance of civil defense activities under state civil defense programs;

(iv) Reasonable protection against such liability for loss of life or injury to persons and loss of or damage to property, real or personal, as may result and exist from actions taken by the Administrator of Civil Defense, State Civil Defense Authorities, or those operating under his or their direction; and

(v) Subject to the authorizations and limitations prescribed in Section (d) (iv) any loss of life or injury to persons and loss of or damage to property, real or personal, as may result and exist from actions taken by the Administrator of Civil Defense, State Civil Defense Authorities, or those operating under his or their direction, shall be compensated by the Corporation without requiring a contract of insurance or the payment of premium or other charge, and such loss, damage or injury may be adjusted as if a policy covering such property or life was in fact in force at the time of such loss or damage; which may result from hostile or warlike action, including action in hindering, combating, or defending against an actual, impending, or expected attack, by any government or sovereign power, or by any authority using military, naval, or air forces; or by military, naval, or air forces; or by an agent of any such government, power, authority, or forces; and any action taken by the military, naval, or air forces of the United States in resisting enemy attack or any action taken by the Civil Defense Administrator or those acting under him, in the event of enemy attack, or threat thereof; with such general exceptions as the Corporation, with the approval of the President, may deem advisable. Such protection shall be made available upon the payment of such premium or other charge, and subject to such terms and conditions, as the Corporation, with the approval of the President, may establish, but, in view of the national interest involved, the Corporation shall from time to time establish uniform rates (A) for each type of property with respect to which such protection is made available, (B) for such workmen's compensation reinsurance, (C) for compensation for personal injury or death suffered by civil defense workers with respect to whom such protection is made available, and, in order to establish a basis for such rates, the Corporation shall estimate, from time to time, the average risk of loss on all such property of such type in the United States, from all such workmen's compensation reinsurance, and on all such compensation. Such protection shall be applicable only (1) to such property situated in, or such liability under the laws of, or such personal injury or death of a civilian defense worker occurring in, the United States, the several States, the District of Columbia, the Canal Zone, the Territories and possessions of the United States; (2) to such property in transit between any points located in any of the foregoing; and (3) to all bridges and tunnels between the United States and Canada and between the United States and Mexico: *Provided*, That such protection shall not be applicable to property in transit upon which any agency of the Government is authorized to provide marine war-risk insurance. The Corporation, with the approval of the President, may suspend, restrict, or otherwise limit such protection in any area to the extent that it may determine to be necessary or advisable in consideration of the loss of control of such area by the United States making it impossible or impracticable to provide such protection in such area. The Corporation, with the approval of the President, may provide such limitations and general exceptions with respect to classes of property protected, such workmen's compensation reinsurance, such personal injury or death of a civilian defense worker and other matters as the Corporation may deem necessary or desirable.

Fifth: To sue and be sued, complain and defend, in any court of law or equity, State or Federal.

Sixth: To appoint by its Board of Directors such officers and employees as are not otherwise provided for in this section, to define their duties, and to delegate such powers as may be appropriate to carry out such duties, and to require bonds of them and fix the penalty thereof: *Provided, however* That all employees on the payroll of the Corporation shall have been appointed and shall be compensated in accordance with the Civil Service Act and the Classification Act of 1949.

Seventh: To prescribe by its Board of Directors, bylaws not inconsistent with law, regulating the manner in which its general business may be conducted, and the privileges granted to it by law may be exercised and enjoyed, and to amend and repeal bylaws governing the conduct of its business and the performance of the powers and duties granted to or imposed upon it by law.

Eighth: To exercise by its Board of Directors, or duly authorized officers or agents, all powers specifically granted by the provisions of this section and such incidental powers as shall be necessary to carry out the powers so granted.

Ninth: To prescribe by its Board of Directors such rules and regulations as it may deem necessary to carry out the provisions of this section.

Tenth: To invest money of the Corporation not otherwise employed in obligations of the United States in or in obligations guaranteed as to principal and interest by the United States.

Eleventh: To acquire, in any lawful manner, any property—real, personal, or mixed, tangible or intangible—to hold, maintain, use and operate the same; and to sell, lease, or otherwise dispose of the same, whenever any of the foregoing transactions are deemed necessary or appropriate to the conduct of the activities authorized by this act, and on such terms as may be prescribed by the Corporation.

Twelfth: to execute all instruments necessary or appropriate in the exercise of any of its functions.

Thirteenth: To use the United States mails in the same manner and under the same conditions as the executive departments of the Federal Government.

Fourteenth: To settle and adjust claims held by it against other persons or parties and by other persons or parties against the Corporation.

Fifteenth: To take such actions as may be necessary or appropriate to carry out the powers and duties herein or hereafter specifically granted to or imposed upon it.

Sixteenth: To deposit the funds of the Corporation with the Treasurer of the United States in an account marked with the name of the Corporation.

Seventeenth: To issue, whenever in the judgment of the Board of Directors additional funds are required for the purpose of carrying out its functions with respect to insurance and have outstanding its notes, debentures, bonds, or other obligations, in a par amount aggregating not more than three times the amount received by the Corporation in payment of its capital stock. The Secretary of the Treasury is authorized and directed to purchase such obligations and may, at any time, sell any of such obligations of the Corporation. All redemptions, purchases, and sales by the Secretary of the Treasury of the obligations of the Corporation shall be treated as public debt transactions of the United States.

(e) Upon the dissolution or liquidation of this Corporation by Act of Congress, all funds belonging to the Corporation shall revert to the United States, after payment of all necessary expenses of liquidation including refunds to insureds for unearned premiums.

(f) The Corporation shall annually make a report of its operations to the Congress as soon as practicable after the 1st day of January in each year.

(g) The Corporation, including its franchise, its capital, reserves, surplus, and income, shall be exempt from all taxation (which shall, for all purposes, be deemed to include sales, use, storage, and purchase taxes) now or hereafter imposed by the United States, or any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority, except that any real property (or buildings which are considered by the laws of any State to be personal property for taxation purposes) of the Corporation shall be subject to State, Territorial, county, municipal, or local taxation to the same extent according to its value as other real property is taxed.

(h) The Corporation shall contribute to the civil-service retirement and disability fund, on the basis of annual billings as determined by the Civil Service

Commission, for the Government's share of the cost of the civil-service retirement system applicable to the Corporation's employees. The Corporation shall also contribute to the employees' compensation fund, on the basis of annual billings as determined by the Secretary of Labor, for the benefit payments made from such fund on account of the Corporation's employees. The annual billings shall also include a statement of the fair portion of the cost of the administration of the respective funds, which shall be paid by the Corporation into the Treasury as miscellaneous receipts.

Senator LEHMAN. Thank you very much for coming here.

The committee will certainly give careful study to your proposal.

Mr. CONDON. Thank you.

Senator LEHMAN. The committee will now stand recessed until Tuesday, February 21, at 10 o'clock.

(Whereupon, at 12:20 p. m., the subcommittee recessed, to reconvene at 10 a. m., Tuesday, February 21, 1956.)



FEDERAL DISASTER INSURANCE

TUESDAY, FEBRUARY 21, 1956

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
SUBCOMMITTEE ON SECURITIES,
Washington, D. C.

The subcommittee met, pursuant to recess, in room 301, Senate Office Building, at 10:10 a. m., Senator Herbert H. Lehman (chairman of the subcommittee) presiding.

Present: Senators Lehman, Robertson, Ives, and Bush.

Senator LEHMAN. The hearing will come to order, please.

Our first witness is Senator Kuchel of California. We are very glad you are here, Senator.

STATEMENT OF THOMAS H. KUCHEL, A UNITED STATES SENATOR FROM THE STATE OF CALIFORNIA

Senator KUCHEL. Thank you very much, Mr. Chairman.

Senator LEHMAN. This is of great interest.

Senator KUCHEL. Mr. Chairman, in the state of the Union message, the President of the United States said:

A modern community is a complex combination of skills, specialized buildings, machines, communications, and homes. Most importantly, it involves human lives. Disaster in many forms—by flood, frost, high winds, for instance—can destroy on a massive scale in a few hours the labor of many years.

Through the past 3 years, the administration has repeatedly moved into action wherever disaster struck. The extent of State participation in relief activities, however, has been far from uniform and in many cases has been either inadequate or nonexistent. Disaster assistance legislation requires overhauling, and an experimental program of flood-damage indemnity should be undertaken. The administration will make detailed recommendations on this subject.

On January 5, Mr. Chairman, I was delighted to join with the senior Senator from Connecticut, Mr. Bush, and others in introducing a series of bills, one of which provided for disaster insurance legislation. That legislation confined disasters to be covered by indemnity legislation to floods. At that time I said in the Senate:

The Senator from Connecticut is rightly concerned with floods. So am I. But I am also going to ask this Congress to include in disaster insurance legislation provision for the people in this country to buy, upon the same basis that they would purchase flood insurance, insurance against the tragedies which the people of my State have suffered from time to time when earthquakes have destroyed great communities and large areas in California and elsewhere in the West.

After almost every widespread disaster caused by nature in this country, the problem of insuring the American people against serious

economic losses through unpreventable and uncontrollable forces has caused study and discussion. Unfortunately, there never has been any followthrough resulting in creation of a system which would enable our Nation to obtain coverage in advance of catastrophes. It is very heartening to know that this subcommittee and a companion group in the House are working seriously on legislation proposed to meet this desperate need.

The urgency of affording financial protection against the ravages of floods now seems to be generally recognized. This has come about for several reasons, including the mushroom growth of communities in all sections of our country, the seeming change in the pattern of devastating hurricanes, and the realization that flood-prevention and stream-control works cannot be constructed to meet every possible eventuality.

I am extremely desirous to participate in the enactment of a law that will fill the gap in our comprehensive system of insurance against accidents to persons and property. The people of the United States have devised through the years a most admirable and commendable insurance system which takes care of almost every conceivable variety of calculated risk. The glaring weakness, which this committee is trying to correct, is in protection against forces of nature.

Recurrently, different parts of the United States have sustained tragic and great losses through floods. The devastation resulting from torrential downpours has not been confined to any area, as was so shockingly clear last year when hurricanes and tropical storms ravaged the Atlantic coast and unprecedented unseasonable storms smashed the Pacific coast.

In coming here this morning, I have two purposes, Mr. Chairman. I want to urge this subcommittee to write and recommend to the Senate a comprehensive bill providing protection against future flood losses, and I wish to ask specifically that such legislation be broad enough to cover another and often more terrible type of natural catastrophe, earthquakes.

While I have seen personally the devastation which can be wrought by rampaging rivers and streams, I desire to suggest that the extent of losses from floods often can be reduced through advance warnings. It is physically possible to track storms, measure rainfall, and predict heavy runoff, although it is not practicable to evacuate entirely areas where floods may strike.

The threat of earthquake damage, Mr. Chairman, cannot, however, be anticipated in any degree. Instead of being a visible menace such as rain and snow, the shudders and thrusts and twists of the earth which often destroy substantial buildings and break highways, water and sewer systems, power and communications lines, and other works strike without the least or slightest warning.

The science of seismology has not yet reached the point where any countermeasures can be taken except to adopt, to apply, and to enforce building codes calling for extraordinary techniques and generally increased expenditures in areas where history shows earthquakes are most likely to occur.

The area of the United States from which I come is, of course, one of the most active earthquake zones on the face of the globe. My home State has suffered no less than 25 destructive quakes in the past 50 years. The records of the United States Coast and Geodetic Sur-

vey, which admittedly are neither complete nor up to date, show California suffered between 1810 and 1948 a total of 15 shocks officially classed as "great." There were between 1800 and 1948 another 36 termed "very strong."

The official scientific classification is not, however, a true indication of the damaging effect. The Long Beach quake of 1933, which I saw, Mr. Chairman, is described as "not of major magnitude" but is officially cataloged, nevertheless, as "the second most destructive shock" in American history. Damage was officially estimated at \$40 million and 115 lives were lost. Since records have been kept, hardly a part of the State of California has escaped the effect of contortions of the earth. The Coast and Geodetic Survey records show quakes have been felt from San Diego and the Mexican border to the Oregon line.

I want to mention just a few of the more damaging tremors which are on record. Less than 4 years ago, in the summer of 1952, damage of at least \$50 million was done in the area around Bakersfield in Kern County by what is termed the largest earthquake since the tragedy at San Francisco, the quake and fire of 1906. Damage estimated at \$25 million was done by shakes in the Olympia-Tacoma area of neighboring Washington in 1949. Extensive damage, especially to irrigation and reclamation works, was sustained when a series of earthquakes in the summer of 1954 hit upward of 130,000 square miles of neighboring Nevada. During the past several months shudder after shudder has stirred the Imperial Valley. And just last week when I was in Los Angeles we experienced several minor quakes which, however, did trifling damage.

My desire to obtain insurance protection against earthquake damage naturally stems from the fact that so much of my own State lies along one of the greatest and best known faults in the entire face of the earth. However, I wish to emphasize that the sleeping giant in the bowels of this planet can vent his wrath almost anywhere in our Nation.

I am sure members of this subcommittee, Mr. Chairman, will be as impressed as I was to find that the Coast and Geodetic Survey has recorded earthquakes in 44 separate States of the Union. At least one measurable quake has occurred in every State represented by members of your subcommittee. The greatest number shook the State of the chairman. New York has had 16 recorded quakes between 1900 and 1946, and 1 in 1944 was felt over 175,000 square miles.

Fortunately for our Nation, the bulk of earth shudders are not severe and the overwhelming number of heavy quakes has been observed in relatively unpopulated sections. Cases of minor damage are common, generally limited to broken glass, cracked walls, tumbled dishes and groceries. Furthermore, scientists and engineers have increased their knowledge of the nature of shocks and quivers of the earth and observed the resistance of various building materials and different construction methods, so that the danger is constantly being reduced.

California, for example, as a result of the several earthquakes surrounding the Long Beach disaster, by law provided for building restrictions with respect particularly to public buildings and especially to the new construction of schoolhouses in California, to cope with that problem.

However, just as New England and New York went untouched by hurricane for over a century and now seem to be in the direct path

of recurrent major disturbances from the tropics, damage from earthquakes is entirely possible—on the basis of official records—at almost any point in the entire country. There is no way of estimating what damage would have been done, how much loss would have been sustained, if some city on the Atlantic seaboard had been hit by the contortions of the earth in 1925 instead of Santa Barbara and Ventura 3,000 miles across the continent.

In view of the recorded seismological history—a total of 390 tabulated by the Coast and Geodetic Survey in the first 46½ years of this century—I submit there is every reason to include earthquakes in the list of natural disasters covered in the insurance legislation your subcommittee is endeavoring to perfect.

I am quite aware, Mr. Chairman, that you have included in the legislation which bears your name before this committee the subject of earthquakes as one to be covered in disaster legislation. I make this statement particularly because at the time that I joined my friend from Connecticut, who was primarily interested in the continuing tragedy of hurricanes and floods, no mention was made of earthquakes in his legislation.

I appear here, I repeat, for two purposes—to pledge to this committee that any type of sound legislation permitting disaster insurance for all kinds of hazards from the elements will receive my unstinting support, and secondly and particularly with respect to that legislation I do want the subject of earthquakes considered and I hope included in any legislation which this committee will recommend to the Senate floor.

Thank you.

Senator LEHMAN. Thank you very much, Senator.

I am sure you are aware of the fact that in the original draft of a bill which I submitted to the committee I included a coverage on many natural disasters. As a matter of fact, I went considerably further, and in that first draft I included manmade disasters. As far as I know, there is nothing now in any of the bills that covers natural disasters beyond flood and the effect of tidal waters on property, things of that sort, except that in my bill—and I am not sure whether that is contained in Senator Bush's bill or not—I do provide for coverage against flood damage and then direct the Administrator to make a study and report back to Congress within a reasonable time with regard to the practicability and the desirability of coverage on other natural disasters.

We recognize that other natural disasters do impose a very great obligation on the Congress to study this situation carefully with the expectation that at some time the number of natural disasters which are covered by the bill would be increased.

But the reason we have limited it so far, the actual language, to flood insurance is because we felt that was the most urgent, the most current matter. We did not want to complicate it by consideration of further coverage on further natural disasters.

I do not know whether Senator Bush's bill goes further than my bill. I do not believe it does, however.

Senator BUSH. No.

Senator IVES. Mr. Chairman?

Senator LEHMAN. May I just finish one further question? Is earthquake insurance available now?

Senator KUCHEL. No; it is not.

Senator LEHMAN. Commercially?

Senator KUCHEL. No.

Senator LEHMAN. No insurance companies as far as you know write it, at any rate?

Senator KUCHEL. That is correct.

Senator IVES. Well, my impression, Mr. Chairman, is that you can get earthquake insurance at a price. That is the one thing I was going to bring out. However, I want to point this out, Mr. Chairman: I am very glad that the legislation we have so far has pinpointed on floods. I strongly favor legislation of that type now. It is not available, we all know, from a commercial source. I think if we keep it pinpointed on one thing, we may get some legislation. But if we spread out and include every type of disaster known to man, we will not get anywhere or anything.

That is the comment I had to make.

Senator LEHMAN. That is my feeling too.

Senator BUSH.

Senator BUSH. Mr. Chairman, if I could have the Senator's attention on this, of course the Senator is one of the sponsors of our bill S. 2862, and I am awfully glad he is. He certainly has good reason to be with the disasters they have had out there due to the floods in the last few months particularly.

But on the question of earthquakes, I would like to quote from the hearings which our committee held. On page 516 it speaks of insurance customarily written by insurance companies covering natural disasters, and it says:

Protection from the peril of earthquake may be insured by specific earthquake policy or by endorsement attached to a standard fire-insurance policy. All inland marine policies may be extended to cover damage caused by earthquake. Some policies include earthquake as one of the perils of the standard contract.

Then in our staff study on page 247, on the question of Federal disaster insurance, we find this statement at the top of page 247:

During 1954 the company had one earthquake claim resulting in a loss of \$1,532. It is estimated by the United States Coast and Geodetic Survey that about \$1 billion of earthquake insurance is presently in force in California.

I mention those things to show why we did not put earthquake insurance into the bill, because it does appear as though there is private coverage available for earthquakes.

Senator IVES. Mr. Chairman, may I interrupt the Senator from Connecticut at this point?

Senator BUSH. I yield.

Senator IVES. Thank you. On page 518 of the hearings—I think that is the same volume you are using—the rates are quoted. For earthquake insurance in California on frame dwellings it is 20 cents in one part of California and 15 cents in another part. That is per hundred. That is on frame dwellings.

On brick mercantile buildings it is 40 cents in one portion of California—the counties are listed—and in another part, in the rest of California, it is 30 cents.

So I think you will find, Senator Kuchel, that there is available at the present time this type of coverage.

Senator KUCHEL. Senator, my information is that it has not been utilized because of the restrictions that are made a part of the policy and, so far as my inclination is concerned, the excessive costs.

If the judgment of the committee were to rest upon what type of earthquake insurance is available, then I would like to have the further opportunity of accumulating the type of earthquake insurance which is presently available and on that to indicate that it amounts to nothing at all by reason of the restrictions in the writing of the policies.

If that were to be the turning point of the committee's judgment, then I would ask for an opportunity to supply what my information is with respect to that subject.

Senator LEHMAN. We will undoubtedly keep the record open for some days. We would be very glad indeed to have you submit anything.

Senator IVES. I will be glad to have the information.
(The following was received for the record:)

UNITED STATES SENATE,
March 2, 1956.

HON. HERBERT H. LEHMAN,
Senate Office Building,
Washington, D. C.

DEAR HERBERT: Since my appearance before your subcommittee considering disaster insurance bills, I have endeavored to obtain more details and specific information about the availability, conditions, and cost of insurance against property losses from earthquakes.

To sum up the results of various inquiries, I find that insurance against this hazard technically may be purchased but is very costly and generally is available only in connection with other forms of insurance. The premium scale is extremely high in California, partly because of the degree of risk and partly because of the fact that this kind of insurance is not widely sold in other sections of the Nation, so that the base is extremely narrow.

I am told that some companies writing fire insurance will write earthquake insurance, but only as an accommodation, and no real effort is made to sell such insurance because, in the words of one person in the business, "it is not a good buy." I have been informed, also, that in some situations companies are reluctant to write such policies unless the risk can be divided by reinsuring and that in one recent instance a property owner was able to obtain his coverage only because of participation by British companies.

So far, I have been unable to learn how much insurance against earthquakes is in existence. The only indication is the fact that aggregate premiums in California for 1916 through 1954 are \$70,761,189; the 1954 total was \$3,756,199.

The idea has been presented to me from various sources that earthquake insurance in conjunction with some other kind of protection against disaster losses might be made available on better terms. That is why I have suggested that earthquakes should be included with floods in disaster insurance legislation which may be enacted by this Congress.

One of my informants points out that dollar losses from earthquakes over a period of a year is a fraction of the losses from floods, windstorms, cyclones, and tornadoes. In view of this fact, linking of flood and disaster insurance might prove advantageous.

The comparative rates for earthquake insurance in California emphasize the reason, I believe, why property owners contend that as a matter of practice such coverage is virtually unavailable. Depending upon the zone in which the property is located and the class of risk determined by construction, straight earthquake insurance in California costs from \$0.20 per \$100 to \$5.25 while the "earthquake damage assumption" insurance, which carries a deductible clause ranging from 5 to 15 percent, costs from \$0.15 to \$3.75 per \$100. In contrast, 3-year term rates for fire insurance vary from \$0.25 to \$0.133 per \$100.

The deductible feature, furthermore, is a minimum of the total value of the structure, not merely the amount of insurance on it. This is a very forceful additional reason why earthquake insurance is not taken out in substantial

volume, I believe. Such a unique feature no doubt is justified when such coverage is purchased in a very limited area, but it occurs to me that more adequate protection might be possible through some combination of different types of insurance which would spread the risk.

As I told the subcommittee, I hope that since earthquakes present an unusual hazard and available records indicate they can happen almost anywhere in the United States, it will be feasible to include such natural disasters in the list of catastrophes against which protection may be provided through disaster insurance legislation.

Perhaps the subcommittee will be interested in the letter I am enclosing, which is a reply from the American Mutual Alliance to my inquiry about the availability of earthquake insurance.

With best wishes, I am

Sincerely,

THOMAS H. KUCHEL, *United States Senator.*

AMERICAN MUTUAL ALLIANCE,
Chicago 6, Ill., March 2, 1956.

Senator THOMAS H. KUCHEL,
United States Senate, Washington 25, D. C.
(Attention: Mr. Warren B. Francis.)

DEAR MR. FRANCIS: In response to your request concerning earthquake insurance, the following is information gathered from our Chicago and San Francisco offices. Our experience in general with this type of insurance has been limited to the California and adjacent areas. In general, the information contained herein pertains to earthquake insurance in the California area.

Today it is very difficult to place earthquake coverage alone. This applies even in the London market. Some years ago Lloyd's were quite active in this field, but today they have gotten out of it almost entirely. The problem of course is that the only people who want to buy earthquake insurance are those in a particular area that has recently had either a serious shock or a series of small tremors; however, where there is literally no market for flood insurance, there is a definite market for earthquake insurance.

Most of the companies writing sizable amounts of fire insurance in California, both stock and mutual, will write so-called earthquake assumption or in other words earthquake coverage in conjunction with the fire insurance on the same property. The major reason why companies will not write earthquake business alone is the great problem in attempting to determine what damage is due to earthquake and what damage is due to fire. This problem is a very real one because earthquake and fire so frequently occur together. The earthquake is, however, subject to substantial deductibles and the rates are frankly quite high. The deductible is essential because of the impossibility of determining whether minor damage, such as cracks in walls, is the result of a recent tremor or just plain settling of the structure or other causes. The rates are high primarily because losses are not only serious to any given structure when there is a substantial earthquake with damage above the deductible, but also because of the large number of heavy losses in a given area. The deductible, incidentally, is a minimum of 5 percent of the total value of the structure, not just of the amount of insurance on it, and in certain types of construction the deductible runs to 10 or 15 percent.

A number of companies writing this type of business will not write substantial value commercial buildings but a sufficient number of companies will write it. Again this commercial business is written in conjunction with fire coverage and is never written alone.

It is difficult to simplify the rating situation. For example, in an excellent fire-protected area such as the city of San Francisco, the earthquake rate is nearly twice the fire rate. On the other hand, if the building is brick or hollow tile construction as against frame, reinforced concrete, or steel the earthquake rate is much higher.

Now assume you are talking about a frame structure in an unprotected fire district, such as some farm communities, the earthquake rate would be lower in relation to the fire rate for obvious reasons but, again, if the rural structure were brick or similar construction, the earthquake rate would be vastly more than the fire rate.

With respect to the high cost, it is a reasonable conclusion that many people probably prefer to assume the earthquake risk themselves because historically

in California earthquakes don't seem to occur in the same place except at intervals of many many years. For example, there was a serious earthquake in Santa Barbara in 1925 and there has not been one before or since. There was a serious earthquake in parts of Los Angeles in 1933. There has not been a serious one there before or since.

In conclusion, I wish to point out that from the viewpoint of the number of companies, there is a wide market for earthquake-assumption insurance, and as compared to flood insurance, there is plenty of market for this type of protection.

For what use it may be having the foregoing general situation in mind, I am enclosing a list of earthquake premiums and losses from 1916 through 1954.

If we can be of any further assistance, please feel free to call on me.

Sincerely,

WALLACE M. SMITH.

Enclosure.

Net earthquake premiums and losses—California

Year	Premiums	Losses	Year	Premiums	Losses
1916	\$362	\$622	1937	\$921,134	\$3,660
1917	5,957		1938	929,416	982
1918	8,826		1939	860,478	
1919	32,490		1940	982,163	43,319
1920	79,425	622	1941	1,080,696	30,515
1921	49,027	4,727	1942	1,249,982	58,819
1922	61,372	1,109	1943	1,420,504	2,045
1923	213,909	11,813	1944	1,697,450	1,867
1924	298,132	692	1945	1,393,042	997
1925	1,898,383	730,772	1946	2,369,836	53
1926	2,500,774	98,138	1947	2,780,914	241
1927	2,865,795	320,429	1948	2,708,392	646
1928	1,806,789	11,930	1949	3,375,118	10,024
1929	1,936,075	38,584	1950	3,307,182	15,679
1930	2,056,490	10,383	1951	3,391,422	12,777
1931	2,031,206	6,690	1952	3,908,161	141,834
1932	729,916	435	1953	4,318,715	86,730
1933	919,217	1,053,906	1954	3,756,199	24,225
1934	1,039,761	503,862			
1935	855,400	37,075			
1936	922,220	72,533	Total	70,761,189	3,338,113

Senator BUSH. I certainly agree with the chairman we should keep the record open and receive any information the Senator wants to submit on this subject, but I am inclined to agree with the thought recently expressed this morning by the chairman, who revised his original ideas about a total disaster insurance bill to get it down really to a flood-insurance bill. If we burden this bill with other types of insurance I feel sure that every extra burden put on it will be an additional hurdle for it to get over on the floor of the House and the Senate.

We have never been able to pass a flood-insurance bill. This is a clean flood-insurance bill, either the Senator's or mine. The insurance is against floods caused from high tides or rain or whatever.

I just feel that if we start taking in other forms of insurance, especially where they may be available through private sources, that it may interfere with the possibility of getting a flood-insurance bill, which I know the Senator from California is very anxious to get.

Senator KUCHEL. Does not your definition of flood include damage from floods resulting from hurricanes?

Senator BUSH. Only as they may include high tides or rains that create water, floods. It is not a wind-insurance bill, no.

Senator KUCHEL. What was that?

Senator BUSH. It is not a wind-insurance bill as against hurricane or tornado damage per se. Only as they may whip up high tides in the coastal shores or inland.

Senator Ives. Well, there is no need for that kind of insurance anyway in the bill, because that is already available from commercial sources.

Senator KUCHEL. My point was that it seemed to me the language of the legislation would indicate that the sponsors' definition of flood for the purposes of buying disaster insurance was quite broad and did include damage resulting from hurricane.

Senator BUSH. No, the term "flood" shall include rising water caused by tide, wind, or rain and shall have such further meaning as prescribed by regulation of the Administrator.

That is at the top of page 4 in the bill of which the Senator is cosponsor.

Senator LEHMAN. Well, Senator, I think I can speak for the committee that we recognize the advisability of making a very careful study with regard to other natural disasters which are not now covered adequately or practically by private-insurance companies. We have, as I said, concentrated for the time being on this flood insurance and the collateral effects, because we feel that it is the most important, it is the most current, it is the most vital thing.

As Senator Ives has pointed out, there is no way of obtaining protection at any price really.

But we have not in any way closed the door to consideration of insurance on other natural disasters.

Section 17 (a), page 16, of my bill reads:

The Commissioner shall undertake a continuing study of the practicability of extending the coverage of insurance programs similar to those authorized under this act to one or more of the perils included within the term "natural disaster" as defined in this act.

Senator KUCHEL. Yes, Mr. Chairman, and also in your bill I think perhaps the definition of "flood" is somewhat more comprehensive than that which Senator Bush has used in his proposal.

On page 15, section 16 (a) says:

As used in this act, the word "flood" shall include any flood, tidal wave, wave wash, or other abnormally high tidal water, hurricane, deluge, or the water component of any other severe storm, and landslide due to excess moisture.

Mr. Chairman, I will immediately endeavor to justify consideration by this committee of the inclusion of earthquake insurance on that basis and will endeavor to supply it to the committee immediately.

Senator LEHMAN. Thank you very much indeed.

Senator KUCHEL. Thank you.

Senator LEHMAN. Thank you for appearing.

The next witness is Mr. J. Victor Herd, chairman, committee on floods and flood damage, American Insurance Association.

Mr. Herd, we are glad to see you again.

**STATEMENT OF J. VICTOR HERD, CHAIRMAN, COMMITTEE ON
FLOODS AND FLOOD DAMAGE, AMERICAN INSURANCE ASSOCIATION—Resumed**

Mr. HERD. It is nice to be here.

Senator LEHMAN. Will you sit down or stand up, whichever suits you best? Have you a written statement?

Mr. HERD. I have a short statement, Mr. Chairman, and then I will hold myself available for questioning if you or any members of your committee so wish.

First of all, may I thank you for the privilege of appearing before you and members of your committee again. (See p. 756, pt. 1.)

I would like to state for the record that I am accompanied today by Mr. H. Clay Johnson, who is the deputy United States manager of the Royal Liverpool Group of Insurance Companies and who is a member of the committee of which I am chairman; by J. Raymond Berry who is general counsel of the National Board of Fire Underwriters of which I happen also to be president; by Mr. H. Aldon Foster who is the principal associate of the engineering firm of Parsons, Brinckerhoff, Hall & MacDonald who have carried on the technical flood studies for the American Insurance Association since the Kansas City occurrence of 1951; and by Mr. Milton W. Mays who is secretary of the America Fore Insurance Group and who has been assisting me in my work.

Senator LEHMAN. Do you wish any of those gentlemen to sit by you? It is entirely agreeable with the committee.

Mr. HERD. They are within arm's length, sir, in case I need them.

Chairman Lehman and gentlemen, my name is J. V. Herd. I appear before you today for American Insurance Association as chairman of a special committee to study floods and flood damage appointed by the American Insurance Association. I am also appearing in my capacity as president of the National Board of Fire Underwriters.

On November 14, 1955, at Hartford, Conn., I had the privilege of appearing before you, Chairman Lehman and Senator Bush, and testifying on the subject of Federal disaster insurance. My written statement and the testimony I gave in connection therewith are set forth on pages 756-764 of the printed record of that hearing, part 1, Federal Disaster Insurance, hearings before the Committee on Banking and Currency, United States Senate, 84th Congress, 1st session, 1955.

American Insurance Association embraces within its membership domestic and alien stock insurance companies licensed and admitted to do the business of fire, marine, and casualty insurances in the United States, its Territories and possessions. Most members of the association are transacting a worldwide business. For your convenient reference, a list of company members is attached, and, if you so choose, it will be made a part of the record.

Senator LEHMAN. Your entire statement, with its appendices will be placed in the record at the end of your remarks.

Mr. HERD. The association property insurance companies transact probably more than 80 percent of the total insurance written by stock insurers in the United States and probably more than 65 to 70 percent

of the total property insurance business transacted by all admitted property insurance companies, stock, mutual, and reciprocal.

Senator LEHMAN. What do you mean by "reciprocal"?

Mr. HERD. Certain types of businesses, notably department stores, organize what they call reciprocal exchanges. And to sum it up, they insure each other on widely separated risks scattered say throughout the United States. The outstanding reciprocals are probably located in Kansas City, Mo., and in New York City in connection with department stores and lumber businesses.

Senator LEHMAN. Thank you.

Mr. HERD. It is a subscribers' agreement that is the basis of the self-insurance. That is what it amounts to.

Senator LEHMAN. They become reciprocal self-insurers?

Mr. HERD. That is the substance of it; yes, sir.

The traditional position of property insurance underwriters has been that specific flood insurance covering fixed location properties in areas subject to recurrent floods cannot feasibly be written because of the virtual certainty of loss, its catastrophic nature and the reluctance or inability of the public to pay the premium charge required to make such insurance self-sustaining.

Senator IVES. Mr. Chairman, may I interrupt at that point?

Senator LEHMAN. Surely.

Senator IVES. That is because of the limited number of policyholders, is it not?

Mr. HERD. Not necessarily, Senator Ives. The exposure, for instance, throughout the Mississippi, Ohio, and Missouri River Valleys might embrace a great many policyholders but with an exposure—

Senator IVES. What I am driving at is that the policyholders you get are the people who come from the territory which is subject to floods.

Mr. HERD. You are correct.

Senator IVES. And the people who come from the hilltops and the other areas do not get that kind of insurance, do not buy it.

Mr. HERD. What you are saying is that the selection would be against you.

Senator IVES. It is your limited policyholders, limited in number and in their location, that causes it to be prohibitive. Is that not it?

Mr. HERD. That is correct, sir.

Senator LEHMAN. Is it not a fair assumption that the limited numbers are due at least in part to the high rate that would be required? If the rate was reduced substantially, is it not a fact that the number of those willing and ready to take out insurance would be very greatly increased?

Mr. HERD. Chairman Lehman, I think that you and Senator Ives have touched on the two separate problems—

Senator IVES. May I interrupt right there?

Mr. HERD. Yes, sir.

Senator LEHMAN. May I have an answer?

Senator IVES. I am going to give you the answer directly.

Senator LEHMAN. I would like to have it from Mr. Herd.

Senator IVES. All right.

Mr. HERD. I think I have testified on this subject to the effect that before an occurrence any premium would be unattractive, and after

an occurrence almost any premium would be a bargain. So that the answer to your question would depend upon whether you were timing it before or after an occurrence.

Senator IVES. May I now raise my question, Mr. Chairman?

Senator LEHMAN. Yes; surely.

Senator IVES. I think I can clear this up a little more. Is it not true if there were a greater number of policyholders, that in other words the policyholders were spread all over, universally, the rates themselves would be lower? Isn't it because of your limited number of policyholders and their locations that your rates are so high?

Mr. HERD. If you were to price the product based upon the people who would buy it, the rate would be quite high.

Senator IVES. That is it.

Mr. HERD. And if you adopted a principle or a philosophy of flat rate, then it would depend upon to what extent you wanted to subsidize the people who were exposed to the recurrent floods.

Senator IVES. You are talking now about the Government being in the picture subsidizing.

Mr. HERD. Well——

Senator IVES. I am talking about a private company involved in this. The reason their rates have to be so high is because of the conditions that I have cited already; is that not right?

Mr. HERD. The answer to your question is "Yes," sir.

I am getting back to my statement, sir, the fifth paragraph, the last sentence.

Obviously, any insurance program which does not cover areas subject to recurrent floods would not meet the public need.

In 1944, the subject of floods and flood damage was carefully considered by a representative committee of the insurance industry. At that time, the committee concluded, based upon all the evidence, that it was not feasible or practicable to provide coverage against flood damage on an insurance basis. I so testified before the House Committee on Appropriations in 1952. (P. 329 of record of hearing on subject of rehabilitation of flood stricken areas before a subcommittee of the Committee on Appropriations, House of Representatives, 82d Congress, 1st sess., 1951.)

Prior to 1944, the position of the business was based largely on informed underwriting judgment and on the unfavorable underwriting experience of certain insurance companies that had attempted to provide specific flood insurance on fixed location properties. Immediately following the disastrous floods of 1951 in Kansas and Missouri, capital stock insurance companies began a reexamination of their position in regard to flood insurance. The engineering firm of Parsons, Brinckerhoff, Hall & Macdonald was retained to assist in the technical phases of this study. The insurance companies concluded, on the basis of the engineers' report and the practical realities of the business, that "* * * insurance against the peril of flood cannot successfully be written * * *." The National Association of Insurance Agents concurred in this conclusion.

Upon the happening of the August 1955 floods in the Northeastern States, the engineering firm of Parsons, Brinckerhoff, Hall & Macdonald was again retained by capital stock insurance companies, through American Insurance Association, to study the problem of floods and flood damage and to review their April 1952 Report on

Floods and Flood Damage in the light of the August 1955 floods. Before this investigation could be completed, however, the floods of October 1955 occurred, and the engineers were then asked to extend their survey to include this disaster.

As the engineers were completing their Report on Floods and Flood Damage of 1955 in the Northeastern States, copies of which have been furnished to the members of this committee and to its staff—and may I interject here that I think that your staff members, Mr. Chairman, particularly Messrs. Wallace, Yingling, McKenna, Rogers, and Edelstein, have done a yeoman job in assembling the information that has been available on this subject—catastrophic floods occurred on the Pacific coast.

On the chance that unique meteorological or other causative factors which had not previously been considered might be involved in the Pacific coast floods, the engineers were requested again to enlarge their investigation by studying the nature and effect of these floods. While a report on the Pacific coast floods will not be available for immediate inclusion in this study, it will be published in supplemental form upon completion and will be furnished to the committee at that time.

Mr. Chairman, I read your remarks on the floor of the Senate when you introduced your bill, and I might say that the preliminary, informal reports that we have had so far from the engineer on the Pacific coast confirm what you have said, that due to the exceptionally heavy snowfall there is a probability of heavy water runoff again within the next few months of an unusual nature. If you would like some additional information on that, as I said, Mr. Foster is here.

Senator LEHMAN. Thank you very much.

Mr. HERD. Nothing in the Report on Floods and Flood Damage of 1955 in the Northeastern States nor in the further study of the insurance aspects of this subject by capital stock insurance companies has provided any basis for altering the conclusion previously reached that insurance against peril of flood cannot be successfully written. On the contrary, the further study that has been given this subject has supported and strengthened this conclusion. Indeed, the investigation of the engineers strongly indicates that neither the maximum probable loss from floods nor the maximum probable frequency of flood occurrences in any given period has yet historically been experienced in the United States.

A realistic approach to the problem of flood damage would still seem to be an orderly plan for relief and for rehabilitation of essential services plus a long-range flood-control program in which Federal, State, and local governments could cooperate to reduce the probability of damage by flood. It would be inappropriate for the insurance business to volunteer recommendations to the Congress of the United States regarding the course it should follow in dealing with the problem of flood damage, but it is not inappropriate to repeat the offer previously made by capital stock insurance companies and their local agents to cooperate fully by making available their facilities in connection with any flood damage or indemnity program which might be enacted by the Congress of the United States or of any State or other competent authority.

Respectfully submitted, sir.

Senator LEHMAN. Thank you very much indeed, Mr. Herd.

Let me ask you this. You make the very categorical statement that your investigations and studies have indicated that flood insurance is not practicable, but you have not given us any specifics as to why it is not practicable. I mean is it because of the rate that would have to be charged?

Mr. HERD. Well, it is related in part, sir, to the exchange that has already taken place this morning, plus the fact, as I have referred to in this brief statement, companies have experimented during the years in attempting to write this as an insurable peril, and not just on a hit-or-miss basis but with all of the actuarial data that they could collect, and reluctantly retired from the field.

Senator LEHMAN. Is it not a fact that you are basing your figures on the very limited number of risks that were insured?

Mr. HERD. No, sir.

Senator LEHMAN. The number is, of course, limited to a very considerable extent, I feel confident, by reason of the high rates that would necessary if they were limited.

If you broadened that base of coverage, would you not automatically, as Senator Ives has indicated, reduce your rates or be able to reduce your rates?

Mr. HERD. I think we get back, Mr. Chairman, to the question that was raised in Hartford when I appeared before you, and that is whether it would be the intention of Congress to make the purchase of the flood feature compulsory. And if there was an attempt to get a spread through compulsion, then the question would arise as to the competition among companies who were local in character and those who were doing a nationwide business.

Senator LEHMAN. There is no suggestion that has been made so far as I know to make insurance by the individual compulsory. What we are going to do is to write the nationwide bill which would make insurance available to the people of all the States but not force a man to take it out. But it is our hope that the rate can be made sufficiently low, either because of the increased coverage or because of what I may frankly describe as subsidies from the Government, that your coverage by number of the insurance would be very greatly increased.

And I think I can safely say—at least I would assume—that that is your experience, that that has happened right along in your various other categories of insurance, that as the number of insureds increased and the risk was divided among that larger number, the rate also decreased.

Mr. HERD. Well, might I repeat, sir, the question that I asked you in Hartford? And that is: Should the Congress enact a voluntary flood insurance program or flood indemnity program and an occurrence afflicts a great many people who did not have in hand a policy of insurance, would they be foreclosed from the relief or rehabilitation that might otherwise have been available?

Senator LEHMAN. Well, we do not think of this proposal as a relief and rehabilitation program, because, after all, even though there was a Government subsidy—and we recognize there must be a Government subsidy to some extent, of some character—the insureds would still have to pay a premium. Nobody has suggested that the insured be given this insurance for nothing. He would still participate in the cost of this operation.

Mr. HERD. Well, the purpose behind my question, sir, was that I do not believe that you would be solving the problem that is before us—and we are just as much concerned sir, as you are——

Senator LEHMAN. Surely.

Mr. HERD. By making available at any price, whether it is a subsidized price or an actuarially defensible price, a policy of indemnity or insurance on the question of floods.

So that it is our feeling, with all due respect, sir, that we would be about where we are—with some amelioration perhaps taking place by whatever insurance might be in effect—but the major problem would still be with us.

Senator LEHMAN. You are talking now from the standpoint of the insurance companies?

Mr. HERD. No, sir. I am talking from the standpoint of the public.

Senator LEHMAN. Well, I wish you would enlarge on that a little bit. I do not follow you.

Mr. HERD. I think the best example I can cite is when Governor Ribicoff appeared before your committee in Hartford and held up as one of the shining examples a constituent of his who had kept accurate records for 300 years and had suffered no flood damage during that time and had his property substantially destroyed in the August or the October floods.

Now, there are probably not very many people who have 300 years of accurate bookkeeping behind them. But, with human nature being what it is, when the potential purchaser of flood insurance before the occurrence in areas that have been, we will say, fairly remote from flooding, either due to the fact that they have not been inhabited until recently or that nature just with her perversity has avoided such areas, had not purchased a policy prior to the occurrence, I do not believe that the authorities or the public officials would turn their backs on the people who were entitled to assistance and relief and rehabilitation.

So I am saying that I do not believe that the enactment of a so-called insurance program or indemnity program, regardless of the price, will solve the problem, not so far as the insurance companies are concerned but so far as the public officials are concerned.

Senator BUSH. You just mean it would not be bought by a sufficient number of people to take care of the situation in the event of a calamitous flood? Is that right?

Mr. HERD. That is our feeling, Senator.

Senator BUSH. There will be enough people having the insurance to accomplish the real purpose of the bill, namely, to indemnify people in the exposed areas against the possibility of disaster.

Mr. HERD. Well, Senator, just to carry that on just a bit—and I do not say this facetiously——

Senator BUSH. No.

Mr. HERD. I say it seriously—when a man is floating down a stream on the roof of his house with his family, he is much more interested in seeing a helicopter than he is in having an indemnity policy in his hands.

Senator BUSH. That is right.

Mr. HERD. And you are going to have the problem of the immediate, pressing problem of distress to such people regardless of a so-called insurance program.

Senator BUSH. Have you followed the crop insurance experiment over the years?

Mr. HERD. Well, Mr. Mays, who is accompanying me here, has been working very closely with the ex-Director Laidlaw on that subject, and I have followed it; yes, sir.

Senator BUSH. Has that program sufficiently advanced in its experimentation to suggest yet that a definitive program can be offered in the way of crop insurance, or do you think it is still in too experimental a stage?

Mr. HERD. Well, Senator Bush, you know the bookkeeping probably on that better than I do. You know what the accounting has developed over the years in the way of deficit——

Senator BUSH. Yes.

Mr. HERD. On the results, without including in the operation the expense of operation.

And I heard some testimony the other day to the effect that in the marginal areas the rate for crop insurance got as high as 35 percent a year—that is, \$35 a hundred—and it was still purchased because it was considered to be a pretty good buy. They collected practically year after year.

Now, even at that rate it was a subsidy in those areas.

Senator LEHMAN. You have been talking about relief and rehabilitation, but, as a matter of fact, is it not true that there have been no grants for personal indemnification other than the Red Cross?

Mr. HERD. Are you speaking of public grants, sir?

Senator LEHMAN. Yes, public or through an agency like the Red Cross.

Mr. HERD. I am not an authority on the fiscal policy of the Government, sir, although in the 1952 hearings the question that you just raised was discussed at considerable length I think between Mr. Wolcott of the House and the witness who was acquainted with Government fiscal policy.

Senator LEHMAN. Well, now, if the Federal Government were to follow a plan of providing relief only after major disasters, as you suggest, would you propose that the Federal relief program be expanded to include direct aid to individual disaster victims, or would you require such victims to continue to rely on private charities?

Mr. HERD. Senator, as I said in my prepared statement, I think it would be inappropriate for us, once we have come to the conclusion that insurance as such is not a practicable program for private companies, to advise the Government. But if you would like to have my personal response to your inquiry——

Senator LEHMAN. Yes.

Mr. HERD. We in the national board made a \$100,000 contribution to the Red Cross immediately following the August floods, and I believe Senator Bush will bear me out that the Hartford insurance companies contributed very generously to the Red Cross. I think the Red Cross is probably one of the most competent and efficient agencies in conjunction with civilian defense, and if Congress wished, even the facilities of private insurance companies could be helpful in determining the compensable damages resulting from an uninsured flood.

Senator LEHMAN. Well, as I said I believe in Hartford—I have said it many times—I have great admiration for the Red Cross, and I think they have served a very fine purpose. But I think it is unfortunate

that the impression has been given by some that the Red Cross, or any private agency, could possibly make any substantial dent on the need for indemnification.

We know as a matter of record that the entire amount that has been collected by the Red Cross in connection with flood disasters recently has been about \$15 million. That included, of course, primarily the immediate palliative relief, the supplying of clothing, food, shelter, medicines, transportation, and other items of that sort, leaving, I should imagine, about \$10 million for other purposes.

It has been testified here frequently, and there has been no denial of it, that the losses from these floods during the year 1955 alone, since August 1955, were a minimum of a billion dollars. The estimates are somewhere between \$900 million and \$1.8 billion. It is probably somewhere in between those figures. But certainly nobody has denied that the losses would be in the neighborhood of a billion dollars. That includes the Northeastern States, South Carolina, North Carolina, and the Pacific Northwest and California.

The \$10 million which is available to the Red Cross, of course, could not possibly make any kind of an impact on the needs of the people.

It has also been suggested that the funds that are available through the Small Business Administration would be helpful. They are helpful to some extent. Certainly they are not the answer to this thing, because they are loans which have to be repaid, and interest has to be paid on them. A man who has lost his house still has his mortgage to take care of, and to get another loan he is not going to be in a very sound situation unless he has got a very considerable income or outside means of substantial size. I mean it simply increases the man's indebtedness. There is no insurance factor in that, no compensation factor.

Let me ask you this: We have heard a lot to the effect—and I think it is included in Senator Bush's bill—that any rate that is set should be based on actuarial soundness. I personally doubt very much whether that would be practical in this situation. But I wonder whether you could describe to me the process of arriving at what is called an actuarially sound rate?

Mr. HERD. In which phase of our business, Senator? The property insurance phase?

Senator LEHMAN. Well, I should imagine it would cover almost any phase, but let us confine it to fire insurance.

Mr. HERD. In fire insurance ratemaking, I do not want to burden you and the members of your committee with a treatise on this subject or an essay, but we do maintain, as to schedule-rated risks, differentials, credits, and debits, which are geared to the susceptibility of the property insured, the exposure, the experience of the class as a whole and the experience of the class by States or by other geographical areas, protected, unprotected, and so forth. There is involved in fire insurance ratemaking what we call the base rate, which is the starting point. That base rate has been defined by some as the unanalyzable residual.

But in the workout over the years, as I testified a week or so ago before the House committee, we as property insurance companies have managed to eke out an average of about 1.7 percent as an

underwriting profit out of the rates we have made, which is coming pretty close to estimating the exposure and the loss potential.

On flood insurance, which is, I assume, the next item that you would like to have me take up—

Senator LEHMAN. No, I would like to have you talk about tornado insurance first.

Mr. HERD. Tornado insurance? Some gentlemen here from New England will remember the 1938 hurricane which caught the Yankees in New England very much underinsured because they had not had a hurricane in that area for a hundred years—that is, of the dimensions that struck there in 1938.

Senator ROBERTSON. You would not call a Yankee who believes in States rights a Yankee any more? He would be a friend of constitutional government; would he not?

Mr. HERD. I am sorry.

Senator ROBERTSON. I say you would not call a Yankee who believes in States rights a Yankee any more? He would be a friend of constitutional processes; would he not?

Mr. HERD. I did not use the term "Yankee," sir, in a derogatory sense. I meant the frugality of the area.

But insurance was available throughout the area at reasonable rates even prior to the 1938 occurrence. Subsequent to the 1938 occurrence, insurance was purchased quite generally, and then, with the 1944 occurrence 6 years later, gaps were filled in. The area was again visited in 1950, and in 1954 I believe.

So that I believe it would be safe to say, Senator, that as a result of the 1938, 1944, 1950, and 1954 occurrences that that area is now substantially fully insured against hurricane.

And there was a time, not so many years ago, when the area west of the Rocky Mountains was considered to be immune from windstorm. And either due to changing weather conditions or the increase in population and consequently insurable values, that area is no longer considered immune, because they have had serious visitations out there in recent years from windstorm and hurricane.

The staff study has a chart which I furnished to Mr. McKenna showing the experience during the most recent 5 years, premiums and losses by States and by areas, and the most recent 10 years by States and by areas, and the countrywide experience on that projection has not missed too far, even though certain State areas have been far off from what we might reasonably have expected.

Senator LEHMAN. Well, now, assuming that this bill is enacted, it would be necessary, of course, to work out a premium schedule of some kind based partly on experience and partly on the discretion of the Administrator. But should this premium schedule in your opinion include a loading for administrative expenses and profits such as is the case now, of course, with private insurance companies?

Mr. HERD. Well, Senator, if you start on the assumption that an actuarial rate for flood coverage would make it unattractive or would price it out of the market, as it were, then the additional loading for expenses and a projected profit would become academic. If you were to express the intent of Congress that you wanted to make the rate attractive regardless of the actuarial considerations, then I think the question of expenses or profit also becomes academic.

Senator LEHMAN. Over what period of time would the schedule contemplate building up an adequate reserve to pay all claims under outstanding policies?

Mr. HERD. I happen to be one, Senator, who believes that you would never catch up with the claims.

Senator LEHMAN. I mean in your private companies. I mean what period of time would you contemplate as necessary to build up an adequate reserve to pay all claims under outstanding policies?

Mr. HERD. I am afraid, sir, I do not understand the question.

Senator LEHMAN. You are required to have a reserve against your policies, your outstanding policies?

Mr. HERD. Well, we are not—I think maybe you have an element of life insurance in mind. To give you an example, the total assets of the company that I represent as of now are about a billion and a quarter. We have outstanding from coast to coast about \$20 billion liability under extended coverage endorsements. We have no reserves predicated on the outstanding liability. Our reserves are predicated on the premium that we collect, and that is a statutory requirement by State.

Senator LEHMAN. You have no specific reserves against the liability of the company?

Mr. HERD. None whatever, sir. Some companies do not even keep a record of the aggregate amount of liability they have outstanding. Most companies do not.

Senator LEHMAN. I do not claim to have any knowledge of the operation of insurance companies, but occasionally, if I have a little leisure—which is not very often these days—I like to read the reports of the insurance companies, and I always see “Reserves.” What is meant by the reserves?

Mr. HERD. Well, those are reserves, sir, for claims which have already been filed and are in the course of adjustment and reserves that are based on the unearned premium, so that if you as a policyholder of a property or a casualty insurance company walk in and lay your policy on the desk today they could meet the unearned premium that you would have due you.

Those are the two major reserves that you see in an insurance company statement—unearned premium reserves and reserve for claims in course of adjustment.

Senator ROBERTSON. Mr. Chairman, may I ask a question in that connection?

Senator LEHMAN. Surely.

Senator ROBERTSON. Does a fire-insurance company ever go broke?

Mr. HERD. There are pages and pages of them that have, sir.

Senator ROBERTSON. I did not hear that, sir.

Mr. HERD. I say there are pages and pages of them, sir, that have. I do not remember it, but as a result of the Baltimore fire and the Chelsea fire and the San Francisco fire there is quite a mortality list of property insurance companies.

Senator ROBERTSON. Have any gone broke in recent years?

Mr. HERD. That would depend on this question, sir: Some companies have become financially embarrassed, and other larger companies have gone to their assistance. If you are concerned with whether a policyholder—the public—has lost any money as a result

of an important company going broke in recent years, I must say that not to my recollection.

Senator ROBERTSON. And in any event, if you had another fire like the Baltimore fire or the Chicago fire that did not hit Virginia and we in Virginia were insured in some company that went broke, we could stop that insurance and take out some that was still going?

Mr. HERD. That would depend, sir, on the circumstances. I think Virginia requires certain deposits of out-of-State companies to protect the Virginia policyholders. It would be a question of whether the circumstances were such that the companies that were able to take over the liabilities would be willing to do so, and so forth.

Senator ROBERTSON. In other words, it is your opinion that as the situation now stands and with the broad coverage that the big insurance companies have, there is no reasonable chance that a small insurer would ever fail to get his money if he had a fire loss?

Mr. HERD. If I were to say that there is no reasonable chance, sir, I would be masterminding a situation that I have not looked into.

I would say this: That the State supervision and regulation of insurance companies requires periodic examination, and, so far as I know at the moment, except for 1 or 2 situations in Texas which affect, I believe, life companies and not property companies, there is no pending situation where the question of being unable to respond is involved.

Senator ROBERTSON. I understand that you and the companies you represent take a rather dim view of legislation of this kind. You say it is just too risky for you to go into it, that you are sure if the Government goes into it it is going to have a loss, and that you think it would be fairer and more practical to set up a plan for flood indemnity rather than flood insurance. Is that the substance of what you are saying?

Mr. HERD. The first part, sir, would be that any insurance program as it is presently contemplated would not answer the problem. I think you would still be confronted with the problem just as soon as we have another major occurrence.

The second part is that if Congress did fiscally and constitutionally meet this problem directly that in some form or another that is the only way that we can see that you can meet the problem as you conceive it.

Senator ROBERTSON. Then I understand that insurance companies have no particular objection to Congress going into this field, that they are not interested in it themselves, that they would put at our disposal all the information that they have. The surveys that this engineering firm has been making for you to indicate that you do not want to go into it, but that you think in the event of a major flood you could not have a fund available to meet it because if you did the rates would be so high that nobody would want it and you cannot constitutionally compel a man to take insurance if he does not want to take it?

Mr. HERD. We also go beyond that, sir, and say that—and I think I can say this—I know I can say it on behalf of the stock fire insurance, property-insurance companies and their agents—that we would to the extent that the Administrator or the Congress would enlist our aid place our facilities at your disposal on an out-of-pocket expense reimbursement basis without profit. We would not expect to make any profit out of the program.

Senator LEHMAN. Are you through?

Senator ROBERTSON. I just wanted to ask one other question.

Senator LEHMAN. Go ahead.

Senator ROBERTSON. What percentage of the fire insurance is now written by stock companies and what percentage by mutuals?

Mr. HERD. That is in my statement, sir, which is before you. I would say the fire insurance percentage written by capital stock fire-insurance companies today is over 80 percent of the total. The companies that I am speaking for write about 80 percent of that.

Senator ROBERTSON. Thank you.

Senator LEHMAN. Supplementing the questions raised by the Senator from Virginia, it is my understanding that even though you feel that this insurance plan, so-called insurance plan, could not be made actuarially sound, either by Government or by the private insurance companies, in view of the fact that the insurance companies very frankly say they cannot see any way of their getting into this field or writing any of these policies, I assume the insurance companies would have no objection to the Government engaging in this plan?

Mr. HERD. I would not want to quite say, Senator, that we would have no objection, because we recognize that the same potential inheres in a flood-insurance program, so-called, as to future possible encroachment on business that we do write as inherited, say, when the crop-insurance program was conceived. That originally was for insects and drought and things we considered to be uninsurable. But in due course they had their powers expanded so that we as private companies found ourselves in competition in areas with the Federal Crop Insurance Corporation, even to the extent of storage of cotton and tobacco in warehouses and that sort of thing.

Senator LEHMAN. But now you have made the categorical statement that you see no way in which the insurance companies could write this kind of insurance—

Mr. HERD. I would rather—

Senator LEHMAN. This kind of coverage.

Mr. HERD. I would rather answer your question another way if I may—not that we have no objection, but that, having decided that we cannot as private industry engage in flood insurance as such, we have forfeited our right to object to the Government doing it if Congress elects to embark on a program.

Senator ROBERTSON. Well, would you approve Congress writing insurance on personal property—water-damage insurance, flood-damage insurance on personal property?

Mr. HERD. I think, sir, that insurance is available in the private market. And that is one thing, Mr. Chairman, I would like to get into the record—that there is a misconception abroad that private insurance companies have little or no exposure to these flood occurrences. The fact of the matter is that every automobile has, under its comprehensive coverage, flood insurance included.

I was interested in Senator Kuchel's comments regarding earthquake insurance. The Bay Bridge, the Golden Gate Bridge, practically every toll structure in California has all-risk insurance in private insurance companies. And, as I think Senator Bush or Senator Ives pointed out, earthquake insurance is available in that State.

Flood insurance under policies covering cargo and mobile property, contractors' equipment floaters, people who are out doing these road jobs and that sort of thing—we have billions of dollars of liability out today on flood coverage, but it is mobile property.

Senator LEHMAN. Do you write any all-risk policies on real property?

Mr. HERD. Yes, sir.

Senator LEHMAN. What is the rate on that?

Mr. HERD. Well, it varies by localities.

Senator Ives. Does that cover flood?

Mr. HERD. Certain of them do. But I might—and I ought to—qualify that, Senator Ives, by saying that it is a type of insurance policy that is of a price and character that is not popular and would not answer the problem that you have here.

Senator Ives. In that connection, may I raise another question, Mr. Chairman?

Senator LEHMAN. Please do.

Senator Ives. You have made this survey you were talking about of the flood situation. Have you any idea at the present time what the rate would be on flood insurance if everybody were taking flood insurance? I mean in order to make ends meet?

Mr. HERD. Well, I would like to mention a figure or two before I get to the direct answer to your direct question.

Senator Lehman mentioned the figures varying from \$500 million to \$1.7 billion or \$1.8 billion as the estimates of the 1955—

Senator LEHMAN. No, I did not mention a figure as low as \$500 million. I mentioned a figure, a minimum figure, of close to a billion dollars, and a maximum figure of about \$1.8 billion.

Mr. HERD. I stand corrected, sir. Say a billion to 1.6 or 1.8 billion.

Senator LEHMAN. Yes.

Mr. HERD. The flood losses or water losses or the type of losses that are contemplated by any of these bills that I have seen probably have not been cast up. In other words, the exposure day by day in overflowing streams and things that do not make the headlines would be a very substantial figure. So that in order to arrive at a compensatory rate or one that would bring the company out whole, we would have to have some idea of what the loss is that is unrecorded, because we would certainly get the claim if the man was holding an insurance policy.

Furthermore, the amount that has been recorded as losses, the question arises—and I think the Army engineers attempted to estimate it—of the indirect losses, that is, payroll, use and occupancy, and that type of thing, which is inevitably going to arise under any program of so-called flood indemnity.

But taking the extended cover as an example which is generally purchased now—which gets to your question—the income from that premiumwise today is \$500 million a year. If the loss that Senator Lehman mentioned as a minimum of a billion dollars is taken as the example, the extended coverage rates would have to not only produce a billion dollars in addition to the \$400 million but enough for expenses and, as the Senator said, possibly some profit.

Senator Ives. What would that make the rates?

Mr. HERD. Well, that varies, sir. The gulf area and Florida rates for extended coverage, let's say, average \$1.50 to \$2 a hundred. And

the rates inland or other parts of the country may be 6 to 7 cents a hundred per annum in each case. But the countrywide average I would say is someplace in the neighborhood of 10 cents per annum for all the cover.

Senator IVES. For all coverage?

Mr. HERD. Yes.

Senator IVES. In other words, that would increase that rate on the average throughout the country to about 30 cents. Is that it?

Mr. HERD. Plus the ten, plus expenses, plus profit if any.

Senator IVES. That is all I wanted to know—what the total was.

Senator LEHMAN. I am surprised that the insurance companies do not show more enthusiasm for the plans that have been suggested. I base that statement on the following:

We propose under the two bills that are now before us that the Government assume the first risk up to \$10,000 on residences and up to \$100,000 per location on industrial or other property. In the case of Senator Bush's bill, that is \$250,00, but not per location; it is in the overall. And it also proposes reinsurance, a plan for reinsurance.

It seems to me that under those circumstances this would appear to me to be a pretty attractive proposition to the insurance companies. You do not need to write more than \$10,000 if you do not want to on a residence, but, after all, \$10,000 would be pretty close to the average, I suppose, of the residential property in this country. I would suppose that \$100,000 or \$250,000, while it would not represent the average, would be a pretty good basis from which to work.

Mr. HERD. Well, Senator, we may be, of course, inaccurate in our estimates, but we feel, based upon everything that we have been able to get a hold of in the way of studies, that it would be dishonest for us to give the impression that a so-called insurance program is sound—that is, under any of these bills that we have seen or any concept that is alleged to be insurance.

As I have said, the companies will make their facilities available to the Government if you so wish and cooperate to the extent of our ability.

There are some things that I think you as a sound businessman would advise us against. One of them is this: We are told by our engineers—and this has been confirmed by Government agencies—that the eastern seacoast of the United States could see a tidal wave 26 feet above the highest that has yet been recorded and that it would take a combination of the Diane type of hurricane plus an astronomical tide plus an abnormally high tide to accomplish that result.

Now, if we were sitting with flood-insurance liabilities, even under the reinsurance type of contract or policy that you mentioned, with the aggregate assets of all property insurance companies, not surplus but assets, of \$10 billion in this country, and aggregate surplus of around \$6 billion, it would not take much of an occurrence of that kind to wipe out all of the present property insurance companies.

And while I am on it, I would like to mention one more thing. As I said, I am not acquainted with the fiscal policy of the Government, but the reinsurance feature of these bills is something that ought to be very carefully explored because reinsurance as it is transacted customarily in the insurance business would not mean that you would

have a limit of \$100 million. It could be many times that, based on the customary method of transacting reinsurance.

And I wonder if from the standpoint of the Government they want to put a firm commitment out which would be tantamount to a guaranty to pay in the event of a certain occurrence such as flood without having a chance to take a look at it and decide whether they want to spend that money or whether the Treasury would stand it.

Senator ROBERTSON. Excuse me. What is the critical difference between reinsurance and coinsurance?

Mr. HERD. Well, sir, reinsurance is where a company such as mine would take the primary liability and then put part of it off to some other insurance receptacle. Coinsurance is where you as the owner of a piece of property would agree to maintain 80 or 90 percent insurance related to the insurable value of your property.

Senator LEHMAN. Of course, there is nothing in my bill limiting the liability of the Government to \$100 million on reinsurance. I think it is perfectly conceivable that it might—the liability of the Government on reinsurance—under certain circumstances exceed that by a very considerable amount.

Mr. HERD. Chairman Lehman, the bill as I read it provided for a billion dollars the first year, a billion the next year, and a billion the year after that by insurance or reinsurance, and it was to the reinsurance feature or language that I was addressing my remarks.

I think that Senator Bush's bill has a figure of \$1,900 million as direct liability with \$100 million as reinsurance. And whether you have \$100 million or a billion, the exposure of the Treasury to a demand under papers that would be out in the hands of the public in the event of a catastrophe such as the one I have outlined could be very substantial.

Senator LEHMAN. Let me ask you this—

Senator BUSH. Well—

Senator LEHMAN. Go ahead.

Senator BUSH. On that reinsurance point I would like to make sure I understand you. On page 8, section 205, of S. 2862, it says:

The aggregate amount of reinsurance outstanding and in force at any one time under this title shall not exceed \$100 million.

You have a limited liability there; do you not?

Mr. HERD. Senator, let's assume that you had that fully committed in August of 1955 and had \$100 million in claims presented to you. Would you then have considered your obligation discharged by the time the October flood came along? And then would you have considered the \$100 million as discharged by the time the December floods came along? Or is it automatically renewable for \$100 million so that in the year 1955, even under that, the Treasury might have been asked to pay \$300 million?

Senator BUSH. Well, suppose you answer the question that you are posing.

Mr. HERD. Well—

Senator BUSH. We have a limitation here. It says "in force at any one time, \$100 million."

Mr. HERD. Yes.

Senator BUSH. The October flood you say resulted in claims of \$100 million. Let's say that. The August flood \$100 million. You

now say that those same policyholders might come back as a result of the October flood and make other claims under those same policies? Is that what you are saying?

Mr. HERD. Well, the policyholder on reinsurance would be an insurance company I assume.

Senator BUSH. That is right.

Mr. HERD. So that in aggregate the companies could say to the Administrator that, "We will not claim against you for more than \$100 million in any one occurrence." But you had three occurrences in 1955, any one of which could have exhausted the \$100 million in your bill, and could I think, Senator Lehman, have approached pretty close to a billion dollars in your bill in each case.

Senator BUSH. What you are saying then is that if you have insurance or reinsurance in force at any one time of \$100 million, if you run into another year like 1955 you are saying that that \$100 million need not be the extent of the liability because of additional claims under those same policies which were limited to \$100 million? Is that right?

Mr. HERD. Senator Bush, it is right, and if it were other than that, then again I think the bill would defeat the purpose that you have in mind.

In other words, if you exhausted the \$100 million in August and you said, "We're through; we have discharged that obligation," then the October occurrence comes along and we are right again where we are today and then the December occurrence comes along and there is no recourse under the reinsurance under this bill, as I see it, if you intended to limit the amount of the exposure of the Treasury to \$100 million.

Senator BUSH. In other words, while you limit the amount of insurance outstanding, you do not limit the liability to that amount?

Mr. HERD. I did not intend to get into the details.

Senator BUSH. I am glad you brought this out. I think it is very relevant.

Mr. HERD. It inheres in Senator Lehman's bill just the same except 10 times the amount.

Senator BUSH. Yes.

Senator LEHMAN. I think you are overlooking the fact that this insurance would bring in premiums too.

Mr. HERD. Well, Senator, I think probably the best yardstick we have on that—and I realize that this is not reliable—is that in 4 years of selling war damage insurance—and Mr. Clay Johnson and I were down here acting as liaison between the insurance companies and the Federal Government in connection with that program—we booked 270-odd million dollars in premiums. I ought to qualify that by saying that the third and the fourth year we collected no premiums in consideration of the first 2 years' premiums. But let's say for 2 years we collected \$276 million in premiums. And there was an element of compulsion in the war damage insurance that I do not believe would inhere in flood insurance. So I doubt very much whether, as I said before, you would garner enough premiums to keep ahead of the claims or even to keep up with them.

Senator LEHMAN. I am sure we would not keep ahead of the claims and probably would not keep up with them. I certainly would not want to mislead people into believing that this thing can be done

by the Government without some subsidies. I am perfectly certain that it would require subsidy, and I am facing that perfectly boldly and frankly. I am sure there would be some losses to the Government, some subsidies necessary.

May I ask you this: Assuming the Government issues protection against loss up to \$10,000—this is somewhat repetitious of the question that I have already asked you—assuming the Government issues protection against loss up to \$10,000 in the case of 1- to 4-family homes and \$100,000 in the case of other property, do you think your member companies would issue policies covering losses above those amounts in reliance on a portfolio excess loss reinsurance program to be offered by the Federal Government? I know you would not do it unless there were some form of reinsurance.

Mr. HERD. Senator, on that specific question I am authorized—I mean I can only speak for my own company because the question has not been discussed in committee, and I will be very glad to discuss it in committee, but I would like to say this: That when a company such as mine puts out its policies in the hands of the public, even for an amount in excess of say \$10,000, the primary \$10,000 being assumed by the Government, we would only do it in the event we were able to respond to the policyholder without relying on Government reinsurance.

And the reason I say that is not any reflection, but if the intent of Congress as to the reinsurance provision were at all doubtful and the Administrator said, "Well, I can't guarantee that you will recover because this is the type of occurrence that we are not sure was intended to be covered by this bill," we could find ourselves insolvent on the basis of the direct claims before we had established what the intent of Congress would be.

So it has been our position—I am speaking again only for our own companies—that our policies would be put out in the hands of the public on any type of insurance we write only to the extent and to the amount that we felt able to respond on our own. And to the extent that we recover via reinsurance route, that is all to the good.

But I believe that most of the companies—and I may be presumptuous in saying this—but I believe that most of the companies would not rely on reinsurance of a flood liability with a potential that I mentioned to you earlier where they could wake up after a widespread catastrophe and find that their primary claims under flood policies impaired their ability to respond.

Senator LEHMAN. Well, let me ask you this then: Taking the residences, the family homes as an example, if a man has a \$15,000 home which he wants to insure, the Government insures the first \$10,000 of that, and the insurance company on its own responsibility, without any guarantee of the insurance, then assumes the balance, or \$5,000. It would seem to me that \$5,000 could be written very cheaply because, after all, the Government then becomes the coinsurer to an extent much larger than has ever I believe been demanded in actual practice.

I mean, after all, there would be many homes costing \$15,000 which the Government has \$10,000 coverage on and the insurance company \$5,000 that would not be damaged beyond \$10,000, so that the insurance company would seem to me to have a pretty soft position in this matter.

Mr. HERD. Senator, the aggregate of liability that could be involved in the amounts in excess of \$10,000 would still place us in the position that I mentioned in response to the last question.

Senator LEHMAN. I would not say it was perfectly evident, but it would lead me to believe that the risk on the excess that was written by the insurance companies above this initial amount would be very, very much reduced.

Mr. HERD. Well, I do not want to indulge in generalities here, but I just at the moment fail to see where a problem that was fundamentally unsound from an insurance viewpoint—that is, actuarially from our viewpoint—would be any sounder by taking the risk on the basis that you outlined.

Now, as I said, this particular question has not been discussed in committee. I have given you my answer as to companies I happen to represent individually, the America Fore Group.

Senator LEHMAN. Do you have any questions, Senator Bush?

Senator BUSH. No.

Senator LEHMAN. I want to ask you just a few more questions.

You know, of course, that section 16 of S. 3137—and I am sure that there is a similar provision in Senator Bush's bill—defines "natural disaster" and includes the following perils. This is in my bill, and I am not sure what Senator Bush's says. As to each of these, tell me, if you can, whether the members of your association offer insurance, and, if so, whether the actuarial rate is costly or comparatively low.

Earthquake—do you offer any insurance on that?

Mr. HERD. Yes, sir. And I am glad you asked me, because your staff study sets forth the earthquake situation. I do not want to hold you here longer than necessary, but the companies now assume under their fire insurance policies throughout the area, that the Senator spoke to, loss by fire resulting from earthquake. So that if a man with just a fire policy but no earthquake policy has a part of his dwelling shaken down and fire follows, we are liable under our fire insurance policy for the fire loss.

Senator LEHMAN. You are liable for the loss of the building?

Mr. HERD. That is right.

Senator LEHMAN. Even though it may not be destroyed by fire?

Mr. HERD. No; we assume earthquake liability under an earthquake endorsement, and we will write earthquake insurance at what we consider to be reasonable rates.

Senator LEHMAN. You do not recall what those rates are?

Mr. HERD. Well, they are in your staff study I believe, Senator.

Senator LEHMAN. Volcanic eruption.

Mr. HERD. Well, that is earthquake. And I might add there, sir, that when Hawaii recently had a volcanic eruption which destroyed a great many acres of growing sugar cane that the insurance companies were confronted with I think an \$8 million claim, which they have since discharged and paid.

Senator LEHMAN. Severe freeze.

Mr. HERD. That depends. I think that in your severe freeze you are referring to the water pipes in a dwelling and the damage that might result from that, and insurance is available against that at a reasonable rate in both the casualty and the property insurance companies.

Senator LEHMAN. Blizzard.

Mr. HERD. Well, I am a little bit in doubt as to what "blizzard" meant when I read that.

Senator LEHMAN. I suppose the loss that would come from heavy snow destroying a house. We had a serious case down here 30 or 35 years ago where the roof of a theater was weighted down by the snow and collapsed and resulted in very great loss of life and property.

Mr. HERD. Well, sir, with all due respect, is that a problem that is in front of you?

Senator LEHMAN. I just want to know what is written on these things.

Mr. HERD. There is available collapse insurance as such, which is, I believe, what you are talking about. In other words, if a building became overloaded as a result of snow on the roof and collapsed.

Senator LEHMAN. What I am talking about here is I am trying to find the urgency of these categories in which there is no insurance.

Mr. HERD. I would say, sir, as to the blizzard, that there is no urgency.

Senator LEHMAN. How about the loss of animals through freeze or blizzard?

Mr. HERD. There is livestock insurance available in livestock companies, and the farm companies write, we do, and I think many of the major companies are writing livestock insurance—and at reasonable rates.

Senator LEHMAN. Duststorm.

Mr. HERD. That would depend, sir, whether the dust was driven by a wind which did damage by creating an opening. But if dust just comes out of the atmosphere and settles on a house or furnishings, our present insurance does not cover that. But if dust enters an opening created by a hurricane or wind, that is covered.

Senator LEHMAN. It is covered?

Mr. HERD. Yes.

Senator LEHMAN. Hailstorm.

Mr. HERD. I think practically every property insurance company writes hail.

Senator LEHMAN. Snowslide.

Mr. HERD. I would say that is not generally available in the private market, and that would be more of a corporate problem such as railroads and municipalities where roads would be swept away.

Senator LEHMAN. It might be a private problem too, of course.

Mr. HERD. It could be.

Senator LEHMAN. Explosion.

Mr. HERD. All companies write explosion. Many of them do as part of the fire rate, where the inherent hazard is explosion, such as an oil refinery or a flour mill, something of that kind.

Senator LEHMAN. Drought.

Mr. HERD. It is my belief, Mr. Chairman, that drought is included. May I ask one of my associates?

Senator LEHMAN. Yes, surely.

Mr. HERD. He is shaking his head. He is the gentleman who has been working with the Federal Crop Insurance Corporation on this. And drought is available in the private market.

Senator LEHMAN. It is available?

Mr. HERD. Yes.

Senator LEHMAN. Smog.

Mr. HERD. Well, I will ask to be excused on that. I do not know where you would start.

Senator LEHMAN. Well, as I understand it, I imagine it is not available.

Mr. HERD. Not to my knowledge.

Senator LEHMAN. I should not think it would be either.

Mr. HERD. As such, Senator. If there was contamination under an all-risk policy to property that was covered—but it generally is not available as such.

Senator LEHMAN. Radioactive contamination or other air pollution.

Mr. HERD. I am glad you asked that question, because the private property and casualty insurance companies have just completed—and this applies to stock and mutual—the formation of syndicates to write the nuclear reactors and the liability resulting from the operation thereof, and I believe there was a report recently presented to Congress by the Atomic Energy Commission that recommended that the question of insurance be left to private companies or at least that they continue to work that out.

Senator LEHMAN. Land subsidence due to an underground cave or manmade subterranean excavation.

Mr. HERD. The standard dwelling policy today, Senator, includes subsidence, and insurance is generally available in the market to the type of property owner that you have to consider.

Senator LEHMAN. Would that extend to mines?

Mr. HERD. Yes, there are specific filings in an area such as Scranton, Pa., where collapse insurance or subsidence is available at a rate.

Senator LEHMAN. Just one more. In including several perils under an extended coverage clause, do private insurance companies compute the actuarial rate separately for each peril or compute an overall rate for all items in the extended coverage?

Mr. HERD. The primary exposure under an extended coverage endorsement, Mr. Chairman, is, of course, the windstorm, with the other perils taking a secondary position. So what we have done and what we are doing is gearing our rates for that endorsement to the windstorm exposure with a loading for the perils in addition to windstorm or hurricane on top of that.

I will put it another way. The graduation of the difference in extended coverage rates as among the various States and Territories and areas is determined more by windstorm than by anything else.

Senator LEHMAN. Thank you very much. That is all the questions I have to ask.

Do you have any, Senator?

Senator BUSH. No, I have no other questions, Mr. Chairman, except I would like to emphasize or bring out this point: That Mr. Herd really takes a very dim view of the whole question of a flood-indemnity program as far as being a solvent one is concerned. He does not think it can be done on a solvent basis, and therefore we must approach it on a basis which involves a Government subsidy. In this bill of ours we are counting on the services of your industry in connection with the placement of these policies and probably the settlement of claims with the individuals too. And when you say you are ready

to cooperate with the Government, that involves at least those two functions, perhaps among others? Is that correct?

Mr. HERD. Yes, sir.

Senator BUSH. Because that is very important. The placing of these policies and the settlement of claims is a very important part of the whole business, and I feel that we need professional services of the trained people in the industry in order to get these policies in as good distribution as we possibly can and also to get efficient settlement of claims, protecting both the interest of the insured and the insurer.

Mr. HERD. Senator, I think that if Congress through the Administrator or direct would give the industry the assignment that you could count on an efficient, competent, and an economical job.

Senator BUSH. Since you testified before us in Hartford, we have introduced several flood protection measures. There are a number of flood protection bills before the Congress now which are rather in line with suggestions you made, your general point being that flood protection is a lot more practicable than flood insurance. Is that right?

Mr. HERD. I look at flood insurance as the poultice, and I think the problem is trying to get the poultice where the rash is going to break out, and unless you have the poultice over the entire body you are much better off to give them some preventive medicine.

Senator BUSH. I think Congress seems to be in a mood to give us some preventive medicine finally in connection with a very large protective dam system in the Northeast, and substantial headway already has been made in that connection.

Senator LEHMAN. I want to thank you very much for your very useful and interesting testimony.

Mr. HERD. And if we can be—excuse me.

Senator LEHMAN. I appreciate very much your coming here, and so do the other members of the committee, of course.

Mr. HERD. If we can be of any further service at any time, you have only to come to us.

Senator LEHMAN. Thank you very much.

Do I understand there is a representative of Lloyds of London here? I think you mentioned Mr. Johnson.

Mr. HERD. Oh, I am sorry, sir. Mr. H. Clay Johnson is the deputy United States manager of the Royal Liverpool Group.

Senator LEHMAN. That is not Lloyds of London?

Mr. HERD. No, sir. That is an English—

Senator LEHMAN. Do they write any insurance? I mean do they write any insurance on—

Mr. HERD. Their operation is parallel and similar to the company that I represent, sir.

Senator LEHMAN. Then I understand they do not write any flood insurance?

Mr. HERD. Not as such.

Senator LEHMAN. I am sorry I misunderstood you. I was in hopes I could get some information from a representative of Lloyds of London. I am told that they write flood insurance or have written flood insurance—true, at a very prohibitive rate—but I wondered why they could write it and why you could not write it.

Mr. HERD. Well, as I said earlier, Senator, we have tried to avoid taking a position that would develop later to have put us in one of dishonesty or lack of integrity. We could say to you that, "We will write flood insurance," and then we could price it prohibitively so that the problem would not be solved. And I think traditionally Lloyds have taken the position that they will write anything. Now, there are things they have learned the hard way that they have to price at a point where it is economically not feasible for a person to buy it.

Senator LEHMAN. Thank you very much indeed.

(Mr. Herd's prepared statement follows:)

STATEMENT OF J. V. HERD, CHAIRMAN OF COMMITTEE ON FLOODS AND FLOOD DAMAGE, AMERICAN INSURANCE ASSOCIATION

Chairman Lehman, and gentlemen of the committee, my name is J. V. Herd. I appear before you today for American Insurance association as chairman of a special committee to study floods and flood damage appointed by the American Insurance Association.

On November 14, 1955, at Hartford, Conn., I had the privilege of appearing before Chairman Lehman and Senator Bush and testifying on the subject Federal Disaster Insurance. My written statement and the testimony I gave in connection therewith are set forth on pages 756-764 of the printed record of that hearing (pt. 1, Federal Disaster Insurance, hearings before the Committee on Banking and Currency, United States Senate, 84th Cong., 1st sess. (1955)).

American Insurance Association embraces within its membership domestic and alien stock insurance companies licensed and admitted to do the business of fire, marine, and casualty insurances in the United States, its Territories and possessions. Most members of the association are transacting a worldwide business. For your convenient reference, a list of company members is attached.

The Association property insurance companies transact probably more than 80 percent of the total insurance written by stock insurers in the United States and probably more than 65 to 70 percent of the total property insurance business transacted by all admitted property insurance companies, stock, mutual, and reciprocal.

The traditional position of property insurance underwriters has been that specific flood insurance covering fixed location properties in areas subject to recurrent floods cannot feasibly be written because of the virtual certainty of loss, its catastrophic nature, and the reluctance or inability of the public to pay the premium charge required to make the insurance self-sustaining. Obviously, any insurance program which does not cover areas subject to recurrent floods would not meet the public need.

In 1944, the subject of floods and flood damage was carefully considered by a representative committee of the insurance industry. At that time, the committee concluded, upon all the evidence, that it was not feasible or practicable to provide coverage against flood damage on an insurance basis. (See testimony of J. V. Herd, p. 329 of record of hearing on subject Rehabilitation of Flood Stricken Areas before a subcommittee of the Committee on Appropriations, House of Representatives, 82d Cong., 1st sess. (1951).)

Prior to 1944, the position of the business was based largely on informed underwriting judgment and on the unfavorable underwriting experience of certain companies that had attempted to provide specific flood insurance on fixed location properties. Immediately following the disastrous floods of 1951 in Kansas and Missouri, capital-stock insurance companies began a reexamination of their position in regard to flood insurance. The engineering firm of Parsons, Brinckerhoff, Hall & Macdonald was retained to assist in the technical phases of this study. The insurance companies concluded, on the basis of the engineers' report and the practical realities of the business, that, " * * insurance against the peril of flood cannot successfully be written. * * " The National Association of Insurance Agents concurred in this conclusion.

Upon the happening of the August 1955 floods in the Northeastern States, the engineering firm of Parsons, Brinckerhoff, Hall & Macdonald was again retained by capital-stock insurance companies (through American Insurance Association) to study the problem of floods and flood damage and to review their April 1952 Report on Floods and Flood Damage in the light of the August 1955 floods. Be-

fore this investigation could be completed, however, the floods of October 1955 occurred, and the engineers were then asked to extend their survey to include this disaster.

As the engineers were completing their Report on Floods and Flood Damage of 1955 in the Northeastern States, copies of which have been furnished to the members of this committee and to its staff, catastrophic floods occurred on the Pacific coast. On the chance that unique meteorological or other causative factors which had not previously been considered might be involved in the Pacific coast floods, the engineers were requested again to enlarge their investigation by studying the nature and effect of these floods. While a report on the Pacific coast floods will not be available for immediate inclusion in this study, it will be published in supplemental form upon completion and will be furnished to the committee at that time.

Nothing in the Report on Floods and Flood Damage of 1955 in the Northeastern States, nor in the further study of the insurance aspects of this subject by capital-stock insurance companies has provided any basis for altering the conclusion previously reached that insurance against peril of flood cannot be successfully written. On the contrary the further study that has been given this subject has supported and strengthened this conclusion. Indeed the investigation of the engineers strongly indicates that neither the maximum probable loss from floods nor the maximum probable frequency of flood occurrences in any given period has yet historically been experienced in the United States.

A realistic approach to the problem of flood damage still seem to be an orderly plan for relief and for rehabilitation of essential services plus a long range flood-control program in which Federal, State, and local government could cooperate to reduce the probability of damage by flood. It would be inappropriate for the insurance business to volunteer recommendations to the Congress of the United States regarding the course it should follow in dealing with the problem of flood damage, but it is not inappropriate to repeat the offer previously made by capital stock insurance companies and their local agents to cooperate fully by making available their facilities in connection with any flood damage or indemnity program which might be enacted by the Congress of the United States or of any State or other competent authority.

(See attached press release issued by American Insurance Association under date of November 2, 1955, which sets forth the conclusions of the membership and the reasons therefor. While this material is set forth on p. 758 of the field hearings held by the Banking and Currency Committee in Hartford, Conn., on November 14, 1955, it is attached hereto for convenient reference by the committee.)

AMERICAN INSURANCE ASSOCIATION MEMBERSHIP LIST, FEBRUARY 1956

The Aetna Casualty & Surety Co.
Aetna Insurance Co.
Agricultural Insurance Co.
Albany Insurance Co.
Alliance Assurance Co., Ltd.
American Bonding Company of Baltimore
American Central Insurance Co.
American Employers' Insurance Co.
American Fidelity Co.
American & Foreign Insurance Co.
The American Insurance Co.
The American Marine & General Insurance Co.
American National Fire Insurance Co.
American Re-Insurance Co.
American Surety Company of New York
American Union Insurance Company of New York
Assurance Company of America
Atlas Assurance Co., Ltd.
Bankers Indemnity Insurance Co.
Bankers & Shippers Insurance Company of New York
Birmingham Fire Insurance Company of Pennsylvania
Boston Insurance Co.
The British America Assurance Co.
The British & Foreign Marine Insurance Co., Ltd.

AMERICAN INSURANCE ASSOCIATION MEMBERSHIP LIST, FEBRUARY 1956—Continued

The British General Insurance Co., Ltd.
Buffalo Insurance Co.
Caledonian-American Insurance Company of New York
Caledonian Insurance Co.
California Insurance Co.
The Camden Fire Insurance Association
Car & General Insurance Corp., Ltd.
Central Surety & Insurance Corp.
The Century Indemnity Co.
The Century Insurance Co., Ltd.
The Charter Oak Fire Insurance Co.
Citizens Insurance Company of New Jersey
Columbia Casualty Co.
Columbia Insurance Company of New York
Commerce Insurance Co.
Commercial Insurance Company of Newark, N. J.
Commercial Union Assurance Co., Ltd.
Commercial Union Fire Insurance Co.
The Commonwealth Insurance Company of New York
The Concordia Fire Insurance Company of Milwaukee
The Connecticut Fire Insurance Co.
The Connecticut Indemnity Co.
The Continental Insurance Co.
Detroit Fire & Marine Insurance Co.
The Eagle Fire Company of New York
Empire State Insurance Co.
The Employers' Fire Insurance Co.
The Employers' Liability Assurance Corp., Ltd.
Equitable Fire & Marine Insurance Co.
Eureka Casualty Co.
The Eureka-Security Fire & Marine Insurance Co.
Federal Insurance Co.
The Fidelity & Casualty Company of New York
Fidelity & Deposit Company of Maryland
Fidelity & Guaranty Insurance Underwriters, Inc., Baltimore, Md.
Fidelity-Phenix Fire Insurance Company of New York
Fire Association of Philadelphia
Fireman's Fund Indemnity Co.
Fireman's Fund Insurance Co.
Firemen's Insurance Company of Newark, N. J.
The Fulton Insurance Co.
General Accident Fire & Life Assurance Corp., Ltd.
General Reinsurance Corp.
Glens Falls Indemnity Co.
Glens Falls Insurance Co.
Globe Indemnity Co.
Granite State Fire Insurance Co.
Great American Indemnity Co.
Great American Insurance Co.
The Guarantee Insurance Company of Los Angeles
The Halifax Insurance Co.
The Hanover Fire Insurance Co.
Hartford Accident & Indemnity Co.
Hartford Fire Insurance Co.
Hartford Livestock Insurance Co.
Home Fire & Marine Insurance Co.
The Home Indemnity Co.
The Home Insurance Co.
The Homeland Insurance Company of America
Hudson Insurance Co.
Illinois Fire Insurance Co.
Industrial Indemnity Co.
Jersey Insurance Company of New York
Law Union & Rock Insurance Co., Ltd.
The Liverpool & London & Globe Insurance Co., Ltd.

AMERICAN INSURANCE ASSOCIATION MEMBERSHIP LIST, FEBRUARY 1956—Continued

The London Assurance
 London Guarantee & Accident Co., Ltd.
 The London & Lancashire Indemnity Co.
 The London & Lancashire Insurance Co., Ltd.
 The Manhattan Fire & Marine Insurance Co.
 Manufacturers Casualty Insurance Co.
 Manufacturers Fire Insurance Co.
 The Marine Insurance Co., Ltd.
 Maryland Casualty Co.
 Massachusetts Fire & Marine Insurance Co.
 The Mercantile Insurance Company of America
 Merchants Fire Assurance Corporation of New York
 Merchants Indemnity Corporation of New York
 Mercury Insurance Co.
 The Metropolitan Casualty Insurance Company of New York
 Michigan Fire & Marine Insurance Co.
 Millers National Insurance Co.
 Milwaukee Insurance Company of Milwaukee, Wis.
 Minneapolis Fire and Marine Insurance Co.
 Monarch Fire Insurance Co.
 National-Ben Franklin Insurance Company of Pittsburgh, Pa.
 National Fire Insurance Company of Hartford
 National Reinsurance Corp.
 National Surety Corp.
 National Surety Marine Insurance Corp.
 National Union Fire Insurance Company of Pittsburgh, Pa.
 National Union Indemnity Co.
 The Netherlands Insurance Co., est. 1845.
 New Amsterdam Casualty Co.
 Newark Insurance Co.
 New England Insurance Co.
 New Hampshire Fire Insurance Co.
 New York Underwriters Insurance Co.
 Niagara Fire Insurance Co.
 North American Casualty & Surety Reinsurance Corp.
 North American Fire & Marine Reinsurance Corp.
 North British & Mercantile Insurance Co., Ltd.
 The Northern Assurance Co., Ltd.
 Northern Insurance Company of New York
 The North River Insurance Co.
 North Star Reinsurance Corp.
 Northwestern Fire & Marine Insurance Co.
 Norwich Union Fire Insurance Society, Ltd.
 The Ocean Accident & Guarantee Corp., Ltd.
 The Ocean Marine Insurance Co., Ltd.
 Old Colony Insurance Co.
 Orient Insurance Co.
 The Pacific Coast Fire Insurance Co.
 Pacific Fire Insurance Co.
 Pacific National Fire Insurance Co.
 The Palatine Insurance Co., Ltd.
 Paramount Fire Insurance Co.
 Pearl Assurance Co., Ltd.
 The Pennsylvania Fire Insurance Co.
 Phoenix Assurance Company of New York
 The Phoenix Insurance Co.
 Planet Insurance Co.
 The Potomac Insurance Company of the District of Columbia
 Providence Washington Indemnity Co.
 Providence Washington Insurance Co.
 Provident Fire Insurance Co.
 Prudential Insurance Company of Great Britain
 Quaker City Fire & Marine Insurance Co.
 Queen Insurance Company of America
 The Reinsurance Corporation of New York

AMERICAN INSURANCE ASSOCIATION MEMBERSHIP LIST, FEBRUARY 1956—Continued

Reliance Insurance Company of Philadelphia
Rochester American Insurance Co.
Royal Exchange Assurance
Royal Indemnity Co.
Royal Insurance Co., Ltd.
Safeguard Insurance Co.
St. Paul Fire & Marine Insurance Co.
St. Paul-Mercury Indemnity Co.
Scottish Union & National Insurance Co.
Seaboard Fire & Marine Insurance Company of New York
The Sea Insurance Co., Ltd.
Security Insurance Company of New Haven
Skandia Insurance Co.
Southern Fire Insurance Co.
Springfield Fire & Marine Insurance Co.
Standard Accident Insurance Co.
The Standard Fire Insurance Co.
Standard Insurance Company of New York
Standard Marine Insurance Co., Ltd.
Star Insurance Company of America
The State Assurance Co., Ltd.
Sun Insurance Company of New York
Sun Insurance Office, Ltd.
Surety Fire Insurance Co.
Swiss Reinsurance Company of Zurich, Switzerland
Thames & Mersey Company of Zurich, Switzerland
Transcontinental Insurance Co.
The Travelers Fire Insurance Co.
The Travelers Indemnity Co.
The Travelers Insurance Co.
Twin City Fire Insurance Co.
Union Assurance Society, Ltd.
Union Marine & General Insurance Co., Ltd.
United Firemen's Insurance Co.
United States Casualty Co.
United States Fidelity & Guaranty Co., Baltimore, Md.
United States Fire Insurance Co.
Vigilant Insurance Co.
Virginia Fire & Marine Insurance Co.
Westchester Fire Insurance Co.
The Western Assurance Co.
The World Fire & Marine Insurance Co.
The Yorkshire Insurance Company of New York

AMERICAN INSURANCE ASSOCIATION

NEW YORK, N. Y.

POSITION OF STOCK INSURANCE COMPANIES REGARDING FLOOD INSURANCE

NOVEMBER 2, 1955.

The American Insurance Association announced today that its member companies are prepared, together with their producers, to make their full facilities available to the Government and will cooperate should Congress see fit to enact a program of flood indemnity and request the aid of the industry in its administration.

The association has employed the firm of Parsons, Brinckerhoff, Hall & Macdonald to make an engineering study of the recent floods, supplementing a report the firm made for the stock companies in 1952. The completed report of the engineers has not been received and the association is continuing its current study of the subject. However, at a membership meeting of the association held today, it was the consensus that the following represents the present position of the companies, based on current knowledge and subject to the final conclusions of the study now being made:

1. If flood insurance could be written feasibly, insurance companies would be not only willing but eager to provide such coverage (examples of this are to

be found in the broad coverages, which do not exclude the peril of flood, available for movable property, such as the various forms of marine, inland marine and automobile comprehensive coverage, and certain "floaters").

2. The companies believe that specific flood insurance covering fixed-location properties in areas subject to recurrent floods cannot feasibly be written because of the virtual certainty of loss, its catastrophic nature, and the reluctance or inability of the public to pay the premium charge required to make the insurance self-sustaining.

3. Any insurance program which does not cover areas subject to recurrent floods will not meet the public need.

4. The companies believe that it is impossible to tie in flood coverage with other coverage on fixed-location properties generally because, unlike other natural catastrophes which are unpredictable as to place of occurrence, floods can occur only where water flows or gathers and only those properties which are in the path of the flow or gathering have any need for it; competition would force the sale of coverage ex flood and the buyers would make the adverse selection.

5. There is no way in which the purchase of flood insurance can be made mandatory (even by Government compulsion) consistent with our American concept of free government and competitive selection.

6. The companies believe that the Government would encounter the same obstacles if it undertook a program of specific flood indemnity by means of insurance on a self-sustaining basis.

7. Any Government promise of indemnity on a non-self-sustaining basis is relief under the guise of insurance. In our opinion, a direct program of relief and rehabilitation would be more effective and more equitable, particularly in restoring essential services and providing food and shelter, which are the first forms of necessary relief in the case of a major flood disaster.

8. In our opinion, flood control and prevention (rather than insurance, indemnity, or relief) are of far greater importance to potential flood victims, especially when the many forms of irremediable losses are also taken into consideration, such as death, bodily injury, loss of employment, and loss of income.

9. In view of the magnitude of Government expenditures which are involved in the event of a major flood disaster, it would seem prudent for the Government to avoid fixed advance commitments in order to be in a position to use available funds most expeditiously and to the best advantage when the emergency arises.

Mr. EDELSTEIN. Mr. Chairman, could we put into the record this Report on Floods and Flood Damage of 1955 in the Northeastern States?

Senator LEHMAN. Yes, without objection.
(The report above referred to follows:)

REPORT ON FLOODS AND FLOOD DAMAGE OF 1955 IN THE NORTHEASTERN STATES

(Prepared for American Insurance Association, December 1955, by Parsons, Brinckerhoff, Hall & Macdonald, engineers, New York, N. Y.)

LETTER OF SUBMITTAL

PARSONS, BRINCKERHOFF, HALL & MACDONALD,
New York, N. Y., December 15, 1955.

MR. J. VICTOR HERD,
Chairman, Committee on Floods and Flood Damage,
American Insurance Association,
New York, N. Y.

DEAR MR. HERD: In accordance with our proposal of October 17, 1955, we submit herewith our Report on Floods and Flood Damage of 1955 in the Northeastern States. This report is, in effect, a sequel to the Report on Floods and Flood Damage which we prepared for the Insurance Executives Association in April 1952. The purpose of the present report is to discuss the floods of August and October of this year; to obtain an approximate estimate of the damages caused by these floods in the States of Massachusetts, Connecticut, Rhode Island, New York, Pennsylvania, and New Jersey; and to consider these floods in connection with the general problem of the financial losses resulting therefrom.

For your convenience in reviewing the report, its essential features are summarized below.



1955 flood damages.—Various preliminary estimates of the amount of damages produced by the floods of August 1955 have been prepared by several governmental agencies, as well as by the American Red Cross. Analysis of these estimates indicates that the total amount of direct damage to physical property (both real estate and personal property) in the 6 States mentioned above was approximately \$500 million. This figure may include a small amount of wind damage, but of a very minor nature.

The direct damages from the August 1955 storm may be subdivided as follows:

	<i>Percent</i>
Industrial properties.....	35
Commercial.....	14
Public utilities.....	19
Public facilities.....	20
Residential property.....	9
Agricultural and miscellaneous.....	3
Total.....	100

The distribution of the direct damages by watersheds is estimated as follows:

	<i>Percent</i>
Housatonic River (Massachusetts and Connecticut).....	38
Connecticut River (Massachusetts and Connecticut).....	14
Thames River (Massachusetts and Connecticut).....	12
Blackstone River (Massachusetts and Rhode Island).....	6
Charles and Neponsit Rivers (Massachusetts).....	6
Delaware and Hudson Rivers (New York, Pennsylvania, and New Jersey).....	24
Total.....	100

Nearly one-half of the total direct damage in the August floods occurred in Connecticut.

Less than 2 months after the floods of August 1955, the Northeastern States were subjected to the effects of an extratropical cyclone. Fortunately, most of the sections that suffered severe damage in August were not badly hit by the October storm. However, properties adjacent to certain streams particularly along the Long Island shore of Connecticut, were damaged by high tides and water flooding, although they had not been seriously affected in the August storms.

It was characteristic of the August storms that they caused maximum damages on the smaller streams, accompanied with serious loss of life in certain localities. The path of the storm was generally transverse to the main axis of the Delaware, Hudson, and Connecticut Rivers, so that the degree of flooding on these larger rivers was relatively small as compared with maximum floods in the past.

Meteorological conditions.—The storms that caused the severe floods in August 1955 were tropical hurricanes that were diverted from their previous normal paths by unusual meteorological conditions. Such storms have been considerably more frequent on the North Atlantic seaboard since 1938 than in the preceding hundred years. Whether this situation is a result of a permanent change in climatic conditions or is only in the nature of a temporary weather cycle is a moot question among meteorologists, and probably will not be definitely answered for many years.

Past experience and theoretical studies indicate that, while the floods of August 1955 were unprecedented in magnitude in the region affected by the storm, it is entirely possible that even greater floods may occur in almost any portion of the area under consideration.

Tropical hurricanes approaching coastal regions often cause serious flooding along the shore because of exceptionally high tides. Under certain conditions such tides may exceed 16 feet at any location between southern New Jersey and Cape Cod.

Comparison with previous floods.—The hurricane storms of August 1955 caused unprecedented depths of precipitation over certain areas, resulting in floods of extraordinary magnitude on many of the smaller rivers, in some cases as great as eight times the maximum previous flood of record.

Climatic changes.—The unprecedented nature of the precipitation and stream discharge during the floods of August 1955 has been interpreted by some people

as an indication of a change of climatic conditions in the Northern Hemisphere. Although climatic cycles have occurred on the earth in past ages, they are known to be very slow, extending over periods of thousands of years. Recent apparent changes in climate affecting the paths of hurricanes along the North Atlantic seaboard cover too short a time period to justify the assumption of any long-term major climatic changes in this region. Nevertheless, the possibility of such cyclic variations in climate should not be neglected in estimating flood probabilities, although it would involve serious difficulties in estimating mean annual flood losses in any locality by statistical methods.

Effect on estimates of mean annual flood losses.—A preliminary investigation of the effect of the 1955 floods on estimates of mean annual flood losses indicates that it would be of a minor nature because of the apparent low probability of occurrence of such unprecedented floods. However, if future experience should prove that there has been a definite change in climatic conditions resulting in more frequent hurricane storms in this area, the damage losses of the 1955 floods would indicate an appreciable increase in mean annual flood losses.

It is probable that further light on the matters discussed in this report will become available in the near future, as a result of extensive studies now under way by several governmental and private agencies. We will be pleased to analyze such material and expand our report accordingly, if you so desire.

Very truly yours,

PARSONS, BRINCKERHOFF, HALL & MACDONALD.
M. N. QUADE.

INTRODUCTION

In April 1952, the firm of Parsons, Brinckerhoff, Hall & Macdonald submitted a report on floods and flood damage to the Insurance Executives Association, the purpose of which was to determine the technical engineering problems that would have to be solved if a practical and effective program of flood insurance in the United States were to be established. The insurance business had never been able to devise a method of providing specific flood-insurance coverage on a basis in conformity with sound insurance principles. Following the disastrous floods of 1951 in Missouri and Kansas, insurance underwriters began a reexamination of their traditional position respecting flood insurance. The report of April 1952 was prepared for use in this connection. An abstract of the 1952 report was published by the American Society of Civil Engineers in August 1954, as Proceedings Separate No. 483, Flood Insurance, by H. Alden Foster.

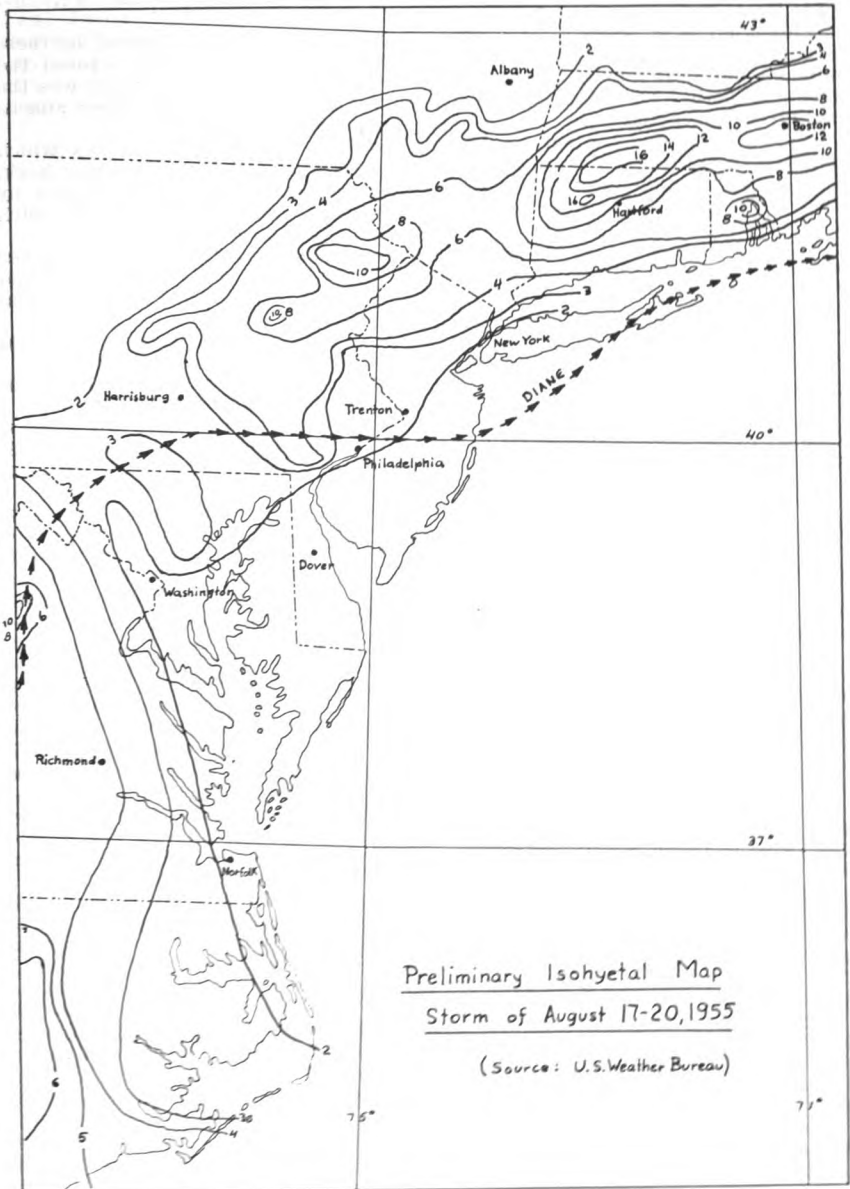
General interest in the possibilities of flood insurance has been greatly intensified since the disastrous floods in the Northeastern States in August 1955, resulting from hurricanes Connie and Diane. In anticipation of public discussion of this matter, the current study was initiated on October 4, 1955. It was agreed that the investigation would cover the floods and flood damage that occurred in Massachusetts, Connecticut, Rhode Island, New York, Pennsylvania, and New Jersey on August 17–20, 1955, and during the floods of October 1955. The work would consist principally of:

(a) Collecting data on 1955 flood damages to obtain realistic estimates of physical damage classified to the extent possible, in accordance with the general character and use of the property from the viewpoint of an insurance interest; and

(b) Securing information on hydrology and meteorology of the recent floods and the interpretation of such data in general terms with respect to flood damage

Field work by P. B. H. and M. was well under way prior to the severe week-end storms of October 14–17, which naturally resulted in considerable changes in the overall problem of flood damages in the investigated area. The investigation was then extended to include an estimate of damages during the October flood as compared with those experienced in August, and the general effect of such repetitive floods.

FIGURE 1

**1955 FLOOD DAMAGES**

Serious property damage and loss of life was caused in the Northeastern States, from Massachusetts to Pennsylvania, by floods resulting from two tropical hurricanes that passed over this region in August 1955. The first storm, christened *Connie* by the United States Weather Bureau, was of moderate intensity, and passed over North Carolina, The Chesapeake Bay region of Virginia, Maryland, western Pennsylvania, Lake Erie, and finally into Canada, on August 11 to 13. The second storm, identified as *Diane*, caused much

heavier precipitation, passing over North Carolina, Virginia, Pennsylvania, New Jersey, Long Island, and Cape Cod and then over the Atlantic Ocean, on August 17 to 20, as shown on figure 1.

This study is an analysis of available reports on the damage caused by these two hurricanes. Diane is usually referred to as the one which caused the damage, but as it followed on the heels of Connie the damage actually was the result of both. To differentiate between the damage caused by these storms would be impracticable.

Estimates of damage were available in all the Northeastern States which suffered from the storms; Massachusetts, Rhode Island, Connecticut, New York, New Jersey, and Pennsylvania. Four organizations, mobilized immediately by the President and the governors of the States, prepared such estimates for each of the States:

(1) *United States Corps of Engineers.*—Cost of cleaning and restoring river channels, property damage to all types of property, and loss of production and employment, with a view toward constructing facilities, under Federal Government sponsorship, to minimize danger in the future.

(2) *Federal and State civil defense agencies.*—Property damage to all types of property, including farms and agricultural crops.

(3) *American Red Cross.*—Care of human beings and repair of damage to their dwellings to provide needed assistance for relief and rehabilitation.

(4) *State governments.*—Under the leadership of flood-disaster committees, damage to all types of properties and care of human beings in order to establish need for relief and rehabilitation and to institute measures for reducing damage in the future.

Except for the Corps of Engineers, these organizations did not make their own appraisals of all types of damage but accepted the figures developed by other groups particularly qualified to estimate damages to certain types of structures. For example, utility commissions of the States were relied on for public-utility data, highway departments for figures on roads and highway bridges, and State and local governments for estimates on public buildings and schools as well as damage to private residences.

The work of evaluating the damage was commenced immediately after the floods and the earliest estimates were generally the highest, resulting partly from the shock of the disasters and the inability to obtain a clear view of the damage because so much was entirely covered by water. Subsequently, detailed evaluations were made at the State and local levels. These estimates revised the original data, generally resulting in a lowering of the figures, and were used in the present study.

The several estimates are consistent as to the classification of the categories of property, but the results vary because of differing approaches to the question of the value to assign to the properties—whether depreciated value, replacement in kind, or replacement on the basis of modern standards.

The United States Corps of Engineers estimates are probably the most standardized and are the ones which can be used for a comparison with other disasters of a like nature. The corps has made such estimates for many years for use in obtaining congressional appropriations to institute corrective measures. In their final form, which will not be available for some months from now, they will be presented in detail—by classes of property, and covering all the types of damage. At present, however, these evaluations have been prepared only as overall figures by watersheds and do not segregate losses by classes of property and by types of damage. They represent the overall economic effects of the floods, including loss of production and wages. Present estimates are not final and are subject to revisions as refinements are made in preparing the final figures.

The Federal Civil Defense Administration (FCDA), in cooperation with the several State civil-defense organizations, has also prepared estimates for each of the States. These do not include the values of loss of production and wages, nor do they include the cost of restoring and improving river channels. In their preparation, the values determined by State agencies, especially for certain categories such as roads and highway bridges, public utilities and public facilities, were used directly.

FCDA has adopted the following categories in its breakdowns of estimates:

(1) *Industrial.*—Manufacturing establishments of all types, metals, textiles, finished products, etc.

(2) *Commercial.*—Service establishments, wholesale and retail distribution, automotive dealers and other occupants of business buildings.

(3) *Public utilities*.—Telephone, electric power, water and gas distribution, railroads, buses, etc.

(4) *Public facilities*.—Roads and highway bridges, schools, public buildings, sewerage systems, and disposal plants, etc.

(5) *Residential*.—Private homes, apartment houses, boarding houses.

(6) *Agricultural and miscellaneous*.—Farm lands and crops, farm equipment, livestock, farmhouses, and other items not covered in the other five categories.

The State governments prepared estimates from data available in State agencies and in cooperation with local governments. The collection and assembling of the data was under the direction of the various State flood disaster relief commissions appointed by the governors. They in turn relied on the following State and local agencies and private organizations for their information.

(1) and (2) *Industrial and commercial*.—State development or industrial commissions, factory inspection divisions of State labor departments, chambers of commerce. Information was usually gathered through personal interviews with owners or executives of businesses.

(3) *Public utilities*.—Public utility commissions in cooperation with the individual enterprises, both private and public.

(4) *Public facilities*.—State highway departments, city engineers, and public officials.

(5) *Residential*.—Number of houses damaged: American Red Cross and city tax assessors.

Value of damage to houses: Tax assessors' estimates of real property damage. These are on assessed values, with a widely varying percentage of market value. The results lack comparability from one municipality to another. The chief purpose of these estimates is to determine the tax decrease due to damaged and destroyed buildings. FCDA estimates were also prepared. These appear to be on the basis of market value of the property, repair of damage and value of contents. The two types of estimates, tax assessors' and FCDA, therefore, vary widely in most instances.

(6) *Agricultural and miscellaneous*.—County officials, and various sources.

The relative accuracy of the categories into which the estimates are subdivided is well established. An evaluation of the degree of accuracy of the estimates follows:

Excellent.—Roads and highway bridges, public utilities and public facilities. These evaluations were prepared by professional estimators with long experience in the specific fields.

Good.—Industrial and commercial: Although experienced personnel gathered the information, the values were obtained by interviews with individuals interested in submitting generous figures.

Doubtful.—Residential: The variations in assessment practices in themselves make for inconsistencies, added to which is the fact that they do not include personal property values. The FCDA estimates which were intended to cover both real and personal property were obtained from local civil defense personnel, having varying degrees of experience in property evaluation.

The American Red Cross figures, and such city government figures as are available, on number of houses damaged are believed to be reliable. The residential dwelling counts do not include summer or beach properties, the value of which could be appreciable.

The United States Corps of Engineers estimates of direct and indirect damage were prepared a few days after the flood, broken down into watersheds. The total is \$1,600 million, for the entire area under study, of which the Housatonic watershed with \$500 million and the Thames watershed with \$400 million together account for more than half.

The FCDA data, which represent direct damage only, were broken down on the same basis as the Corps of Engineers estimates. The total of \$455 million is less than one-third that of the Corps of Engineers total, and in this case, the watersheds with the largest amounts are the Housatonic with \$173 million and the combined Delaware and Hudson with \$110 million. These two areas together

total \$283 million or 62.2 percent of the overall amount. The Corps of Engineers and FCDA tables are shown below:

Direct and indirect damages, floods of August 1955, estimated by U. S. Corps of Engineers (by watersheds)

Housatonic River (three-quarters on Naugatuck)-----	\$500, 000, 000
Connecticut River-----	140, 000, 000
Thames River-----	400, 000, 000
Blackstone River-----	200, 000, 000
Charles and Neponset Rivers-----	10, 000, 000
Delaware and Hudson Rivers-----	350, 000, 000
Total-----	1, 600, 000, 000

Direct damages, floods of August 1955, based on State and FCDA data (by watersheds)

Housatonic River-----	\$173, 000, 000
Connecticut River-----	63, 000, 000
Thames River-----	57, 000, 000
Blackstone River-----	27, 000, 000
Charles and Neponset Rivers-----	25, 000, 000
Delaware and Hudson Rivers-----	110, 000, 000
Total-----	455, 000,000

The FCDA data also permit a breakdown by classes of property, as described above.

Estimated damages by types of property based on FCDA data

Industrial-----	\$158, 800, 000
Commercial-----	65, 100, 000
Public utilities-----	85, 100, 000
Public facilities-----	90, 700, 000
Residential-----	41, 300, 000
Agricultural and miscellaneous-----	13, 800, 000
Total-----	454, 800, 000

Because of the highly industrialized nature of the area affected by the flood, miscellaneous and farm property damage represent only 3 percent of the total. Residential damage also is not a high figure percentage-wise, being 9 percent of the total. These three items together amount to \$55,100,000 out of a total of \$454,800,000, leaving \$399,700,000 for establishments largely identified with an industrial economy. The largest item is industrial damage, which accounted for 35 percent of the total.

Regarding the two categories—Commercial (65,100,000) and residential (\$41,300,000)—it is believed that these figures are conservative and might well be appreciably higher. Unfortunately, no information could be obtained on the number of commercial establishments affected, but the total for residences damaged is given as 24,654. (See table below.)

It should be noted that none of the estimates includes damage to summer and beach properties. The damage to these properties, therefore, is an addition to the residential damage, but its value is not known. Also, as far as could be determined, no estimate was made of the value of private automobiles destroyed or damaged. Likewise, the losses outlined above probably do not include damage to goods in transit.

Number of residential dwellings damaged, according to American Red Cross and Connecticut authorities

State	Total destruction	Major damage	Minor damage	Total
Massachusetts.....	97	309	4,502	4,908
Rhode Island.....	34	67	310	411
Connecticut.....	668	2,460	5,213	8,341
New York.....	26	88	1,919	2,033
New Jersey.....	93	564	1,017	1,674
Pennsylvania.....	260	1,591	5,436	7,287
Total.....	1,178	5,079	18,397	24,654

In order to develop an estimate of the damages to residential property, inquiry was made of Red Cross personnel in charge of rehabilitation work. These professional workers had widespread knowledge of the flood areas, and had been dealing with contractors and builders estimating repair and rehabilitation work. Including household furnishings, clothing, and other personal possessions, it was estimated that the average dollar value of a residential dwelling totally destroyed or washed away was approximately \$13,000; major damage was estimated to be approximately \$3,000 per residence and minor damage was estimated at \$300 each.

If these approximate values are applied to the numbers of dwellings in the above table it is found that the personal and residential-property losses were as follows:

Residences destroyed.....	\$15,000,000
Residences with major damage.....	15,000,000
Residences with minor damage.....	6,000,000
Residential damage loss.....	36,000,000

The \$36 million loss thus estimated compares with the \$41,300,000 developed by the Federal Civil Defense Administration as a residential damage in the 6-State area affected by the August 1955 floods. Dividing these amounts by the total number of properties (24,654) indicates the average damage per residence to be somewhere between \$1,500 and \$1,700.

The family rehabilitation awards made by the American Red Cross to assist those without sufficient resources of their own totaled \$7 million, while the Red Cross also provided emergency assistance of \$1,780,000. Over 14,000 families have sought Red Cross aid, although about 50 percent of these required only emergency assistance.

The large differences between the estimates by the FCDA and the Corps of Engineers seem to be due mainly to two factors:

(1) The Corps includes indirect damages in accordance with their standard procedure for computing the benefits derived from flood-control structures.

(2) The damage figures obtained from the Corps were determined shortly after the flood, when the physical conditions made it impossible to make a reliable assessment of actual damages to many properties. Up to the present date, the Corps has been chiefly occupied in making emergency repairs to essential facilities. We understand that they will prepare revised estimates at a later date.

For the purposes of the present report, we have relied primarily on the estimates of the FCDA, supplemented with data from other sources as explained above, as representing what we believe is a conservative figure for overall direct damage caused by the floods. Any wind damage included in these estimates was of a minor nature.

DIRECT AND INDIRECT DAMAGES

Damages to property caused by floods are generally classified in two groups: (1) Direct losses, and (2) indirect losses.

Direct losses consist of physical damage to property and goods, measured by present-day cost of repair or the replacement in kind, and the cost of cleanup and or moving goods.

Indirect losses consist of value of service or use which is lost or caused by flood conditions, not chargeable to direct loss. They include losses of business

and wages, and costs of relief and similar expenses, and may occur both within and outside the flood area both during the period of the flood and the subsequent rehabilitation. Typical examples during the 1955 floods were the losses to individuals and business concerns resulting from shut-down of railroads for more or less extensive periods, loss of revenue by toll-bridges or toll-highways, in addition to loss of business by factories and mercantile establishments and of wages by their employees.

Indirect damages cannot be computed with direct relation to the stage of floods, primarily because the relation between the stage and the indirect loss is not constant. Other conditions are involved, such as the fact that business losses depend also upon the time during which the plant is closed for repairs, varying with the nature of the business as well as the extent of the physical damage.

It has been found, however, that reasonable estimates of indirect losses by individual business concerns can be made as a percentage of direct losses, since there appears to be a somewhat constant relationship between indirect and direct loss. This is the practice of the Corps of Engineers, the percentages being determined from available data studied by methods of sampling and rational analysis.

NATURE OF THE AUGUST 1955 FLOODS

The study of the damage caused by the floods of August 1955 in the Northeastern States showed the diverse nature of the flooding which took place.

Much of the damage and almost all of the loss of life occurred in the upland valleys where the heavy surface runoff of water from the intense rainfall first gathered in the larger brooks and smaller tributaries of the rivers. This was the situation in the Poconos of Pennsylvania, the vicinity of Ellenville, N. Y., the Berkshire Hills and Winsted, Conn., at Putnam, Conn., on the Quinebaug River, and on the upper reaches of the Blackstone River north of Woonsocket, R. I. In these areas, the amount and force of the water turned hillside brooks into raging torrents washing out roads, bridges, farm buildings and rustic cabins in the rural areas. Where such streams were confined between banks as they coursed through towns, the rushing force of the waters undermined the high banks, and overturned or floated away all the structures in the way.

In extreme contrast were the floods in the main valley of the Delaware River. In the sections of New Jersey and Pennsylvania from Stroudsburg to Philadelphia, the damage was caused not by rushing water, but by slow inundation as the great volume of water collected from all the tributaries slowly spread out across the width of the river flood plain and proceeded down the river. In the lower sections of the cities on this river, residences and other buildings which had been flooded in 1903 and 1938 were again inundated. With each successive flooding the required repairs to the structures become more extensive because rotting of sills, timbers, and floors becomes progressively worse and more noticeable. The loss or partial destruction of the six 19th-century bridges across the Delaware River may have been caused by such weakening.

The extremely deep flooding of the Naugatuck River where so much of the Connecticut damage occurred was a combination of both rushing and inundating waters. The unprecedented volume of water delivered by the tributaries of the Naugatuck completely filled the channel and flood plain of that river. At every town from Thomaston, through Waterville, Waterbury, Union City, Naugatuck, Beacon Falls, Seymour and Ansonia to Derby, the bridges spanning the stream and the industrial buildings along its bank so confined the flood laterally that depths and velocities were increased, causing destruction never before experienced in that valley.

Though the floods of August 1955 caused such diverse and widespread damage there was almost no damage in coastal areas either from river flooding, excessive tides, or wave action.

NATURE OF OCTOBER 1955 FLOODS

Less than 2 months after the rains and floods of August 17-20, 1955, the Northeastern States were subjected to the winds and rains of an extratropical cyclone, on October 14-17. This storm came to some of the same areas where the memory of Hurricane Diane was still vivid in the minds of the residents. Areas northwest and northeast of New York City and the coast of Fairfield County, Conn., were seriously affected by this storm.

Localities such as Ellenville, N. Y., Winsted and Ansonia, Conn. might have suffered as much from the October storm as they had from Hurricane Diane

were it not for the fact that Diane had enlarged the stream channels by scour and the Corps of Engineers had just completed clearing the channels of debris from that storm. In these places, flooding was less severe and not much of the property swept away or damaged in the first flood had been replaced in the short time before the occurrence of the second.

In the same localities where temporary bridges and structures had been erected and where permanent repair work had been started, extensive damage was caused to these facilities.

The October storm brought extra high tides to the western Connecticut shoreline. Accompanying high winds caused considerable damage to sea walls and dikes. This combination of winds, tide, and rain flooded beach areas and required evacuation of these lowlying shore areas which had been developed with year-round residences.

As in the case of Diane, the extreme precipitation in October caused sheet runoff of such volume that the smaller streams became raging torrents, washing roads, bridges, and other obstructions out of the way. Many coastal streams of Fairfield County caused extensive damage, the maximum damage of this kind being felt in Norwalk, Conn.

Estimates of the October floods are now possible although they are considered as preliminary. The total damage of the October flood amounts to \$38,570,000 compared to \$454,800,000 for August. In both floods Connecticut suffered the greatest losses, 46 percent of the total in August and 67 percent in October. Rhode Island, one of the States which was hard hit in August suffered no damage in October, while damage in two other States, Massachusetts and Pennsylvania, was small in October.

The following table indicates the directly comparable damage figures resulting from the August and October floods:

Class of flood damage	August flood	October flood	Total
Industrial.....	\$158, 800, 000	\$3, 610, 000	\$168, 410, 000
Commercial.....	65, 100, 000	4, 870, 000	69, 970, 000
Public utilities.....	85, 100, 000	1, 110, 000	86, 210, 000
Public facilities.....	90, 700, 000	14, 550, 000	105, 250, 000
Residential.....	41, 300, 000	7, 480, 000	48, 780, 000
Agriculture and miscellaneous.....	13, 800, 000	950, 000	14, 750, 000
Total.....	454, 800, 000	38, 570, 000	493, 370, 000

While these figures indicate that the October storm caused less damage generally, in at least one respect it was more serious and its effects more widely felt. It caused highway and railroad washouts such that—

(1) The New Haven Railroad suspended all operations in New England for 36 hours; then

(2) Though passenger service was resumed by buses, freight service to and from New England continued suspended for 8 days; and

(3) The Boston Post Road (U. S. Route 1) and the Merritt Parkway (Connecticut Route 15) were both severed for 5 days.

The simultaneous disruption of these three facilities by washouts in the vicinity of Norwalk caused major inconvenience to thousands of travelers and shippers between New York and the whole of New England.

METEOROLOGICAL CONDITIONS PRODUCING EXTREME FLOODS AND STORM TIDES IN THE NORTHEASTERN STATES

The present study attempts to appraise the flood-producing potentialities of the Northeastern States taking into account the extreme river and tidal stages resulting from the passage over the region of several intense hurricanes. The rainfall of the tropical cyclone of August 17–20, 1955, is compared with the precipitation that occurred in storms of the past and with a preliminary estimate of the maximum possible rainfall. In a like manner observed hurricanes storm tides along the coast of southern New England are compared with the theoretical maximum ocean surface levels.

Hydrological conditions conducive to producing severe floods

In all seasons of the year a reduction of the water-absorbing capacity of the soils by even a series of minor storms can create a condition conducive to critical rates of runoff if a major storm should then occur.

In the winter and spring the maximum floods are caused by warm air masses producing precipitation on a heavy snow mantle thus augmenting normal rainfall runoff by snow melt. The atmospheric moisture during these two seasons is, however, less than can occur in the summer and fall and net peak rates of flow should be less though total runoff volume may be larger.

In the summer and fall the atmospheric moisture content and temperature of the air masses that can invade the Northeastern States approach the maximum values frequently attained in the Tropics. It is to be expected, therefore, that maximum rates of rainfall and runoff can be expected during the summer and fall though flood volumes may be less than in winter and spring.

Sources of atmospheric moisture

The air masses responsible for heavy precipitation in the Northeastern States must largely be of maritime origin. The source regions for the warmest and most humid air are the Caribbean Sea and Gulf of Mexico. These tropical maritime masses reach the Northeastern States in two ways, namely:

- (1) By overland paths along the Mississippi and Ohio River Valleys, and
- (2) More directly over the waters of the Atlantic Ocean.

It is to be expected that during certain seasons, the air masses passing over the land are modified and consequently are less moist than those passing over the Atlantic. Observations of maximum atmospheric moisture content indicate the correctness of this assumption.

The air masses in the source regions attain their properties by a transfer of energy from the surface of the ocean to small masses of air. For this transfer to occur the sea surface temperature must be higher than the air temperature at the contact surface and the vapor pressure over water must be greater than that of the air.

Sea surface temperatures in summer in the Caribbean Sea and Gulf of Mexico average about 28° C. (82° F.). In the winter the average sea surface temperature is only about 3° C. (5° F.) less. In the source region summer tropical maritime air is therefore somewhat warmer and more moist than in winter but the vertical structure is similar.

As these masses pass inland from the source region in summer the continental areas tend to raise their temperature. On the other hand, in winter the Atlantic and land areas tend to lower the temperature of the tropical maritime air.

It is of particular interest to note that in summer there is marked potential instability in the air masses originating in the Caribbean Sea and Gulf of Mexico. This instability is the source of the large quantities of energy used in the production and maintenance of the hurricanes that may eventually reach the Northeastern States. After passing outside of the Tropics hurricanes can travel long distances through latitudes which in summer and early autumn have tropical climatic conditions. As the tropical maritime air moves northward in summer it is generally to be expected that little change of its properties will take place.

Storm types

Distinct and clear-cut storm types rarely exist in nature. One form of meteorological disturbance may often directly or indirectly influence another. However, as a general classification, three types of storms have characteristics of importance in producing severe floods in the Northeastern States, namely:

- (1) Thunderstorms, which can produce extremely high rates of precipitation over relatively small areas.
- (2) Frontal storms, generally responsible for moderately heavy rains of long duration.
- (3) Tropical cyclones (hurricanes) and extratropical cyclones, which can cover moderately large areas with intense and prolonged rates of precipitation.

Actual storms are usually a combination of storm types all of which are subject to intensification by the effects of local topography (orographic action).

Whether hurricanes are now more frequent along the Atlantic coast than in the past is currently a subject of controversy among meteorologists. One of many theories relates the increase of number of hurricanes along the coastal

United States to a northward shift of the upper westerly winds. However, no satisfactory evidence exists as to whether a change in hurricane paths has actually occurred, of either a temporary or permanent nature.

It should be noted that all tropical hurricanes are identified as cyclones, but not all cyclones are classed as hurricanes. A cyclonic air movement takes place around a barometric low, the winds in the cyclone traveling counterclockwise around the center (in the Northern Hemisphere). Tropical hurricanes are cyclones that have their origin a few degrees of latitude north of the Equator, over the open ocean, and increase in intensity sufficient to produce wind velocities exceeding 75 miles per hour. If they do not reach this intensity, the disturbance is called a cyclone rather than a hurricane. If the source of the disturbance is over the ocean and north of the tropical regions, it is called an extratropical cyclone.

Examples of past meteorology situations

The storm of October 3-4, 1869, is one of the earliest flood periods for which rather complete data on rainfall are available. This storm covered New England, New York, New Jersey, and Pennsylvania. The floods resulting from this storm may have been intensified by the rainfall of the hurricane of September 8, 1869.

The storm of November 2-6, 1927, was the result of two local cyclones that developed on November 3, 1927, and which moved rapidly in a northerly direction along a semistationary front with a north-south orientation passing through Vermont. A prolonged period of rainfall resulted from the gradual lifting of warm moist air over a barrier of cool and stable air. General and local convergence in association with a trough of pressure, accompanying the passage of the cyclones, intensified the precipitation in Vermont.

The hurricane of August 17-23, 1933, produced heavy rainfall in Pennsylvania and a record high tide at Norfolk, Va., on the 23d. This tropical cyclone originated to the east of the Windward Islands on August 17 and by the morning of August 23, was over Norfolk. By evening the storm was over Washington, D. C., and continued northward into Pennsylvania. The intensity of the storm decreased gradually and finally dissipated itself in the St. Lawrence Valley.

The storms of July 6-10, 1935, centered in Pennsylvania and New York, were a result of a semistationary cold front oriented in a north-south direction. Moist air passing over the front, in combination with a series of frontal thunderstorms, produced prolonged and intense rainfall under the front and against the mountains.

The storms of March 9-22, 1936, produced two of the most outstanding winter floods of record in the North Atlantic region. The resulting rainfall was accentuated by large quantities of snow melt. Two distinct periods, March 11-13 and March 17-19, 1936, were responsible for independent floods in close succession. The precipitation resulted from overrunning and convergence along a front separating warm and moist maritime air from the south and cold and relatively dry polar air from the west and north.

The storm of September 17-21, 1938, produced extremely heavy rainfall in New England. The greatest precipitation occurred immediately before the passage of the hurricane proper. A deep cold cyclonic disturbance centered over Lake Michigan induced a flow of warm moist air over New England. A trough of pressure in conjunction with a semistationary front was formed over Connecticut and Vermont. The circulation which caused the front to stagnate also induced the hurricane to penetrate the frontal zone. High rates of precipitation were caused by strong winds in the upper atmosphere and also caused the hurricane to progress rapidly through New England.

The storm of August 17-20, 1955, was the result of a tropical disturbance that originated in the Atlantic Ocean approximately 400 miles to the northeast of Puerto Rico on August 11. The disturbance reached hurricane proportions on August 12. The center of the hurricane reached the coast and moved inland near Wilmington, N. C., on August 17. By the evening of the 17th heavy rains fell in central Virginia. The hurricane continued to move in a northerly direction on August 18, up to the Mason-Dixon line at which point it turned sharply to an easterly direction. This caused heavy rains over eastern Pennsylvania, New York, New Jersey, and southern New England. The precipitation in southern New England was prolonged as the storm center moved eastward along the 40-degree parallel for about 12 hours. Rates of rainfall were greatly intensified by the orographic effects of the lifting of moist air currents by upward flow over

the mountain slopes. Figure 1 shows the rainfall pattern for the period August 17-20, 1955.

The runoff resulting from the storm of August 17-20, 1955, was intensified by the depletion of soil absorbing capacity caused by the rainfall of Hurricane Connie which had preceded the August 17-20 storm by about a week.

Table 1 shows the preliminary values of average rainfall depth versus area for the storm of August 17-20, 1955.

TABLE 1.—*Average depth of rainfall against area, storm of Aug. 17-20, 1955 (southern New England, New York, New Jersey, Pennsylvania)*

Area:	Average depth of rainfall (inches)
1 square mile.....	19.9
265 square miles.....	16
850 square miles.....	14
2,170 square miles.....	12
4,550 square miles.....	10
8,300 square miles.....	8
16,800 square miles.....	6

Table 2 compares the values of average depth of rainfall against area for a number of great storms in the Northeastern States. Figure 2 is a graphical representation of these data. In general the depths of rainfall for the hurricane of August 17-20, 1955, exceed all previous amounts, although the storm of September 17-21, 1938 produced precipitation of only slightly less magnitude.

FIGURE 2

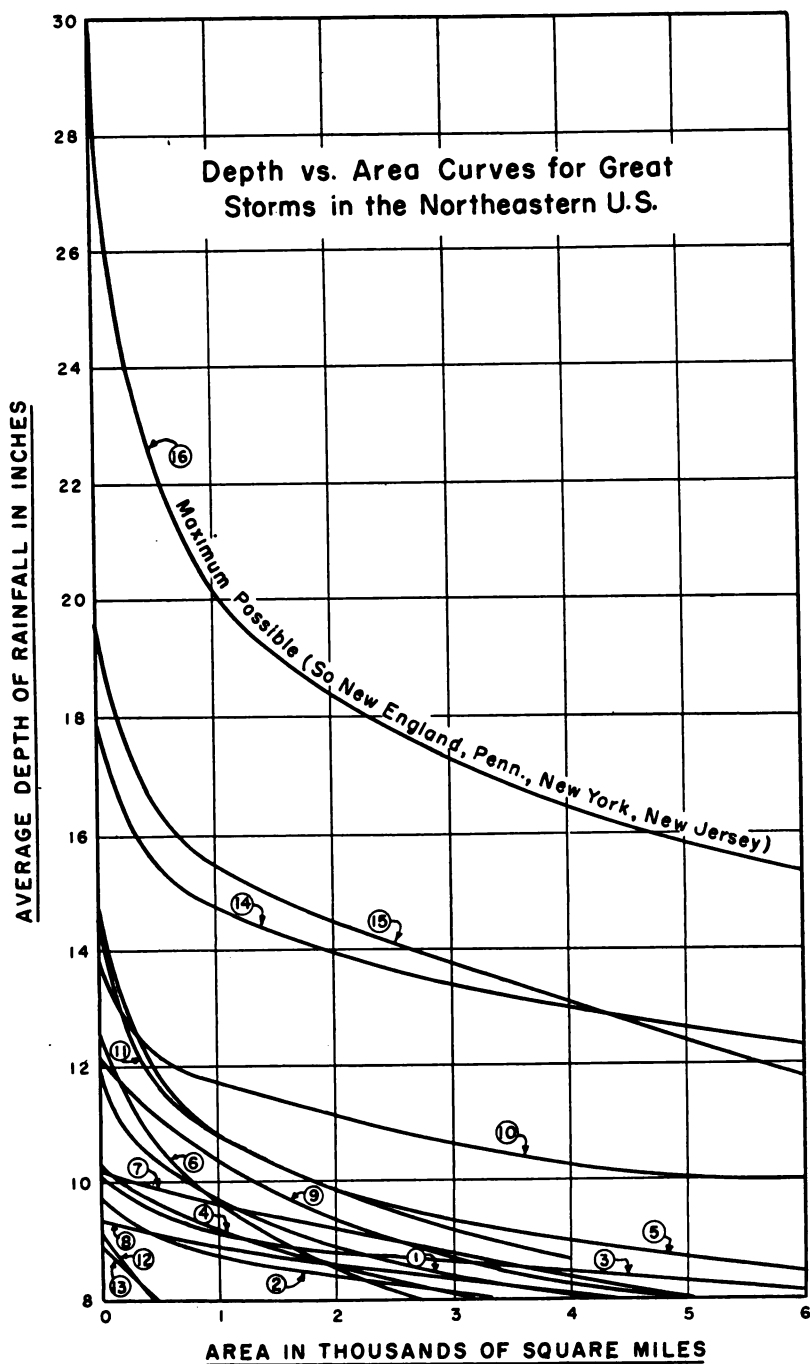


TABLE 2.—Comparative values of average rainfall depth versus area for great storms in the Northeastern States

Date	Location of storm center	Approximate duration (hours)	Curve No.	Maximum average depth of rainfall over area (square miles)						Source
				1	500	1,000	2,000	4,000	6,000	
Oct. 3-4, 1869	Connecticut	48	1	12.4	10.4	9.7	8.9	8.1	7.8	United States engineering department.
May 31-June 1, 1869	Pennsylvania	48	2	9.8	9.1	8.8	8.4	7.8	7.5	Do.
May 18-22, 1894	do.	120	3	10.1	9.5	9.1	8.8	8.4	8.1	Do.
July 12-14, 1897	Connecticut	48	4	10.3	9.6	9.3	8.6	7.7	7.0	Do.
Oct. 8-9, 1903	New Jersey	48	5	15.0	11.9	10.9	9.9	9.0	8.4	Do.
July 19-23, 1919	do.	120	6	12.8	10.7	9.7	8.5	7.5	7.0	Do.
Aug. 13-17, 1919	do.	120	7	10.2	9.9	9.6	9.2	8.4	7.7	Do.
Nov. 3-4, 1927	Vermont	48	8	9.4	9.1	8.9	8.6	8.1	7.7	Do.
Sept. 16-17, 1932	Rhode Island	48	9	12.2	11.2	10.4	9.4	8.3	7.8	U. S. Geodetic Survey.
Aug. 20-24, 1933	Pennsylvania	120	10	14.0	12.2	11.8	11.2	10.3	10.0	United States engineering department.
July 6-10, 1935	New York and Pennsylvania.	72	11	15.0	11.7	10.9	9.9	8.7	-----	U. S. Geodetic Survey.
Mar. 9-13, 1938	New England	96	12	9.2	7.9	7.3	6.6	5.9	5.4	Do.
Mar. 16-19, 1936	do.	120	13	9.0	8.0	7.7	7.9	7.0	6.8	Do.
Sept. 17-21, 1938	do.	96	14	18.0	15.5	14.8	14.0	13.0	12.3	Preliminary estimate by Parsons, Brinckerhoff, Hall & MacDonald.
Aug. 17-20, 1955	Connecticut	72	15	19.9	16.5	15.5	14.5	13.1	11.8	Preliminary determination by Parsons, Brinckerhoff, Hall & MacDonald.
Maximum possible	Southern New England	48	16	30.0	22.4	20.3	18.4	16.6	15.3	

Hurricane rainfall and hurricane tides

The probability of hurricane occurrence per month in the Atlantic Ocean is as follows:

Storms per month	Probability						
	May	June	July	Aug.	Sept.	Oct.	Nov.
1.....	0.09	0.34	0.39	0.75	0.92	0.83	0.36
2 or more.....	.02	.06	.11	.52	.72	.59	.03
3 or more.....	0	.02	.03	.19	.42	.34	.03

Source: Colon, J.: Monthly Weather Review, vol. 81, No. 53, 1953.

These figures indicate that it is very nearly a certainty that a hurricane will occur in the Atlantic in September, in any year, with excellent chances of such occurrence in August and October also.

The probability of hurricane occurrence in the Northeastern States is, of course, much less but the relative monthly distribution is possibly similar.

TABLE 3.—*Historical hurricanes of great severity in New England, 1635–1938*

Date	Location	Damage
Aug. 15, 1635.....	New England.....	Widespread destruction of trees.
Aug. 19, 1788.....	Eastern New York and western New England.	Much damage in Connecticut and Massachusetts.
Sept. 23, 1815.....	Connecticut and Rhode Island.....	Generally destructive.
Sept. 3, 1821.....	Long Island and Connecticut.....	Great damage at New York and in Connecticut. At New York the tide rose 13 feet in 1 hour.
Sept. 8, 1869.....	Connecticut, Rhode Island, and eastern Massachusetts.	Destructive in path 60 miles wide.
Oct. 23–24, 1878.....	New York and New England.....	Much damage.
Aug. 24, 1893.....	New York, Connecticut, and Rhode Island.	Severe in Connecticut and Rhode Island.
Sept. 16, 1903.....	Connecticut Valley.....	Extensive damage to shipping.
Sept. 21, 1938.....	Long Island and New England.....	Enormous property damage.

Table 3 lists the hurricanes of great severity in New England (1635–1938). Knowledge is lacking concerning the rainfall of the earliest of these tropical hurricanes. Of the 16 great storms listed in table 2 only 4 are definitely hurricane types which directly or indirectly created floods, namely:

Oct. 3–4, 1869.....	Indirectly created flood conditions.
Aug. 20–24, 1933.....	Directly created flood conditions.
Sept. 17–21, 1938.....	Do.
Aug. 17–20, 1955.....	Do.

The actual depth of rainfall during hurricanes is probably much in excess of the amounts indicated by rain gages. The high winds cause the drops of rain to be driven very nearly horizontally and the gages are unable to accumulate representative catches. It is likely, therefore, that the water available for runoff during the hurricanes of September 1938 and August 1955 largely exceeded the amounts recorded.

Observations indicate that the heaviest rainfall in a hurricane is produced in the right front quadrant of the storm. Under certain simplifying assumptions as to rainfall distribution in a hurricane and progressive speed of the center it is possible to arrive at some concept of the upper limits of rainfall. The results of such a preliminary study are given below.

The upper limits of instantaneous wind velocity during a hurricane is not known. In the New England hurricane of September 1938 a velocity of 121 miles per hour was measured for a 5-minute period. The Blue Hill Observatory at Milton, Mass., observed an instantaneous velocity of 186 miles per hour. The winds responsible for the great wind tide in Connecticut, Rhode Island, and Massachusetts averaged about 100 miles per hour for a period of 2 or 3 hours.

Table 4 shows the extreme storm tide elevations experienced at locations on the coasts of the Atlantic and Gulf of Mexico.

TABLE 4.—*Extreme storm tide elevations (above astronomical tide level)*

Date	Location	Approximate storm tide
Sept. 3, 1921	New York, N. Y.	13 feet.
Aug. 27, 1893	Savannah-Charleston, S. C.	Submerged islands.
Sept. 1, 1919	Corpus Christi, Tex.	16 feet.
Sept. 3, 1935	Florida Keys.	15 to 20 feet.
Sept. 21, 1933	Gay Head, Marthas Vineyard, Mass.	Do.
Do.	Providence, R. I.	16 feet.
Aug. 31, 1954	do.	15 feet.

Means are available for determining theoretically the maximum storm tides that could occur at any desired location. It is probable that, with the exception of the coast of southern New England in the vicinity of Narragansett Bay, no portions of the Atlantic coastal waters of the United States have yet experienced the greatest possible storm tides due to hurricanes. There is some theoretical justification in the belief that the storm tides of the southern New England coast could not exceed 20 feet. Under extreme conditions storm tides within the geographical area covered by this report may exceed 16 feet. However, considerable magnification of the coastal storm tide would occur in sea inlets such as the lower reaches of rivers and in shallow bays and estuaries.

Studies are currently being made by governmental and other agencies for the purpose of estimating possible maximum storm tides along the entire Atlantic and gulf coasts of the United States.

Estimated maximum possible rainfall

There is observational evidence to indicate that no one particular type of storm is responsible for producing the greatest intensity of precipitation in the Northeastern States. In the present study the determination of the maximum possible rainfall was largely founded on the investigations of the United States Weather Bureau. Using the most recent data available and other means of computation, a slight upward revision of USWB amounts was made. The resulting depth versus area values are shown in table 2 and are plotted in figure 2.

It can be seen that no storm of record has yet approached these maximum possible values. However, it is possible that if the center of the storm of August 17-20, 1955, had passed to the northward of its actual path the probably heavier rainfall of the front right quadrant would have fallen on southern New England. It is possible that the rainfall quantities of the transposed hurricane could have approached the maximum possible rainfall. An exact determination of the actual meteorological situation in the August 17-20 flood must await the completion of present studies by the United States Weather Bureau.

Conclusions

The present study indicates that the Northeastern States have not yet experienced the greatest possible floods due to rainfall. The maximum possible rainfall exceeds by a considerable amount any measured precipitation experienced in the past.

The greatest storm tides have probably been approached on several occasions at certain locations on the coast of southern New England. Other Atlantic coastal regions have not yet experienced the greatest possible storm tides.

COMPARISON OF 1955 FLOODS WITH PREVIOUS FLOODS

It has already been mentioned herein that the total precipitation occurring on a given area of land during the Diane storm of 1955 was considerably greater than in any previous storm of record in the Northeastern States. The relative effect on flood discharge of many streams in this area was even more pronounced. This was particularly true of the smaller streams whose headwaters are located in the zone of maximum precipitation. Typical examples of this condition for rivers in Connecticut and Massachusetts are given in table 5, based on preliminary estimates of streamflow by the United States Geological Survey. On the smaller drainage basins, the 1955 flood was as much as eight times as great as the maximum previous record. On the other hand, the flood on the Connecticut River was much smaller than the previous maximum, because the 1955 storm only affected a small fraction of the entire drainage basin.

It is evident that the hurricane storms of August 1955 caused unprecedented depths of precipitation over certain areas, resulting in floods of extraordinary magnitude on many of the smaller rivers and streams.

TABLE 5.—*Comparison of 1955 floods with previous records*

Stream location	Drainage area, square miles	Length of record, years	Maximum previous flood		1955 flood c. f. s. ¹	Ratio of 1955 to previous maximum
			Date	C. f. s. ¹		
NEW ENGLAND						
Neponset River, Norwood, Mass.	35	16	May 9, 1954	430	1, 150	2.68
Blackstone River, Northbridge, Mass.	139	16	Mar. 19, 1936	7, 510	13, 000	1.73
Blackstone River, Woonsocket, R. I.	416	26	July 24, 1938	15, 100	26, 000	1.72
Quinebaug River, Westville, Mass.	94	16	Mar. 22, 1948	1, 500	13, 000	8.68
Quinebaug River, Putnam, Conn.	331	26	Sept. 21, 1938	20, 900	39, 000	1.87
Still River, Robertsville, Conn.	84	7	Dec. 31, 1948	9, 550	32, 000	3.36
Blackberry River, Canaan, Conn.	48	6	Nov. 26, 1950	2, 550	10, 500	4.12
Naugatuck River, Thomaston, Conn.	72	25	Dec. 31, 1948	10, 200	35, 000	3.44
Naugatuck River, Naugatuck, Conn.	246	27	do.	28, 500	106 000	3.72
Connecticut River, Thompsonville, Conn.	9, 661	27	Mar. 20, 1936	282, 000	174, 000	-----
NEW YORK STATE						
Rondout Creek, Rosendale, N. Y.	386	30	Aug. 27, 1928	27, 300	30, 900	1.13
Wallkill River, Gardiner, N. Y.	711	32	June 1, 1952	21, 200	30, 600	1.44
Fishkill Creek, Beacon, N. Y.	186	11	Jan. 25, 1953	3, 220	8, 800	2.73
Delaware River, Barryville, N. Y.	2, 023	15	May 23, 1942	105, 000	130, 000	1.24
Delaware River, Port Jervis, N. Y.	3, 076	51	do.	140, 000	233, 000	1.66
Tenmile River, Tusten, N. Y.	45	10	Nov. 26, 1950	1, 870	6, 850	3.66

¹ C. f. s. means cubic feet per second.

CLIMATIC CHANGES

The great increase in precipitation and stream discharge in the 1955 floods as compared with previously recorded storms indicates that the storms of August 1955 were of a very exceptional nature. From a statistical standpoint, it appears that they would have a probability of occurrence much smaller than would be indicated by theoretical studies based on previously available records. Two alternative inferences may be drawn from this situation:

(1) The 1955 storms were the result of atmospheric conditions of a most unusual character, following the simultaneous occurrence of a number of unfavorable controlling factors that normally would not be expected to occur together; or

(2) There have been changes in general climatic or atmospheric conditions in recent years that tend to increase the frequency and intensity of storms of this type along the North Atlantic seaboard.

If the first inference is accepted, it would be possible to make a reasonable estimate of the probability of occurrence of such storms in the future, for use in determining the effect of the 1955 floods on the mean annual flood damage to be expected on rivers in the area under consideration. If the second inference holds, however, any estimates of flood probability based on previous records would have to be revised to include the effect of the assumed changes in meteorological conditions.

This problem involves consideration of the general question of climatic change in the Northern Hemisphere. Studies by geologists, meteorologists, and other scientists indicate that there may be a gradual climatic change underway, of a nature similar to climatic cycles that have occurred on the earth in past ages. Such changes, however, are known to be very slow, extending over periods of thousands of years. It does not appear likely that they would show any appreciable effect within periods of 50 or 100 years. The recent apparent changes in climate affecting the paths of hurricanes along the North Atlantic seaboard cover too short a time period to justify the assumption of any long-term major climatic changes in this region. Nevertheless, the possibility of such cyclic variations in climate should not be neglected in estimating flood probabilities.

PROBABILITY OF OCCURRENCE OF 1955 FLOODS

If the question of climatic change is eliminated from consideration, the excessive magnitude of the 1955 storms must be treated as due to an unusual combination of most unfavorable controlling factors, but excluding any additional factors that have not been effective during the period of record. As a result, if we have prepared a suitable probability curve representing the previously recorded floods, the 1955 floods should be located on the same curve. But since these recent floods are so much larger than any previously observed, such a method of plotting will result in assigning a very low value of probability to them.

For example, if the previous probability study was based on a record extending from 1900 to 1950, the previous maximum flood would be considered to occur on an average of once in 50 years, or with a probability of $2/100$. Adding the 1955 flood to this record might indicate that its probability of occurrence is only once in 500 years ($0.2/100$) although the present length of record would indicate a corresponding value of only one in 55 years or $1.82/100$.

If the present hurricane situation is assumed to be the result of climatic changes, the question of determining the probability of occurrence of the 1955 floods becomes much more difficult. Such a change would have to be assumed as commencing not earlier than 1938, the year when the first severe hurricane in more than 100 years struck the Long Island coastline. The intervening period of 17 years is much too short to permit any reasonable estimate of probability for the recent storms.

All of this brings out the difficulties of estimating mean annual flood losses in any locality by statistical methods, even if the problem of errors of sampling discussed in our 1952 report could be satisfactorily taken care of.

EFFECT OF 1955 FLOODS ON MEAN ANNUAL FLOOD LOSSES

Even if the 1955 floods are exceptionally large in comparison with previous recorded floods, their effect on determination of the mean annual flood loss for any particular property may be relatively small. As a check of this conclusion, we have investigated the losses that would be incurred by such floods in the Naugatuck River Valley at Waterbury, Conn., upstream from the Mad River, as estimated by the New England Division of the Army Corps of Engineers, using methods described in our 1952 report, in a study of the Merrimac River at Lowell, Mass. The latter study could not be used for a comparison of the 1955 floods, since these had only a small effect on the Merrimac River.

The Corps of Engineers analyzed the flood records at Waterbury in 1953. In a considerable portion of the city, the estimated flood damages were correlated with water stage levels on the upstream side of the West Main Street bridge. Flow records through Waterbury were available as far back as 1930, from which a flood-probability curve was prepared. With these results, a curve of damage vs. probability was prepared, corresponding to the records prior to 1953, similar to figure 6 of our 1952 report. From this curve, the mean annual flood loss for the area under consideration was estimated at \$47,200, based on 1949 price levels. Applying an index of 1.3 (increase the value to) reflect 1955 prices would result in mean annual flood loss of \$61,360.

The discharge at Waterbury in the August 1955 flood was estimated by the Corps of Engineers as about 80,000 cubic feet per second. The corresponding total damage in the area under consideration was estimated as about \$13 million (1949 prices), or \$16,900,000 on the basis of 1955 prices, based on an extrapolation of the previously mentioned study of flood damages. If the 1955 flood is correlated with the flood-probability curve obtained from the records prior to 1953, it may be assumed to have a probability of only 0.001 percent. With these data, the 1955 flood could be assumed to increase the estimate of mean annual flood loss by $\$16,900,000 \times 0.001$, or \$1,690, which is only 2.75 percent of the 1953 estimate (\$61,360), raised to 1955 prices.

EFFECT OF REPETITIVE FLOODS

The floods resulting from Hurricane Diane on August 17-20, 1955, caused extensive damages in the area under study. The storm of October 14-17 caused serious flooding in portions of the same area that was damaged during the August floods only 8 weeks previously. This raises the question of how such a repetition of floods in the same year would affect owners of properties subject to flooding.

This question was considered in our 1952 report, page 17, in connection with the discussion of methods of selection of flood events for statistical analysis. "If the partial duration series is used to establish a flood-frequency curve, it will generally include more than one flood in any particular year. If these individual floods are not far apart in date of occurrence, they should not all be included in the record. After one flood has occurred, a subsequent flood within a few weeks will not cause additional direct damage to the property unless the damage caused by the first flood has been at least partially remedied in the meantime."

In the floods of October 1955, most of the damage was done in localities that were not seriously affected by the August floods. Accordingly, for these the "annual flood" for 1955 would be that recorded in October rather than in August. For other properties, the August flood would be considered in the statistical analysis, unless the discharge in October actually exceeded that recorded in August.

Present indications are that the precipitation during the October storm was generally less intense than in August. However, it is possible that flood stages on some streams during the October flood might have been higher if debris deposited in or adjacent to the flood channel had not been removed prior to the October storm.

TYPES OF FLOODS

The storms of August 1955 were affected by different conditions in the various river valleys. On the larger rivers, such as the Delaware, the damage was caused largely by water transmitted from upstream at greater rates than could be handled by the natural river channel, resulting in overflow of the river banks and inundation of the adjacent flood plains. On the smaller streams, there was apparently extensive sheet runoff, resulting in "overland floods" (1952 report, p. 60). This condition caused widespread damage and loss of life in sections that had never previously been subject to severe floods within the period of record, and was at least partially the result of the ground being well saturated by Hurricane Connie before Diane came along.

On some rivers, much of the flood damage was caused by the failure of old dams upstream. In portions of Pennsylvania and New England, there are numerous small dams constructed many years ago at a time when there was inadequate information available as to possibilities of floods forming in the streams. Some of these dams had insufficient spillway capacity to pass the excessively large flows occurring during the flood, and many of them washed out from that cause. Others, particularly those constructed partly of timber, were weakened because of their age, and unable to withstand the pressure of the high water. Wherever one of these dams failed during the crest of the flood, the maximum discharge downstream was greatly increased.

TYPES OF FLOOD LOSSES

Flood losses are generally classified as (1) direct losses, and (2) indirect losses. The direct losses comprise physical damage to property and goods. Indirect losses include the loss of wages and business profits, or the increased operating cost due to the flood. The direct losses are caused by inundation or dynamic effects, but generally would not be affected by the duration of the flood or by the occurrence of a repeater flood such as that of October 1955, within a few weeks after the original flood, unless the second flood were greater in magnitude than the first. Indirect losses might be increased by a second flood, or by increase in the duration of flooding.

POLLUTION OF GROUND WATER

Along certain rivers, particularly adjacent to the ocean, an appreciable rise in the stream surface may cause pollution of ground water in the vicinity of the river, even if the flood plain is not extensively inundated. If the river surface rises above the ground-water table, there will be a discharge from the river to the ground-water reservoir, and the latter may become polluted by salt water or by sewage or industrial wastes in the river. There is no evidence available of such pollution having occurred in the 1955 floods.

H. ALDEN FOSTER.
CURTIS J. HOOPER.
A. A. KOCH.

Senator LEHMAN. Is Mr. Clifford R. Gillam here?

**STATEMENT OF CLIFFORD R. GILLAM, ON BEHALF OF THE
AMERICAN HOTEL ASSOCIATION**

Mr. GILLAM. Mr. Chairman, I have brought with me some pictures you might want to glance through as I present this story. They reveal the before and after story of our 1955 flood.

My story will be a little different than the previous witness', as I am here to plead for insurance coverage.

I am Clifford R. Gillam, president and general manager of the Buck Hill Falls Co. and the Buck Hill Water Co. operating The Inn at Buck Hill Falls, Pa. I am appearing today as a representative of the American Hotel Association, which speaks for our industry in connection with your committee's hearings on insurance against floods and other disasters.

Our own property comprises some 6,000 acres in the Pocono Mountains, of Monroe County, Pa. Our location is in a nest of small mountain streams which feed the Brodhead's Creek which flows into the Delaware. The Buck Hill Creek was one of the headwaters of the flood of last August and one of the watersheds where extremely heavy damage was sustained.

You are familiar with the severity of the flood and so will not be surprised to learn that there were 100 deaths, millions of dollars of property damage, plus millions of dollars of losses of business following the flood, that 41 State highway bridges were destroyed within the county and 26 highway bridges, State, and township, destroyed within the small township of Barrett in which our property is located.

Our company's damages have been appraised at \$525,000 with a total value before the flood of \$4 million. This is a very real disaster. We have an elevation ranging from 1,400 to 2,000 feet and it had always been assumed that we were free of any flood threat. The stream which is normally from 4 to 20 feet wide rose as much as 30 feet and became a raging torrent at least one-quarter-mile wide in places. To indicate the force of the floodwaters, 350 feet of 10-inch cast-iron pipe were swept away and not a single piece ever recovered. In all, we lost 3 dams and 5 bridges of our own, plus two State highway bridges on roads through the settlement.

This experience was bad enough, but we are truly frightened over the fact that insurance underwriters, following an extensive study, are predicting more frequent recurrences of such floods than has been experienced heretofore. Parsons, Brinckerhoff, Hall & Macdonald, an engineering firm mentioned by a previous witness, was employed to study probable recurrences.

A grim forecast of future floods of even greater magnitude in Pennsylvania, New York, New Jersey, and New England, was presented by a New York engineering firm in a recent survey prepared for the American Insurance Association—

according to a recent news release based on the report. Such a situation is surely deserving of congressional attention.

On the other side of the picture, the United States Corps of Engineers has characterized the 1955 disaster as one which normally occurs only once in 500 years. Along the Brodheads, where at places the floodwaters rose 30 feet in 30 minutes, the high water was $2\frac{1}{2}$ times any previously recorded level. Property owners with danger-

ous water exposure, such as we have experienced, have endeavored to obtain flood insurance for 20 years or more, only to find that the coverage was not available. If such protection is inaugurated, premiums must necessarily be at a level commensurate with management's estimate of the risk involved. This unquestionably could be accomplished if the insurance carried could be spread over the country as a whole.

Because of our own experiences in Pennsylvania which I have described to you, you will understand my interest in the various bills which are before your committee at this time. I can also speak for all elements of the hotel industry which are equally concerned over the problem on a nationwide basis. However, we have misgivings over the proposal to limit the coverage to flood insurance.

We understand that spokesmen for insurance companies, for the United States Chamber of Commerce, and other business groups testified before the House Committee on Banking and Currency to the effect that flood insurance alone might not be actuarially sound. Since your bill, Senator Lehman, S. 3137, provides for a study of other forms of national disaster insurance over and above floods, I hope it will be pertinent for me to make the following statement.

Before the House and Senate Banking Committees ever announced hearings on Government reinsurance, the American Hotel Association undertook a nationwide survey of a selected list of hotel properties. More than 80 percent of the 600 establishments which responded indicated that they would be interested in some form of disaster insurance, but almost unanimously expressed the conviction that flood insurance alone would not be practical.

Our members, representing every one of the 48 States, reported an interest in water insurance of three types—flood damages, high tides and wave wash, and other water damage howsoever caused. They also generally expressed the belief that such coverage should be broadened to include other forms of disaster such as tornadoes, earthquakes, and hurricanes. The majority felt that this type of insurance, with a broad base of coverage, might prove actuarially sound.

I do not pose as an expert in the field of insurance, but any representative of management can testify that the smaller the business establishment the more essential that it be protected by insurance against foreseeable risks.

In our case, it was the small operator, where his physical buildings were confined to a small area, who was truly hurt in proportion to his investment, and many of those business establishments are simply wiped out. They do not exist.

I believe that generally hotelmen would prefer that private insurance companies set up a disaster-insurance program. But we freely admit that it might be necessary for some Federal reinsurance, or underwriting, particularly at the start of any such program. We believe that insurance companies should reserve the right to grade the individual risks, based on exposure, and to have a sliding scale of premiums. It is conceivable that some properties might not be insurable even though a national program were inaugurated. Also we would expect a deductible provision in any insurance contract, whereby the insured would not expect to be covered on nominal damages. It is a disaster situation such as we had at Buck Hill for which we plead for insurance coverage.

Our United States Government, through the Department of Treasury and its Internal Revenue divisions, was the largest loser financially as a result of the flood.

Let me illustrate. In our own comparatively small operation our casualty loss will wipe out any Federal income tax for the fiscal year 1955 and our claims for refund for previous years will amount to approximately \$65,000. Multiply this by the losses of scores of corporations in this county and hundreds in this State and Connecticut plus the losses in the income of individuals, and the total will run into the millions. If insurance had been available and carried, this loss by the Federal Treasury would have been greatly reduced. In fact, I think the Government is already in the insurance business through the tax-refund route.

Undoubtedly the losses have been so great in some cases that the carryback and carryforward tax credit will be sufficient to wipe out all income taxes for the years from 1953 to 1960. What happens in such cases if there is another flood or similar disaster? The only possible result would be that many of these companies would face financial ruin.

Your committee undoubtedly will give thought to the level of the premium required for such coverage. I cannot give you a dollar-and-cents figure which would represent a premium in which management would quickly embrace such a program, but I feel that after the experiences of 1955 management would pay a rather substantial sum, if need be, to insure against the loss of anticipated profits, as well as the loss of invested capital.

And I think that would apply in areas that had never been hit by floods before.

We believe that it is entirely possible that it may be necessary for our Government to initiate such an insurance program if one is ever to be established. And, after an experience of 5 or 10 years possibly it should prove actuarially sound to underwrite such a program privately. In that case the insurance companies would be anxious to enter the field, instead of being hesitant as they are now.

As the spokesman for the American Hotel Association and the hotel industry as a whole, I plead for some type of disaster insurance and believe that a plan can be devised which will be mutually satisfactory to the carrier and to the insured. We are appreciative of your committee's concern.

Thank you very much for the opportunity of appearing before you.

Senator LEHMAN. Thank you very much indeed for your testimony and for the book of very interesting pictures. They are similar to many other pictures—

Mr. GILLAM. Many.

Senator LEHMAN. That Senator Bush and I have seen at various hearings. As a matter of fact, they are very similar to the scenes which I personally witnessed in New York State during the time I was Governor when we had disastrous floods in 1936 which followed very much the course that you have outlined here, affected homes and buildings way up in the hills.

Mr. GILLAM. That is right.

Senator LEHMAN. Streams which had been brooks suddenly became raging torrents and did tremendous amounts of damage particu-

larly in the western and southern part of New York State. And that same situation has been duplicated several times since.

So I want to say these are very graphic.

I want to put now into the record a very interesting document which is collateral to your own testimony here about the losses of the Government through the deduction of their losses in income tax.

Mr. GILLAM. That is a casualty-loss folder.

Senator LEHMAN. This is publication No. 155 issued by the Treasury Department, Internal Revenue Service, showing how the Federal income tax applies to losses from hurricanes, floods, and other disasters.

(The publication referred to follows:)

[Treasury Department, Internal Revenue Service, Publication No. 155]

HOW THE FEDERAL INCOME TAX APPLIES TO LOSSES FROM HURRICANES, FLOODS, AND OTHER DISASTERS

INCOME-TAX TREATMENT OF CASUALTY LOSSES

Frequently one area or another in our country suffers from a hurricane, cyclone, tornado, earthquake, flood, forest fire, or other disaster. These cause considerable damage to grounds, dwellings, automobiles, boats, furniture, and other business and nonbusiness property. The Federal income-tax law allows you to deduct, in computing your taxable income, a loss resulting from a casualty of this nature. The rules stated herein for computing the casualty loss deduction apply not only to losses from natural causes but also where the loss is suffered by one taxpayer alone, as in the case of a fire occurring in the house or plant of the taxpayer.

What is a casualty.—The term "casualty" refers to an identifiable event of a sudden, unexpected or unusual nature. Generally, this means that the loss must result from a sudden destructive force. Damage from a normal process or from progressive deterioration of property through a steadily operating cause—such as the steady weakening of a foundation from wind and weather not unusual in nature—is not a casualty loss. Nor is the mere reduction or diminution in the value of property because of the proximity of a flood, hurricane, or other disaster and the possibility that the area might again be damaged by a similar disaster a deductible casualty loss. In other words, a casualty loss is allowed only for the actual physical damage to property resulting in a partial or complete loss.

When loss is deductible.—Casualty losses are deductible only in the taxable year in which sustained, and not in any succeeding taxable year, regardless of whether the damages are actually repaired in the year the casualty occurred. In this respect, a loss is sustained during the taxable year if it is a completed fact, fixed by identifiable events from which it can be determined that a loss in fact has been sustained. Thus you may deduct an actual physical loss of property which results from flood, hurricane, or other casualty only in the taxable year when the casualty occurs.

Insurance not collected by end of taxable year.—This rule is applicable even though collection is not made on the insurance during the year in which the loss occurred or even though suit filed for recovery of damage is not finally decided until a later year. In such case, you should compute your loss by deducting from the total loss the estimated amount of recoverable insurance, or other recoverable compensation, and deduct the loss so determined in the year the casualty occurred. If subsequent events demonstrate that this estimate was substantially inaccurate, an amended return should be filed correcting the mistake. If such a correction results in an overpayment of tax, the amended return or a claim for refund (form 843) should be filed within 3 years from the due date of the return, exclusive of any extension of time, or 2 years from the time the tax was paid, whichever is later.

Undetermined loss.—If the amount of the loss cannot be determined before the due date for filing your return, you may request of your district director an extension of time for filing or you may file an amended return later, but within the statutory period of limitations, showing the correct amount of the casualty loss.

Proof of loss.—A deduction is allowed only for damages to or losses of property owned by the taxpayer. The burden of proof is upon the taxpayer to substantiate the amount of any casualty loss, and he should be prepared to submit evidence showing—

- (a) The nature of the casualty and when it occurred ;
- (b) That the loss was the direct result of the casualty ;
- (c) That he is the owner of the property ;
- (d) The cost or other adjusted basis of the property, evidenced by purchase contract, deed, etc.; improvement should be supported by checks, receipts, etc.
- (e) Depreciation allowed or allowable, if any ;
- (f) Values before and after casualty (pictures and appraisals before and after the casualty are pertinent evidence) ;
- (g) The amount of insurance or other compensation received, including the value of repairs, restoration and cleanup provided without cost by disaster relief agencies.

Cost or adjusted basis.—In order to determine the amount of the deduction allowable as a casualty loss, it is first necessary to ascertain the basis of the property. There are various ways in which property may be acquired—such as by purchase; in payment of services rendered; by gift, bequest, devise, or inheritance; or by an exchange, etc. The way in which it was acquired, as well as the time of acquisition, will often affect the basis of property for the purpose of determining the amount of a casualty loss deduction.

In the usual case, the term "basis" refers to the amount that a taxpayer paid for the property. In such a case, the basis of the property is cost. But if the property has been the subject of depreciation, previous casualty losses or other recovery adjustments, the basis of the property is required to be reduced to reflect such items. Similarly, additional expenditures in the way of capital improvements might have been made. Such items would increase the basis. The result of such increases and decreases to the cost or other basis of property is what is known as adjusted basis.

Losses of nonbusiness property

Amount of loss.—Casualty losses of property used for personal purposes are computed differently from losses of business property or property used for the production of income. The two types of losses are given separate treatment.

The amount of the deduction allowable for a casualty loss of personal or nonbusiness property is the difference between the value of the property immediately before the casualty and its value immediately after the casualty, but not in excess of the cost or adjusted basis of the property, reduced by any insurance or other compensation received or recoverable.

You cannot deduct the cost of restoring or replacing the damaged or lost property. Nor can you deduct as part of the loss expenses for personal injury, temporary lights, fuel, moving, or rentals for temporary living quarters. Amounts expended for the construction of protective works or for moving homes to prevent probable losses from future storms are not allowable deductions and should be capitalized as permanent improvements. Sentimental values are not considered. Although costs of repairs, restoration, or cleaning up or removing debris cannot be used as a measure of the loss, the "value immediately after the casualty" means the value before the property is repaired, restored or cleaned up.

Adjustment of basis.—The basis of the property should be reduced to reflect the allowable loss deduction. If insurance or other compensation is received or recoverable, the basis should also be reduced by such amount. Amounts paid or incurred to replace or restore property damaged or destroyed as a result of the casualty are capital expenditures and should be added to the remaining basis. These adjustments are required for the purpose of determining the basis for computing any gain from a subsequent sale or exchange of the property or for other purposes.

Shade and ornamental trees.—When shade and ornamental trees and shrubs are planted, they become an integral part of the real property and have no separate value for income-tax purposes. Any loss on such items must be the result of an actual decrease in the value of the property as a whole and not the cost of planting (original) or replacing the plants. Thus the deductible loss of shade and ornamental trees and shrubs by storm or other casualty is the difference between the value of the entire realty immediately before the casualty and the value of the entire realty immediately after the casualty, limited to

the lesser of the cost or adjusted basis, reduced by any insurance or other recovery.

Rehabilitation payments.—Amounts received by a taxpayer from his employer or from disaster relief agencies in the form of cash or property for the purpose of restoring or rehabilitating property lost or damaged in a disaster will affect the amount of a casualty loss deduction. Such amounts, in addition to reimbursement from other sources, should be applied to reduce the amount of the deductible loss. If the reimbursement should exceed the recipient's basis in the property prior to the casualty, the amount of the excess cannot be used to increase the basis of the property.

Disaster relief.—Food, medical supplies, and other forms of subsistence received by a taxpayer which are not replacements of lost property do not reduce the amount of the deduction to which a taxpayer is otherwise entitled. Nor does the receipt of such items represent taxable income to a taxpayer.

Examples.—The following examples illustrate the above rules:

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Value before disaster	Value after disaster	Loss in value, (a) minus (b)	Cost or other basis	Insurance or other compensation received or recoverable	Allowable casualty loss deduction, lesser of (c) or (d) minus (e)	Taxable gain, (e) minus (d)	Remaining tax basis, (d) plus (g) minus sum of (c) and (f)
(1) \$15,000.....	\$11,000	\$4,000	\$10,000	\$3,000	\$1,000	0	\$6,000
(2) \$15,000.....	3,000	12,000	10,000	0	10,000	0	0
(3) \$5,000.....	2,000	3,000	10,000	3,000	0	0	7,000
(4) \$15,000.....	1,000	14,000	10,000	3,000	7,000	0	0
(5) \$19,000.....	10,000	9,000	5,000	8,000	0	\$3,000	0
(6) \$18,000.....	0	18,000	10,000	12,000	0	2,000	0

In each of the above examples, the remaining tax basis would, of course, be subject to further adjustment for subsequent costs of restoration, additions, or improvements.

As disclosed in examples (5) and (6), taxable gain may be realized when insured property is destroyed in whole or in part. The excess of the amount of the insurance over the cost or other basis of the property would represent taxable gain.

Nonrecognition of gain.—However, if the destroyed property is replaced with similar property within 1 year from the end of the first taxable year in which any part of the gain is realized and the cost of such replacement property is equal to or in excess of the proceeds received from the property destroyed, the resulting gain, if any, is not recognized for income tax purposes. If the replacement property is purchased at a price less than the proceeds from the property destroyed, the entire gain will be recognized unless you elect to have the gain recognized only to the extent that the proceeds from the property destroyed, regardless of whether such amount is received in one or more taxable years, exceed the cost of the replacement property.

Treatment on return of nonrecognized gain.—An election to have gain recognized only to such an extent should be made by including such an amount in gross income in the return for the year in which realized. If it is desired that the entire gain be recognized, the entire gain should be included in gross income.

Adjustment of basis where gain is not recognized.—These special provisions necessitate a special method for determining the basis of the property acquired to replace the property destroyed. If property is purchased in a transaction described above which results in the nonrecognition of any part of gain realized as a result of the replacement of the property destroyed, the basis of the property acquired as a replacement is the cost of the replacement property less the amount of gain not recognized.

This may be illustrated by the following example: You received insurance of \$21,000 as a result of the total destruction of your home by hurricane. The adjusted basis of the house to you was \$16,000, and you spent in the same year of the hurricane \$19,000 for a new house which resulted in nonrecognition of \$3,000 of the \$5,000 gain on the property destroyed. The basis of the new house to you would be \$16,000—the cost of the new house (\$19,000) less the amount of the gain not recognized (\$3,000).

If in the above example no election was made to limit the amount of recognized gain, the basis of the replacement property would not be reduced by the amount of the nonrecognized gain.

How to deduct the loss.—Once the amount of a casualty loss of nonbusiness property has been determined, generally, the loss may be deducted only if you itemize your deductions. Should you elect to use the standard deduction, determine your tax from the tax table, or file form 1040A, the loss may not be deducted, since an amount in lieu of all nonbusiness deductions has been made a part of the standard deduction and the tax table.

There is one exception to the above rule. If your nonbusiness casualty loss involves property held for more than 6 months and you have (1) gains or losses from the sale, exchange, or involuntary conversion of property used in your trade or business and held for more than 6 months, and (2) the aggregate of the gains exceed the aggregate of the losses, including the casualty loss, such gains and losses are treated as gains and losses from sales and exchanges of capital assets held for more than 6 months. In such case, the casualty loss should be reported on separate schedule D (form 1040) as a long-term capital loss and taken into account in computing adjusted gross income whether or not other nonbusiness deductions are itemized on your return. If such gains do not exceed such losses, the gains and losses are not treated as gains and losses from sales and exchanges of capital assets, and all of such items would be treated as ordinary gains and losses.

The following examples will illustrate the operation of these rules:

During the taxable year, your pleasure boat and residence are totally destroyed by storm. You paid \$1,200 for the boat, and it had a value of \$1,000 at the time of the casualty. You receive an insurance award which exceeds by \$3,000 the cost of your home. The insurance proceeds are not invested in another house. You sell at a loss of \$600 a machine which is used in your trade or business. Each of these items was held for more than 6 months. The result is as follows:

	Gain	Loss
Boat -----		\$1, 000
House -----	\$3, 000	-----
Machine -----		600
	3, 000	1, 600

Since the total gains (\$3,000) exceed the total losses (\$1,600), each gain and each loss is treated as a long-term capital gain or loss. You would report on separate schedule D (form 1040) a taxable long-term capital gain of \$700, consisting of 50 percent of the net gain of \$1,400.

If in the above example you had a gain of \$1,500 on the house, then the gains (\$1,500) would not exceed the losses (\$1,600). Neither the gain on the house nor the losses on the boat and machine would be treated as gains and losses from the sale or exchange of capital assets. Each item would be treated as an ordinary gain or loss. The gain on the house and the loss on the business machine would be treated as an ordinary gain and an ordinary loss, respectively, on separate schedule D (form 1040); and the loss on the pleasure boat would be deductible on form 1040 as a nonbusiness deduction if the tax table or the standard deduction is not used in the computation of tax.

If you were not in a trade or business and your only loss was the loss of the boat of \$1,000 and your gain on the residence was \$3,000, you would have a net long-term capital gain of \$2,000, of which 50 percent, or \$1,000 would be reported as taxable long-term capital gain in schedule D (form 1040).

Net operating loss.—If your casualty losses of nonbusiness property exceed your income for the taxable year, you may, after certain adjustments, have a net operating loss, and a refund of prior-year taxes may be in order or a reduction in taxes for later years may result. The following examples illustrate some of the adjustments necessary in the computation of a net operating loss:

A taxpayer sustains a casualty loss of \$26,000 in 1955 as the result of the complete destruction by flood of his uninsured home. He has income from salary totaling \$14,000, net long-term capital gains aggregating \$1,800 (before the 50 percent reduction), and other nonbusiness deductions totaling \$700. His net operating loss for the year is computed as follows:

Casualty loss-----	(\$26,000)
Salary (business income)-----	14,000
Balance-----	(12,000)
Less net nonbusiness income:	
Long-term capital gain at 100 percent-----	\$1,800
Minus nonbusiness deductions-----	700
	1,100
Net operating loss-----	(10,900)

If in the above example the taxpayer had no capital gains, no account would be taken of his nonbusiness deductions, and his net operating loss would be computed as follows:

Casualty loss-----	(\$26,000)
Less salary-----	14,000
Net operating loss-----	(12,000)

The net operating loss thus determined may be carried back to the second preceding year, 1953 in the above example, and deducted (after certain adjustments) in separate schedule C (form 1040) as a business expense in determining adjusted gross income, even though it is due in part or in whole to a nonbusiness casualty loss. The excess, if any, of the net operating loss over the net income for the second preceding year may then be offset against the income (after certain adjustments) for the year immediately preceding the loss year, 1954 in above example, and any remaining loss may in the same manner be carried over to the 5 years which follow the year of the loss, 1956, etc., in the above example.

If a net operating loss carryback entitles you to a refund of prior-year taxes, you may file a regular claim for refund (form 843) or an amended return form 1040 on or before the 15th day of the 39th month following the close of the year of the loss from which the carryback results.

Quick refunds.—You may, however, apply for a quick refund of such prior-year taxes by filing form 1045 for a tentative adjustment of income taxes which are affected by a net operating loss carryback. An application for a tentative carryback adjustment must be filed on or after the date of filing the return for the taxable year of the net operating loss from which the carryback results, but may not be filed later than 12 months from the end of such taxable year.

The Internal Revenue Service will act on this application within a period of 90 days from the date on which the application is filed, or from the last day of the month in which falls the last date prescribed by law (including any authorized extension of time) for filing the return for the taxable year of the net operating loss, whichever is later. If any amount applied, credited or refunded on the basis of the application is later determined to be excessive, the amount of the excess may be assessed and collected immediately as if it were due to a mathematical error appearing on the face of the return.

Losses of business property

Amount of loss.—In the case of business property or property held for the production of income, the amount deductible as a casualty loss is the percentage of the depreciated cost or other adjusted basis which the destroyed portion is of the entire property, reduced by any insurance or other compensation received or recoverable. The entire property consists of the total of the portion destroyed and the portion not destroyed; but property, such as an orchard or a building, does not include the value of the land.

Assume you owned a building used for business purposes which cost you \$10,000. Exclusive of the land, the building had a depreciated (adjusted) basis of \$6,000 when it was partially destroyed by storm. If the value before the storm was \$12,000 and value after was \$9,000, the percentage of the portion destroyed (\$3,000) to the entire property before the loss (\$12,000) would be 25 percent. Applying this percentage to the adjusted basis of \$6,000, you would have a deductible loss of \$1,500, decreased by any insurance or other recovery. Should the insurance exceed the adjusted basis of \$6,000 a taxable gain would result unless the proceeds are reinvested in similar property under procedures described above relating to nonrecognition of gain.

If the building was completely destroyed, the allowable deduction would be the adjusted basis, decreased by any insurance, salvage value or other recovery.

In cases where property is held partly for nonbusiness purposes and partly for business or for the production of income, the allowable casualty deduction must be computed and treated separately for each part.

Loss of inventory.—In the case of loss or damage, as the result of a casualty, of inventory of goods held for sale to customers, care should be exercised not to claim a double deduction of the casualty loss. The possibility of a claimed double deduction is more likely to occur where the double-entry system of accounting is not used. In cases where the double-entry system is used, the casualty loss of inventory will be automatically reflected in cost of goods sold where opening and closing inventories are properly reported. Where a taxpayer desires to show the casualty loss separately, an offsetting credit to the opening inventory or to current purchases is required.

In situations where creditors agree to forgive part of the indebtedness owed by a taxpayer who has sustained inventory losses due to a casualty, or in instances where suppliers agree to replace damaged inventories at no extra cost, such amounts should be taken into account either as income or adjustments to cost of goods sold in computing net income or loss from a trade or business.

Losses of farmers.—The casualty loss deduction allowable on property used in the trade or business of farming is determined in the same manner as other business property. The loss deduction is not limited to the property used in the business of farming but extends as well to nonbusiness property, as in the case of other taxpayers.

The casualty loss of growing crops is not deductible as a separate deduction, as the cost of raising the crop is reflected in the deductions for seed, hired labor, etc.

Where inventories are used, the value of livestock lost due to casualty is not a separate deduction since the loss is reflected through the reduction of the inventory at the close of the year. On the cash basis, the value of animals raised and lost is not deductible as a loss since the expense of raising the animals has previously been deducted.

Similarly, the loss of stored farm products is not deductible as a separate deduction where inventories are used in computing net income, since such loss is also reflected through reduction of the closing inventory. On the cash basis of accounting, no separate deduction is allowable as the cost of raising the crop was previously deducted as a cost of operation.

Treatment on return.—Casualty losses of business property or property held for the production of rents or royalties are deductible even though an election is made to use the standard deduction or the tax table in the computation of tax. Generally, losses of business property due to casualty are deductible in separate schedule C (form 1040) in determining profit or loss from business or profession. And, as in the case of nonbusiness losses, casualty losses of business and income-producing property held for more than 6 months are treated as capital losses, if there are sales or exchanges of other assets held for more than 6 months and the aggregate of the gains from these sales or exchanges exceed the aggregate of the losses, including the casualty loss.

Net operating loss.—As in the case of losses of nonbusiness property, if casualty losses exceed income, a net operating loss carryback or carryover might result. The procedures described above, relating to refunds and tentative adjustments, are also applicable to net operating loss carrybacks and carryovers resulting from casualty losses of business property or property held for the production of income. In the case of a corporation, however, an application for a quick refund should be filed on form 1139.

Proof of loss.—The information and evidence which you should be prepared to submit to substantiate a business loss are the same as those described above relating to casualty losses of nonbusiness property.

Senator LEHMAN. I think you have made a very, very important point.

There are not many questions I want to ask you except this: In Senator Bush's bill he provides for a rate to be actuarially sound. What that rate would be none of us knows at the present time. And then that rate, whatever it is, should be translated into an insurance premium of which the insured pays 60 percent, the Federal Government pays 20 percent, and the State 20 percent. Do you think it would be

practicable to get the States of the Union to enter into an agreement of that sort, an arrangement of that sort?

Mr. GILLAM. I would think so, Senator. I think in Pennsylvania we would be interested after our experiences in 1955.

Senator LEHMAN. What was that?

Mr. GILLAM. I think in Pennsylvania that the State would be interested in participation.

Senator LEHMAN. Let's go back one step. This would provide that even though there was Government insurance, unless a State came in, whether it was Pennsylvania, New York, Arizona, or New Mexico, the people living in that State would not insure under the rates set by the Government insurance.

Mr. GILLAM. All States would not be included unless they paid the 20 percent?

Senator LEHMAN. No State would be included unless they paid the 20 percent. More than that, unless they took legislative action which would bind the State to assuming its share of the costs of all insurance policies taken out by citizens of that State or residents of that State. Unless that was done, requiring legislative action and approval by the governor of the State, that State would not get the benefit of any insurance policies that were made available by the Government.

Mr. GILLAM. Well, I do not know that my opinion would be of value as to whether the States would cooperate. I would think that such a plan would delay getting a plan in operation while the approval was being obtained from the 48 States. I think it would also be a disappointment if the coverage were not available to a certain corporation because his particular State did not cooperate.

Senator LEHMAN. Well, this, of course, would preclude that.

Do you have a biennial or an annual session of your legislature?

Mr. GILLAM. Biennial this year. It is running for 2 years, however. I mean it is every 2 years.

Senator LEHMAN. Do you have it this year?

Mr. GILLAM. Last year's session is still in. We have been running for 14 months. We have a little problem of a tax bill.

Senator LEHMAN. Senator, have you any questions?

Senator BUSH. No, I have no questions. Of course, the gentleman understands that all 48 States do not have to come into this. If 1 or 2 States do not have any flood problem at all and do not want to come in, then they do not have to come in.

Mr. GILLAM. Then a person in that State could not get that insurance. That is my point. Not unless his State went in. Is that correct?

Senator BUSH. That is correct.

Mr. GILLAM. Well, that would be a great disappointment and probably a business disadvantage to the man in any State which did not participate.

Senator BUSH. You can put it that way. The presumption is if there is any need for flood insurance within a State that the State would come in.

Mr. GILLAM. I follow. Surely.

Senator LEHMAN. Have you any further questions, Senator?

Senator BUSH. No, sir.

Senator LEHMAN. Thank you very much. If not, I think we will recess now. I think both Senator Bush and I must get to the floor. We will recess now until 3 o'clock.

Before we recess, I would like to place in the record communications received from the American Municipal Association, the Anglo-Fabrics Co., Inc., and the National Association of Mutual Insurance Agents.

(The communications referred to follow:)

AMERICAN MUNICIPAL ASSOCIATION,
Washington, D. C., February 16, 1956.

HON. J. W. FULBRIGHT,
Chairman, Senate Banking and Currency Committee,
United States Senate, Washington 25, D. C.

DEAR SENATOR FULBRIGHT: It has become necessary because of the press of other business to cancel the appearance of Mayor Leo Carlin of Newark, N. J., who was to appear before the Securities Subcommittee on Friday, February 17, to testify on behalf of the American Municipal Association in favor of disaster insurance.

In lieu of Mayor Carlin's appearance before the committee, we respectfully request that this letter and the enclosed American Municipal Association policy resolution be made a permanent part of the record of the subcommittee hearings.

You will note that our national municipal policy on disaster insurance calls upon the administration and the Congress to develop a plan for natural disaster insurance which will adequately protect our cities and which will allow the maximum participation of private business. This policy statement was adopted unanimously by the representatives of the 12,000 American cities who belong to the AMA. The mayors and city officials who represent our cities are unanimous in their opinion that some form of disaster insurance is needed. They are equally united in their belief that this insurance should also cover municipally owned property. The experiences of last fall in the New England area and later on the west coast have shown that natural disasters do millions of dollars' worth of damage to city-owned property. These losses are incurred at a time when the citizens of our cities are least able to bear the financial burden.

To cite a single example, we would call the committee's attention to the experience of Waterbury, Conn. A preliminary estimate of the damage to municipality owned property in that city in last August's floods indicate that approximately \$13 million worth of property was destroyed or damaged. This included bridges, streets, city schools, fire and police equipment, water and sewerage systems, and various other municipal facilities and equipment. This loss, none of which was covered by insurance, is approximately equal to the annual municipal budget for that city. It has been estimated that it will require nearly a generation for this community to replace the damaged facilities and to recover fully.

On behalf of this association I wish to extend my sincere thanks for the opportunity which has been afforded us to present the views of America's municipalities before this committee on this vitally important issue.

Sincerely yours,

PATRICK HEALY, Jr.,
Executive Director.

RESOLUTION 5—NATIONAL MUNICIPAL POLICY ON DISASTER INSURANCE

Passed Unanimously by the 32d Annual Congress of the American Municipal Association, Miami, November 30, 1955

Floods of unprecedented magnitude have struck our cities the past year. These disasters have come without warning and have left in their wake a wide path of death, destruction, and suffering. Cities are unable financially to bear the tremendous costs of replacing municipal property that is destroyed.

The principle of distribution of risk through the medium of insurance is soundly established in this country. However, there is no insurance available which will cover losses to our cities from natural disaster; therefore, be it

Resolved, That the American Municipal Association calls upon the administration and the Congress to develop a plan for natural disaster insurance which will adequately protect our cities and which will allow for the maximum participation of private business.

ANGLO FABRICS Co., Inc.,
New York 18, N. Y., February 16, 1956.

Hon. HERBERT H. LEHMAN,
United States Senate, Washington, D. C.

MY DEAR SENATOR LEHMAN: I have today received a copy of your release dated February 6, 1956, regarding the flood disaster insurance bill. I am taking the liberty of voicing my opinion regarding flood insurance as I personally was a victim of the last flood.

To insure plants up to \$100,000 would help, but it might not be enough to protect these plants so that they may continue to stay in business after a disaster, according to the experience I was unfortunate to have had personally. The cleaning-up process costs much more than \$100,000 if it is a plant employing more than 200 people and a plant that requires a great deal of machinery to produce goods.

If such disaster insurance could be made compulsory all over the country, the premiums could be very low and plants in disaster areas could be fully insured and still the overall cost to the Government would be minimal. Factories not being exposed directly to disaster areas would have to participate in such a program. If this would be the case, the cost to the Government might be very negligible. The insurance would have to include not only flood, but any disaster not covered by the extended coverage of the insurance companies.

In any event, I would like to thank you very much, Mr. Senator for the splendid work you are doing to protect the industry of the country which is very much appreciated, as the industry needs such help very badly. We cannot have peace of mind for a minute until we can clearly see that our existence is not threatened to be jeopardized by disaster.

Respectfully yours,

LEO HONIG, President

STATEMENT OF NATIONAL ASSOCIATION OF MUTUAL INSURANCE AGENTS, Washington, D. C., PHILIP L. BALDWIN, EXECUTIVE SECRETARY

"Potential victims of disasters can and must be afforded protection against catastrophic occurrences of natural and manmade disasters."

This is the conclusion of the National Association of Mutual Insurance Agents, with its 6,000 members, as expressed by its annual meeting on catastrophe insurance at a meeting held in Washington, D. C., February 15, 1955. The committee consisted of Hugh H. Murray, Jr., President, N. C.; Clifford C. Nelson, Yardley, Pa.; Augustus W. Preble, Jr., President, N. C.; Henry Duke, Cumberland, Md.; and Earl A. Lamb, President, N. C. The committee's exclusive thinking of this group that this major problem facing the industry can be solved through the intelligent cooperation of American industry, insurance companies and the Government.

It must be remembered that some type of catastrophe insurance is needed in any part of the country. It matters not whether they live on the coast, or valley, as nature excludes no one from catastrophe. The manmade potential disaster in the form of nuclear explosion is a new face us.

It is suggested that the following points are worthy of consideration:

1. Insurance against catastrophic loss should be written into all insurance policies.
2. Coverage should be written to include a realistic amount of loss.
3. Adequate waiting periods should be included in all policies of insurance against impending disaster.
4. Catastrophe coverage of the type contemplated by the National Association of Mutual Insurance Agents, covering such risks as fission, earthquake, windstorm, wave wash, explosion, and war damage, as well as war damage.

5. Reinsurance capacity should be afforded to the industry similar to the War Damage Corporation. The industry does not presently cover. Some of the major risks, however, should, be assumed by the industry.

6. It is our conviction that a program handling the major risks of the industry will most adequately take care of the industry's needs.

We, the National Association of Mutual Insurance Agents, are and anxious to lend a hand in solving these problems.

Senator LEHMAN. We will recess until 3 o'clock.

(Whereupon, at 12:17 p. m., the subcommittee recessed, to reconvene at 3 p. m., this date.)

AFTERNOON SESSION

Senator LEHMAN. The hearing will come to order. Mr. Mitchell Wendell, who represents the State of New York Joint Legislative Committee on Interstate Cooperation will be the first witness.

STATEMENT OF MITCHELL WENDELL, NEW YORK STATE JOINT LEGISLATIVE COMMITTEE ON INTERSTATE COOPERATION

Mr. WENDELL. S. 2862 seeks to provide for an experimental national flood indemnity and reinsurance program * * *.

The New York State Joint Legislative Committee on Interstate Cooperation is an official agency of the legislature of the State of New York mandated to initiate, implement, and facilitate Federal-State and interstate cooperation. Recently, the committee was requested by the legislative leadership to prepare recommendations with respect to the role of the State government in natural disasters and, notably, with respect to floods. An interim report containing some initial recommendations with respect to State disaster law will shortly be presented to the New York Legislature and will include provision for State grants to aid in meeting damages to the property of political subdivisions. In accordance with its mandate the committee has tried to keep in touch with thinking on this subject at the Federal level. While it cannot take a definite position on any legislative proposals at this time, it would seem desirable for it to comment on some aspects of S. 2862 in the interest of effective Federal-State relationships in this field.

At the outset, the committee wishes to pay tribute to the effort made by the bill to meet some of the very difficult problems which are involved. Certainly, the proposal merits very careful consideration. In an effort to aid rather than criticize, this committee does wish to present some points which are very important from the viewpoint of the States.

Under the terms of the bill, States which participate in the program will make (except for the expenses of administration) contributions equal to those of the Federal Government. Under these circumstances, it is only reasonable that the participating States should have a specific voice in the determination of policy under the program and that such a voice should be of more than an advisory character.

Two of the essential policy decisions that the Federal Government has power to make under the pattern embodied in this legislation are: The limitation of its own total liability both in respect of the total financial commitment (\$3 billion) and also in respect to individual indemnity contracts. In this latter respect, section 102 of the bill gives the Administrator the power to decline to cover properties. It is equally essential that the States have the power to make the same policy decisions with respect to their own commitments. This should be made abundantly clear by the very language of the bill itself. For this purpose, we suggest the insertion of a sentence in section 102,

page 4, line 25, after the words "estimated rate" to read as follows: "Refusal of a State to contribute to payments on any individual indemnity contract or on indemnity contracts for any class of properties in accordance with State law shall not be construed to exclude the State from participation with respect to any other property or class of property for which indemnity contracts are available."

In view of the financial contributions of the States and the effect which this indemnity program could have on land-use policies, generally made under State police power, it is equally essential that States participating in the program also should take part in the formulation and revision of the basic philosophy underlining the program and in the administrative implementation of that philosophy. For that purpose, we suggest the establishment by specific provision in the legislation of a body representative of participating States to act in more than an advisory capacity with the Federal Administrator.

In addition to the questions relating to specific indemnity contracts and classes of indemnity contracts already discussed, there are a large number of other important decisions or considerations in which the States should participate fully. The following are offered only as a few of many possible illustrations:

(1) The precise fixing of the rate of private payment—should it be the minimum of 60 percent or some higher figure? This determination will affect the size of the contemplated State contribution no less than the size of the contemplated Federal contribution.

(2) The consideration of the extent to which the program is needed in individual States desiring to participate. The present legislation delegates this decision to the Federal Administrator.

(3) The making of rules and regulations and the formulation of contract provisions in such a way as not to upset or discourage State land-use restrictions, e. g., possible flood plain zoning. The present language of the bill is at best hortatory on this score (see sec. 405 (a), p. 14, lines 6–11).

(4) Helping to insure that contract forms do not raise any undesirable situations for the States in respect of the obligations of contract clause of the United States Constitution (for example, what would be the effect of a renewal clause in an indemnity contract to which the State has made a contribution?)

Finally, it is necessary to point out that the entire bill rests on the assumption that States can participate in the contemplated indemnity program by helping to pay the premiums necessary to purchase contracts.

We believe that such State contributions are possible, but only if the language of the bill is worded more carefully in order to meet the technical requirements posed by most State constitutions. Section 102 specifically requires direct State payment into the Federal fund and requires that such payment be on account of indemnity contracts (see sec. 102, p. 4, lines 9–11 and 20–24). Many State constitutions specifically provide (as does ours in New York) that no State money may be paid in aid of a private purpose. It seems inevitable that State contribution to payment for an indemnity contract on a private home or business establishment would fall within this prohibition.

There may be ways of securing the contemplated State assistance short of amending State constitutions. One possibility would be for a State to require its localities to abate taxes on property to the degree necessary to take care of the 20 percent contribution. This could be done on condition that the property owner did in fact purchase an indemnity contract. The State law could also provide that in these eventualities the State would make up the tax loss suffered by their localities. The language of section 102 could very easily be adapted for this purpose by making two minor changes as follows: On page 4, line 10, strike the words "by the State" and substitute therefor the words "as directed by the laws of the State"; on the same page, line 22, strike the word "paid" and substitute the words "by law required the payment."

In any event, State control over State commitment and State participation in policy are essential to an effective Federal-State cooperative relationship and to the assumption of substantial responsibilities by the States. We recognize that this proposal dealing with a very difficult problem has been formulated under the spur of constant political clamor and pressure. Under such circumstances there has been almost no time to consult the States. Nevertheless, it is desirable when the success of a measure depends to such a large degree on effective Federal-State cooperation that there be consultation with the States, possibly through the Council of State Governments. We urge such action.

That is the end of the prepared statement. If the committee has any questions, I will, of course, be very glad to answer them.

Senator LEHMAN. I notice that you have only dealt with S. 2862. How about the other bill?

Mr. WENDELL. I have done that for two reasons, actually. In the first place, the jurisdiction of our committee is limited to matters of intergovernmental relations, and so at least insofar as the other two bills that you are considering, Mr. Chairman, are concerned, they do not precisely fall within the jurisdiction of our committee. We were particularly interested in this bill of Senator Bush's, because of the Federal-State scheme which it contemplates. However, I might say in addition that while the other two bills here do not contemplate any State participation as such, I think that many of the things that are contained in this statement are applicable as well to them in that I know the States, and certainly we in New York, would want to see a piece of Federal legislation that did not in any way interfere with anything that the State might want to do under its police power with regard to the restriction of land use so as to minimize the possibility of flood damage.

Senator LEHMAN. Well, I wonder in what regard S. 3137, introduced by some of our colleagues and myself, would conflict with either the constitution of the State of New York or the laws of the State of New York.

Mr. WENDELL. Since your bill, Senator Lehman, does not require any State payment or any State participation as such, it would not. And in fact any scheme for straight-out Federal flood insurance or indemnity would not raise a State constitutional question.

However, what I would also like to point out is that while so far as your bill is concerned, and so far as any experimental scheme now

contemplated may be concerned, it is not possible to tell what the effect would be on State land use policies. It might be very well to have in the legislation specifically some kind of an arrangement for Federal-State cooperation and perhaps require consultation that would make sure that, let us say, the setting of premium rates or the general principles on which indemnity contracts were available, or insurance was available, did not inadvertently negate any attempts that the States might make, for instance, in the field of flood plain zoning.

Senator LEHMAN. I have felt right from the start that this bill was impracticable, insofar as it calls for financial participation by the States. Many of the reasons that I advanced in discussion of this matter have been set forth by you. For instance, the question of lack of consultation, lack of authority on the part of the States, even though they were participants in the project, is a very serious defect, I believe. Another one, of course, and the most difficult one, is the question of conforming this Federal law in an exact degree to the constitutions of every State. I think that would be substantially impossible to do.

You represent the New York State Joint Legislative Committee on Interstate Cooperation. If your point is well taken, and I believe it is well taken, would it not require consultation and joint action, really, for conformity with a great number of States, because there may be something in the constitution of each one of the States that to some extent varies.

Mr. WENDELL. There may very well be, and I certainly would not pretend to have made an examination of all of the State constitutions. I think perhaps that in the process of consulting with the States, through the Council of State governments, you could very rapidly find out where there were likely to be constitutional pitfalls in the States, because they are equipped to provide and rapidly to discover such information. I am aware of this one in our own constitution in New York, and I know generally from my work that it is quite a customary one and appears in many State constitutions in almost the same language that it does with us here in New York. And if the committee were to draft along the lines of the Bush bill, I think perhaps the language that I have suggested here in this statement would be sufficiently broad to cover New York and perhaps a large number of other States, simply because when I did this, what I did was to assume that what the Federal Government would want in the way of State participation was some assurance that the State would somehow provide the money and the exact mechanics of that I was assuming was not of any particular concern to the Federal Government, just so long as the State did it, in a fashion that was equitable for itself, so that the Federal Government could be sure that the money would be available.

Senator LEHMAN. What you said would certainly have great weight if we passed the Bush bill, S. 2862, because in that bill financial cooperation is required by the States before they can become beneficiaries of this, or before their citizens can become beneficiaries of this legislation. That is not true, of course, under S. 3137. The States are not asked there to make any financial contribution at all, so far as I recall; and it is a fact, I think, that where the Federal Government has

a constitutional right to pass legislation covering the entire country, there is no legislation that may not in some degree be at variance with existing State laws. But what I am getting at is this. I can see your points very well as concerns S. 2862, and I think they are well taken. That is one of the reasons why I feel that the proposal under S. 2862 would be quite impracticable.

Mr. WENDELL. Senator, I want to preface what I am about to say by a general explanatory statement, so that what I do say will not be misunderstood.

Of course, the New York Legislature, as such, has not taken any formal position in favor of any one of these bills and is not likely to do so in that form, certainly. Nor, so far as I am aware, has the government of the State of New York as a whole done so. And so in that sense, what I say must come more from the general concept on which our particular committee operates than from any ability of mine at the moment to speak precisely concerning the detailed provisions of any bill that the government of the State of New York might ultimately wish to give its approval to.

With that said, I think also that sometimes we proceed in our governmental system on the theory that what is best from the simple point of administrative simplicity is not necessarily best from all points of view. Our entire construction of a Federal System, and our entire reliance, for example, on grants-in-aid in many fields, is just on a flat one-dimensional line of administrative efficiency, perhaps not always defensible. Yet we do find a good many values in many fields in seeking to do a job cooperatively as between the Federal Government and the states that could conceivably be done by one or the other level individually. But perhaps in terms of the preservation of the values of our Federal system and in preservation of the values of local initiative and local policy determination insofar as that is possible it may not be as desirable as the cooperative approach. That is why we do hope that any legislation that does eventuate will take full account of the desirability of doing this cooperatively as between the Federal Government and the States.

Senator LEHMAN. Of course, I agree with the general tenor of your philosophy to a very great extent. But will you point out in what manner S. 3137 does the things that you fear.

Mr. WENDELL. No, sir, I don't think that any of the specific provisions of that bill do the things that we fear. However, since there must be in this experimental program, it seems to me, no matter which one of these bills you take as a working model—since there must inevitably be a large area of discretion left to the administrator or the administering agency, and since certainly a good deal in the way of the administrative philosophy as to proper land use must inevitably enter into the setting of premium rates, if you are not going to do it strictly on an actuarial basis, it could conceivably be that an administrative agency, by making such contracts of indemnity or insurance available on easier terms or more difficult terms, might also have a profound influence on land use policies.

Senator LEHMAN. Well, now, may I make it very clear to you, and for the record, particularly, that we have sought to contact and be in touch with the insurance commissioners of the States. Way back in

the middle of October I know that we were assured that the commissioners were going to study this situation and going to let us have a formal report with regard to their views. They have been invited, a number of them, to appear before this committee, and they have not done so. So I want to make it very clear that so far as this committee is concerned, we have sought the cooperation and received full cooperation from the States as represented by the insurance commissioners.

Mr. WENDELL. Well, certainly, Senator, I appreciate that this committee has made such efforts. And if insurance commissioners have not come forward, well, perhaps they had their own reasons why they did not think it appropriate to do so. However, there is something else that we found—

Senator LEHMAN. May I just interrupt you. You have talked about this business of philosophy of government as between States and the Federal Government. That is a pretty broad subject. But I would like to pin you down to tell us in what way S. 3137 does any damage to that principle of government.

Mr. WENDELL. Well, I'm afraid that I am going to have to do this in terms of a series of hypothetical illustrations, because I want to emphasize once again that since your bill does not call for any State participation or the assumption of any obligations by the States, that there certainly is no direct possibility of conflict in this regard.

Senator, actually, since it was principally the bill providing for the cooperative Federal-State scheme that brought me here, I am not at liberty to discuss too much in detail the other bills. I would say this:

Suppose, for example, that the Federal administering agency were to make insurance policies available to political subdivisions of States on terms that seemed quite attractive indeed. Might this possibly induce those localities to bring pressure to permit certain of their facilities to remain in high hazard areas, when perhaps if the policy were set somewhat differently, the States might have an easier job getting such properties or getting their localities to get such properties out of the high hazard areas.

Senator LEHMAN. It is all cared for in my bill. And we also base the rate on the relative risks that accrue to various properties that are to be insured.

But let me ask you this question. As I understand your testimony, you feel that if this bill, S. 2862, were enacted, which would call for some financial participation in the plan by the States, although that would be optional under the bill, that it would conflict with some of the constitutional provisions of the State of New York.

Mr. WENDELL. It would, Senator, unless these rather minor changes in language that I have suggested here were made. As it now stands, the State of New York could probably not participate—as the language now stands—unless these changes were made.

Senator LEHMAN. Are you familiar with the constitutions of other States?

Mr. WENDELL. To some extent, yes, sir.

Senator LEHMAN. Would you say that that same situation would be found in other States?

Mr. WENDELL. Yes, because this particular provision of the New York State constitution that is involved is almost verbatim the same provision that is to be found in most State constitutions, and perhaps even in almost all of them throughout the country.

Senator LEHMAN. I want to point out to you that under S. 3137 we provide for the creation of an advisory committee. There certainly are various people who should be included in this, and we would certainly have no objection to including State officials on that advisory committee. That, I think, would be very valuable.

Mr. WENDELL. Well, certainly we should like to see such an inclusion. And perhaps even if the committee thought it desirable to go that far, a declaration specifically of policy with regard to the desire or the intent of Congress not to conflict with State efforts in this field; and perhaps even, if you thought it appropriate, a specific requirement of some official State participation on such advisory groups. I think that that would be very helpful from the State point of view.

Senator LEHMAN. Could you tell us very briefly just what the New York State Joint Legislative Committee on Interstate Cooperation is.

Mr. WENDELL. Yes, sir. We are an official agency of the State of New York. We are a committee of the State legislature. However, our jurisdiction is not like that of most other committees, because our subject matter, rather than being agriculture or natural resources or some other such subject, is instead intergovernmental relations, meaning mostly Federal, State, and interstate.

Each of the 48 States, and now the Commonwealth of Puerto Rico as well, has either a joint legislative committee on interstate cooperation, like ours, or a commission on interstate cooperation. While these are different titles, in terms of their setup, it comes out to be pretty much the same thing—because unlike most committees of the legislature, we have not only legislative representation, but membership from the administrative side of the State government. And commissions on interstate cooperation function in the same way. They are also constituted in part from State administrators within the State and in part from members of the State legislature.

Together, all of these commissions or committees, as the case may be, on interstate cooperation are also the member units in a national organization, an official organization, maintained jointly by all 48 States—the Council of State Governments. That is the national organization, which does many jobs, of research particularly, co-operatively for the States that perhaps individual States might not be able to do as well themselves. It is also an important service in an important way that we hope that communication may be improved as between the Federal Government and the States generally.

Senator LEHMAN. Do you think the Legislature of the State of New York would authorize the joining of New York in the project as outlined in S. 2862?

Mr. WENDELL. I think that certainly our legislature would give this very serious consideration. And I know that there is now pending, introduced by our committee before the legislature at the current session, a bill to provide specifically for State assistance to political subdivisions within the State, to help them with their property loss problems in natural disaster. So that certainly we are thinking along these lines.

Obviously, I cannot say that I am assured that the Legislature of New York would enact such a bill. However, I think that it would receive rather friendly consideration.

Senator LEHMAN. With the changes that would conform it with the constitution of the State of New York.

Mr. WENDELL. Yes—if this bill were changed in the manner I have suggested so as to make it possible for us.

Senator LEHMAN. One of the things I notice is that in lieu of direct payments you might give some tax abatements.

Mr. WENDELL. Yes, sir.

Senator LEHMAN. And you also raise the question of the constitutional prohibition against direct aid to individuals. How would you care for that—through tax abatements?

Mr. WENDELL. This is just one proposal of a way that it could be done. The fact that the State may not give direct aid for private purposes would, under the language of the bill as it now stands, block New York State participation, and, I very much suspect, participation in virtually all of the other States as well, for similar reasons.

However, if it were simply a requirement in the bill that the State provide by law for the making available of what is in the bill now considered to be the State share, that could be worked.

Senator LEHMAN. How would that be done?

Mr. WENDELL. Well, what you could do is this. Let us suppose that we in New York were on the State level to pass a statute which said in effect this—that political subdivisions in this State are required to abate taxes, real property taxes, in the amount of the prescribed share to be made available publicly from this State of the premium to purchase an indemnity contract as provided in such and such an act of Congress, on the condition that the property owner does in fact purchase such an indemnity contract.

Another section of the same statute could say that to the extent that localities do abate taxes, and thereby suffer a tax loss, under this act, the State will aid the political subdivision and supply them with the money.

Senator LEHMAN. Do you think that the Legislature of the State of New York would have the right to pass mandatory legislation requiring the abatement of taxes by communities?

Mr. WENDELL. Yes. There doesn't appear to be anything in our State constitution that would forbid it.

Senator LEHMAN. Well, I am not going to argue the question with you, because I have not got the proof. But I did have something to do with the government of the State of New York.

Mr. WENDELL. Yes, sir; I am very well aware of that.

Senator LEHMAN. And I would be very much surprised if the courts upheld any such provision.

Mr. EDELSTEIN. Mr. Chairman, for the record, I think in regard to the insurance commissioners, it was the organization of insurance commissioners that declined to testify. Some of the individual insurance commissioners testified. One of them is scheduled to testify sometime this week.

Senator LEHMAN. Yes; I meant the organization.

Mr. WENDELL. Mr. Chairman, I would like to say a word about that, because perhaps it might be of use to this committee and to persons in the Federal Government generally.

It is sometimes very difficult to get these specialized agencies of State officials to testify as such because they normally meet only once a year, and in the interim their executive committees have

perhaps only limited powers. Might I respectfully suggest, Mr. Chairman, that perhaps a faster way to get State opinion in such instances, even though you might wind up getting it from the very association that has not come in now, would be to make the inquiry of the Council of State Governments which acts as secretariat to these organizations. They are much more likely to be able to call these matters to the attention of these associations in an organized fashion, in such a manner as will get you representation from them.

Senator LEHMAN. Thank you very much. Senator Bush, have you any questions?

Senator BUSH. Just one or two. You made some very acute observations about this bill and some definite suggestions as to how you think it might be amended. If those suggestions are incorporated in the bill, do you think the bill would be acceptable in your neighborhood?

Mr. WENDELL. Once again, as I say, the government of the State of New York has not taken an official position on any of this pending legislation. However, my own personal view, and based on our own work—and we are doing and have done the flood study for the legislature in New York—is that certainly with these changes, and if you worked out some kind of mechanism for State representation, I certainly think there would be a very good chance that this bill would be acceptable in New York and, I dare say, in quite a few other States as well.

Senator LEHMAN. Do you think that the legislature would agree, in view of the defects that you have pointed out—and I think they are very real defects; I say I think they are because they coincide with my own thinking on the bill—do you think the legislature would be likely to join in assuming 20 percent of the cost?

Mr. WENDELL. Well, Mr. Chairman, they are very real defects, yes, but I think they are curable ones.

Senator LEHMAN. How many States have biennial sessions?

Mr. WENDELL. Approximately 40 of the 48. However, almost all of those are meeting in 1957, which would be the earliest of course, that anything would be done, simply because this is 1956, and I am assuming passage of some bill at this session.

Senator LEHMAN. Well, that would be prior to the meeting of these biennial sessions.

Mr. WENDELL. Yes. Almost all of the States have sessions coming up in 1957.

Senator LEHMAN. That would still mean a delay of a year.

Mr. WENDELL. Yes. Perhaps not that long, in that this is already February, and I take it that legislation will not be enacted for at least some time to come.

Senator LEHMAN. Well, it will not be enacted next week; I can assure you of that. But I hope we will enact it before the biennial legislatures in 1957.

Mr. WENDELL. Oh, yes.

Senator BUSH. I would like to continue just a moment a little further on this question of the participating States acting in more than an advisory capacity with the Federal administrator. Would you care to develop that thought a little bit? Just how do you visualize that could be done satisfactorily?

MR. WENDELL. Once again, I can only do this in terms of perhaps possible illustration. I do not suggest that there are not many other ways to do it, and perhaps even better ways to do it.

At one stage, when we had found out a little something as to what the contents of this bill were going to be, but before we had actually seen a copy, we had thought perhaps in terms not of a single administrator functioning as such, but perhaps of an administrator with a board, or perhaps a multiheaded agency of the corporate form. And it was on such a body, a body to act along with the administrator, perhaps, in approving certain of his policies, that we had thought that there could be official State representation from among those States, of course, which participated in the plan.

Quite obviously we would not want, nor would we expect, that such a scheme would be controlled by the States. Obviously the Federal Government has a very large interest in this. But we would consider that such a device would make the possibility of effective State representation available.

SENATOR BUSH. I can see how you could have a rather large advisory committee made up of State insurance commissioners or any representative the State might designate. But how such a committee would act in more than an advisory capacity, such as your language suggests, is not quite clear to me. You are getting into a pretty big body of men to act in more than an advisory capacity when it comes purely to the question of administering a program.

MR. WENDELL. Well, some corporate boards of directors are far from small. They seem to function effectively. And really you would not have a tremendous outfit here, because you would have simply one State official, probably, from each of the States that adopted the plan, plus your Federal administrator. You would not even have to have 1-man-vote. You might very well have the Federal official or officials with perhaps man for man more voting strength.

SENATOR BUSH. But when you say that the capacity of these State people should be more than advisory, then you mean that they should really have a voting voice in decisions affecting the program.

MR. WENDELL. Yes. After all, Senator, the States, under this scheme, are being asked to contribute the same amount of money, almost—that is the same amount except for administrative costs.

SENATOR BUSH. That is right. Well, I am not asking this in a critical vein. I am just trying to develop your thought to see just what you have in mind. I had not thought quite so far along that line heretofore. It is very interesting.

I do not think I have any further questions.

SENATOR LEHMAN. Thank you very much, indeed, Mr. Wendell. It was very good of you to come here and your testimony has helped us.

MR. WENDELL. Thank you very much for this opportunity to appear.

SENATOR LEHMAN. I have a letter from Mr. George A. Bisson, insurance commissioner, State of Rhode Island, who is also chairman of the flood and hurricane committee of the National Association of Insurance Commissioners in the State of Rhode Island stating what his present situation is and why he was not able to put us in possession of his report.

(The letter referred to follows:)

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS,
DEPARTMENT OF BUSINESS REGULATION,
INSURANCE SECTION,
Providence, February 15, 1956.

Mr. J. H. YINGLING,
*Clerk, Committee on Banking and Currency,
United States Senate, Washington, D. C.*

DEAR MR. YINGLING: Thank you for your kind invitation of February 13.

As chairman of the flood and hurricane committee of the National Association of Insurance Commissioners, I have sent to the members of this committee the following for their perusal:

1. Report of the engineering firm of Parsons, Brinckerhoff, Hall & MacDonald on floods and flood damage of 1955 in the Northeastern States (dated December 1955);

2. Report of the American Insurance Association on floods and flood damage (dated January 6, 1956).

I have been advised by Ambrose B. Kelly, counsel for the Factory Mutual Insurance group, that their report should be completed in the next few days. I have also been advised by Newell R. Johnson, general manager of the American Mutual Alliance, which group represents most of the mutual insurance companies, that they will have a completed report for our committee in the early part of March.

I have notified the members of our committee of these facts and, just as soon as these completed reports are received by us, it is our intention to confer with the several segments of the industry (stock insurance company executives, mutual insurance company executives, etc.). After said conference which will be held in the middle of March, we will then write a report which we will be very happy to submit to the congressional committees that are now conducting hearings on this subject. This is in accordance with the statement that I submitted to the Committee on Banking and Currency of the United States Senate, appearing on page 599 of the proceedings of the hearings held in the Rhode Island State Capitol on November 10, 1955.

Very truly yours,

GEORGE A. BISSON,
Insurance Commissioner.

Senator LEHMAN. The last witness today will be Mr. H. W. Yount, of the American Mutual Alliance.

STATEMENT OF H. W. YOUNT, AMERICAN MUTUAL ALLIANCE— Resumed

Mr. YOUNT. Mr. Chairman, gentlemen of the committee, my name is H. W. Yount and I am appearing today on behalf of the American Mutual Alliance.

I had the privilege of appearing before your subcommittee in Boston on November 9. (See p. 507, pt. 1.) And the record of that appearance is in the bound volume before you. Subsequent to that hearing, I submitted certain information for the guidance of your committee which was also a matter of record. On February 8 I appeared before the House committee, and you have before you a statement which summarizes the material I discussed with you on November 9 and which I discussed before the House committee on February 8. And there is attached to that a supplementary statement which is somewhat new.

If it is the pleasure of the committee, I would rest on the record and comment briefly on certain portions of it rather than read it entirely, depending on what your pleasure is.

Senator LEHMAN. We are very glad to have you do it in any way that seems desirable to you.

Mr. YOUNT. In the record, I pointed out that our companies, the 118 mutual companies of our trade association, are very much concerned with this problem, and have been studying it, and do not quite share the extreme pessimism with respect to the possibilities of insurance which other witnesses have evidenced. However, we must admit that while we think this is a challenge to the insurance business, we have no immediate solution to the challenge.

We pointed out previously, and reiterate in this statement that we believe that certain areas may be available for the development of an insurance program. But we also point out that we would like, in our own minds, and yours, to keep separate and distinct the problem of relief as contrasted with insurance. And in this statement, I attempted to define a little bit the concepts of insurance which I pointed out previously in Boston.

We point out again that in the areas that are regularly subject to flood, the entire insurance industry is in agreement that insurance in such areas is impracticable. But we do believe that with the development of a long-range program of flood control, insurance may be possible in some of those areas where it is now impossible.

We go on in the third point to emphasize again that even the best insurance scheme that can be developed will be at best a partial solution to the problem; that the presence of insurance, even at reasonable rates, does not mean that people will buy it. They don't buy it today.

I suggest, in item 4, some of the considerations of an insurance program which were pointed out previously. I might just touch on those briefly.

Incidentally, these principles are pretty well incorporated in the three bills which you have before you.

First is the principle of defining the point at which a loss seems to be one of a real economic burden, and making it deductible at that point.

Second, that in the development of rates for all forms of property insurance, there is a point at which you price yourself out of the market. And I venture to suggest in here that in our experience a rate of 1 percent or more will be rather effective in pricing you out of the market. That has been our experience on existing forms of property insurance. And even a rate of a half of 1 percent discourages a lot of people.

Senator BUSH. May I interject a question, Mr. Chairman?

Senator LEHMAN. Yes, please.

Senator BUSH. Under the bill S. 2862, when a rate is established—let's say the rate were established at 1 percent—under that, the individual who might be insuring his home or his business, would only have to pay 60 percent of that.

Mr. YOUNT. That is correct.

Senator BUSH. And because of the assumption of the administrative expenses by the Government, actually he would only be paying about half of the rate.

Mr. YOUNT. That is correct. The point I am attempting to emphasize, Senator, is that if people's pocketbooks are affected too seriously, they just do not buy insurance, even though they know that they may have a loss coming up.

Senator BUSH. You are the first witness that is really coming right down to dollars and cents, or down to percentages on this rate thing,

so I want to go into that. You say—in the middle of page 3—you make quite an important statement there.

If our experience on windstorm insurance and extended coverage is comparable, it seems fair to assume that a rate in excess of one-half of 1 percent will discourage the purchase of insurance on the part of a substantial portion of homeowners.

Mr. YOUNT. A half of 1 percent has proved discouraging in many areas.

Senator BUSH. In areas where they are frequently troubled with windstorms.

Mr. YOUNT. In Florida, the exhibit which I furnished to the committee, and which is included in the record (see p. 517, pt. 1) you have rates up toward 1 percent or perhaps even a little higher, and there they have had so many hurricanes that they do buy it. But in other parts of the country, any attempt to raise the rates has met with resistance. All I am attempting to point out is that people's memories are short and that when the rate is enough to be serious they tend to drop certain forms of insurance.

For instance, in New England, our rates currently are less than a half of 1 percent. They are about a quarter of 1 percent, I think, in some areas, and yet people have tended to drop their extended coverage insurance on the contents of their home.

Senator BUSH. Will you explain to me just exactly what you mean by "extended coverage"?

Mr. YOUNT. The extended coverage is an endorsement which is attached to a fire policy which covers a great many perils, primarily windstorm and related coverages, but falling aircraft, vandalism, explosion, malicious mischief, and a great variety of peril.

Senator BUSH. I see. Thank you.

Senator LEHMAN. Proceed.

Mr. YOUNT. I suggest that in order to provide an incentive to purchase some protection that rates might vary on the coverage so that in a rather bad area a man might buy only half of his loss or three-quarters of his loss in lieu of whatever full coverage is normally provided and that principle has been applied in property insurance over a good many years and is helpful in providing some assistance without providing full protection.

I suggest the need of careful definition of flood, if that is what we are talking about, to make it clear that we either intend to include a lot of things or exclude a lot of things, and I went into that previously with you.

Senator LEHMAN. On your fire-insurance policies, to what extent do you carry this principle of coinsurance?

Mr. YOUNT. On ordinary residence coverage there is no coinsurance requirement. When you get into windstorm or extended coverage in certain areas or earthquake insurance in certain areas, you do apply the coinsurance requirement. That is to prevent adverse selection against you, which means if they don't buy enough protection in the event of loss they only get a proportionate share of the loss.

Senator LEHMAN. Well, let me ask you this: Supposing a man has a house that costs \$20,000; can he take out \$10,000 coverage on that house?

Mr. YOUNT. He can take out \$10,000 of fire insurance, and there is no coinsurance clause in most jurisdictions that I know of on that.

On the other hand, if he were buying earthquake insurance on that house in California, I believe that coinsurance would apply in most areas. I am not too familiar with that.

Senator LEHMAN. Well now, to go back to my \$20,000 house on which a man has a \$10,000 policy and the house is damaged by fire or water to the extent of \$10,000, what would he collect?

Mr. YOUNT. He would collect \$10,000 if it is damaged to the extent of \$10,000.

Senator LEHMAN. Even though the value of that house originally was \$20,000, only half covered by insurance?

Mr. YOUNT. Incidentally, on business insurance, that same rule does not normally apply. We have eliminated the coinsurance requirement with respect to residences for the most part. The big problem today is to get people to buy enough insurance value. It is a way of dealing with the mass market by eliminating the coinsurance requirement on mass purchasing.

In my previous testimony and again today I point out that we would like to see private insurance develop an interest and an ability to operate in this field and suggest that if it should be decided that some form of Government insurance is desirable that that be developed and situated so that eventually private insurance might operate within the area.

We point out that if there is to be a substantial degree of Government subsidy that that may be a basis which would preclude private insurance from ever getting into the area.

I have some further comments on that in a moment.

And again we offer the services of our companies and their forces in the development of any program that the Congress should see fit to enact, either in the placement of insurance or in the handling of claims.

On the supplementary statement attached to——

Senator LEHMAN. Before you get away from that——

Mr. YOUNT. Surely.

Senator LEHMAN. I would like to go back to your point 5 where you say that you would like to see legislation so drafted that the gradual withdrawal of Government insurance would be possible with the development of private insurance. You would be reluctant to see Government enter the field with a subsidy of such a large part of the cost that private insurance would be precluded permanently from entering the field competitively.

I want to make it very clear that I think I am speaking for the other members of the committee that we would be delighted to have private insurance developed right now by private companies. We are not looking for this job in Government for a second.

While in theory your suggestion is certainly very sound, in practice I am bothered by this, that on the one hand we are told that this is a completely impracticable undertaking for private companies, that if a rate could be worked out at all the rate would be so high that it would discourage the sale of this kind of insurance. I have no question that that is right, that your statements are correct. If that is the case, how are you going to cover people now without basic statute——

Mr. YOUNT. Senator, if you will turn to the supplementary statement here, perhaps I can develop a couple of points on our theory of subsidies.

We might turn to point 2 on the supplementary statement, and with other elements of the insurance business we are generally opposed to the principle of subsidy as applied to insurance operations.

In this connection, we recognize that something new and untried has to be developed. It has to be experimental, and for that reason it probably inevitably involves a subsidy during the experimental period.

If a definite subsidy is contemplated, we would rather see definite provision made for a subsidy at the outset.

Then I think we would like to see a provision made under which that subsidy could gradually be eliminated so that the business could be conducted as a business on a self-sustaining basis eventually.

I point out here that in the earlier years your rates are going to be guesswork, no matter who makes them.

Senator LEHMAN. Are going to be what?

Mr. YOUNT. The rates will be guesswork; and for that reason no one could seriously object to a subsidy involving a poor guess on rates.

There is one phase of one of the bills that bothers us a bit, and that is the indirect subsidy which may result from an arbitrary modification of rate based upon the need of a purchaser. That involves an indirect subsidy. It is varied. I think it can be subject to abuse and, speaking strictly from a personal standpoint, I would rather see you use the best judgment you could with respect to a rate and discount the 25 percent to get the program started than to embark on a program where there were hidden, buried, subsidies in which rates would be based upon need and we never would have a way of determining how much a subsidy actually amounted to.

Senator LEHMAN. Well, may I explain that it is not the intention of the authors of S. 3137 to make these subsidies based on need as the needs relate to an individual. It merely means as to a group or a schedule comprising a group or people under certain similar conditions.

There will always be some difference, of course, in the rate due to the vulnerability of the property to be insured. That, of course, everybody would recognize.

Mr. YOUNT. Oh, I admit the language puzzled me a little bit.

Senator LEHMAN. Yes. I can see that, and Senator Bush raised that question, too. I think it is a little bit confusing. But it never was thought that we would give one rate to X who had an income of \$2,000 and a different rate to Y who had an income, say, of \$6,000 if their property was subject to the same conditions, to the same risks.

Mr. YOUNT. Another point, Senator, which has arisen from our study of the problem since your first meeting, and that is covered in point No. 1 of the supplementary statement, is that we have a feeling that this is such a broad and complicated problem that maybe the attempt to date has been to cover too much territory and that if a sound program is to be undertaken perhaps it should be undertaken on a more limited basis.

Frankly, this idea arose out of consideration of the very excellent material prepared by your counsel and staff which summarized the catastrophe problem very neatly.

I point out here: It may be assuming too much——

Senator LEHMAN. Where is that?

Mr. YOUNT. This is on No. 1 on the supplement—item 1 of the supplement.

Senator LEHMAN. Yes; I see it.

Mr. YOUNT (reading):

It may be assuming too much that such an experiment can be applied even with moderate success to the varied problems arising in connection with public utilities, transportation agencies, large industrial plants and their equipment and machinery; municipalities with their problems of streets, roads, bridges, and public buildings; small business, including business inventories; residence property, including household effects; and farm property, including farm machinery, livestock, and equipment; growing crops and household effects. Further consideration may indicate the need for limiting the program initially to real property insofar as residences and farms are concerned and perhaps to real property and business inventory insofar as small businesses are concerned.

I threw this suggestion in, Senator, just because it seemed the problem was so tremendous that in order to make a start your committee might eventually decide to limit consideration to residences, real property, and small businesses.

In fact, previous testimony which you have had indicates that larger businesses are not particularly interested anyway, probably wouldn't buy the insurance; and we have been puzzled as to how a municipality with any reasonable limit of value could really purchase enough coverage to give them too much help.

I admit it is a tough problem, and I throw that out because our feeling in our own group has been that if we were to make a start from a private insurance standpoint it would have to be on the basis of residences and small-business concerns.

Senator LEHMAN. May I ask you in that connection—you talk about the property owned by the State—in New York State at the time I had something to do with the administration, we were self-insurers, and I think some coverage to the property spread all over the State, a large area, was possessed but not likely to strike in a concentrated way. Do you know whether that policy is followed by many of the States? I don't.

Mr. YOUNT. I believe that it is.

Senator LEHMAN. What?

Mr. YOUNT. I believe that it is followed by a good many.

Senator LEHMAN. I think it would be.

Mr. YOUNT. I do know there is insurance on bridges and structures on some expensive isolated pieces of equipment, but I couldn't tell you of the extent to which that is followed.

As you know, the New York Port Authority and the authorities that have control of the bridges and tunnels in New York all carry property insurance on those.

Senator LEHMAN. Would that cover against actual collapse or fire or——

Mr. YOUNT. That is an all-risk coverage, as I recall it, with a fairly high deductible, perhaps a million dollar deductible, or something of the sort.

Senator LEHMAN. When you talk about insuring personal property, is that based exclusively on the difficulty of evaluating the loss or are there other reasons?

Mr. YOUNT. It is the difficulty of getting at the value because while almost everyone buys fire insurance on their home in some quantity, a good many people buy no insurance on effects. In fact, you take large numbers of families and their home and automobile are the two important items of property they have, and those can be insured readily. Most people that buy insurance on their household effects underinsure them a great deal.

When you have a loss, the problem of evaluating that loss and trying to find out what has been lost and what value to place on it is quite difficult, and that is particularly true with property that has been subject to flood. How much is it damaged? If it is all washed away, that is one thing, but most of these losses are water getting into a place and doing a certain amount of damage, and then being pumped out and cleaned up, and unless you have a fairly high deductible on that, the problem of evaluating it is rather difficult.

On item 3, I suggest that from our standpoint if legislation is to be considered which will permit insurance to participate that it should be broadly flexible so that participation of private insurance might be on several bases.

I like the provisions of one of the bills, for instance, which would make it possible if an insurance company wanted to come in on a quota share basis on the first \$10,000.

In connection with the whole program, we have been a little concerned as to just how the values involved are interpreted, and on point 4 I go into that a bit.

You understand that in fire insurance if you insure a home for \$10,000 the average fire is only a few hundred dollars; houses don't burn down. You have a little fire, and that is it.

If you have flood insurance covering a home for \$10,000 you don't expect that home to be wiped out by the flood, you expect that the great majority of them are going to be damaged slightly.

When we talk about \$3 billion at risk as contemplated, we interpret it that means 300,000 homes at \$10,000 a piece as the amount of insurance that could be afforded.

Now, if you assume that this rate of 1 percent which I mentioned a while ago measures the expectancy of loss on that value, you are talking about \$30 million of expected losses.

When you talk about a hundred million dollars of value for re-insurance on one of the bills, that would be 10,000 homes at \$10,000 a piece, and at one percent of that, of course, it would be a maximum amount of re-insurance of a million dollars of losses.

So that we are not certain as to whether in the minds of the committee there is a distinction between the amount at risk and the amount of probable loss.

We are not sure in your bill, Senator, when you talk about reinsurance, whether you are talking about an amount at risk or whether you are talking about amount of indemnity. It makes a big difference whether you are talking about a billion dollars that might be available to a number of companies on a catastrophe basis or whether you are talking about an amount of insurance per household.

I might point out that if this hundred million dollars that is included in 1 billion means the amount at risk that will not be an incentive, I think, for private insurers to ask for any reinsurance.

Is is just too small to encourage many companies to write very much of any coverage.

Senator LEHMAN. But I want to explain that the amount mentioned in our 2 bills—2 billions, I think, in one bill, a billion nine in yours—well, a total of 2 billions—is at risk.

Mr. YOUNT. That was my understanding.

I am not registering any complaint as to the amount. I merely point out that it is not of sufficient volume to provide an incentive for companies to ask for reinsurance.

Senator LEHMAN. You know. I brought up this point this morning when Mr. Herd was testifying. I don't know whether you were here.

Mr. YOUNT. Yes; I was here.

Senator LEHMAN. It seems to me that what we are proposing to do ought to make this a pretty attractive proposition to the insurance companies on some basis, some reasonable basis. I have not worked out the basis in my own mind.

Here we say that we will insure, the Government will insure, residences, 1- to 4-family residences, up to \$10,000, and industrial properties up to a hundred thousand, and so on. Now then, the liabilities, I understand, for the insurance companies on those properties will not start until after those limits have been reached.

It would seem to me that the loss of the insurance companies would be relatively small in those cases.

Mr. YOUNT. Well, I think you are correct in your assumption that most of your losses would be in the first \$10,000. I think the point Mr. Herd made was that if you are putting your company assets on the line, even though the hazard is rather remote, that you would want to make certain that you were going to be able to meet your obligations and the companies would have to limit their aggregate coverage unless there were reinsurance facilities available from somewhere to what they could reasonably expect to assume themselves.

For instance, currently, in the field of property insurance, you buy a catastrophe policy. Many companies buy a catastrophe policy in excess of—on small companies in our group—perhaps \$50,000 or \$100,000. The larger one might be in excess of \$250,000 or \$500,000.

And this catastrophe policy will be for \$1 million of losses in excess of the amount which the company assumes themselves on any one catastrophe.

Now that is quite different than the amount at risk. For instance, the amount at risk introducing that \$1 million of catastrophe might be \$20 million or \$30 million or \$100 million of coverage that is involved that you only get \$1 million of loss out of.

The insurance industry in order to develop this market on their own, if they are going to take hold of it, are going to have to find some way of handling the catastrophe element which, if you had all your property in the Naugatuck Valley, would have bankrupted almost any insurance company this year.

Senator LEHMAN. Well, even there you wouldn't, it seems to me.

I mean rather than leave it under the control of the insurance companies, I would say in the Naugatuck Valley—Senator Bush knows much more about this than I—loss in the average home was not in excess of \$10,000.

Mr. YOUNT. I think if you limited your insurance in that area to homes that that would have been no more serious than a local tornado, perhaps, in someplace like Worcester.

Senator LEHMAN. But even on industrial problems, you would have a cushion there that is provided by the Government of a hundred thousand dollars.

There is no mandate on the insurance companies to write any amount beyond the hundred thousand dollars. That will be left to the discretion of the insurance companies. But if they wrote it, it would seem to me that the risk of the cushion of a hundred thousand dollars would be very greatly reduced.

Mr. YOUNT. I believe there is an element in the interests of industrial properties in that connection, Senator, that may have been overlooked.

A property located along a stream that is worth a million dollars, if it is going to be damaged by the stream, is going to be damaged more than the hundred thousand dollars; whereas the houses that we are talking about, the residences, a great many of them, will be damaged only a few hundred or so dollars.

So that the desirability of a large industrial property from an insurance standpoint, even with the Government taking the first hundred thousand dollars, is not the same as it is on the residences.

In conclusion, Senator if I may, I would like to reiterate that in our opinion while insurance may be feasible in some areas, it will at best be only a partial solution to the problem, and in our view in order to determine the areas where insurance may be feasible, it may be necessary to make a more careful study than has been made to date.

Senator LEHMAN. Mr. Yount, unfortunately I have got a number of people waiting for me in my office, and later I have to go to the floor. So I am going to ask Senator Bush to take over and ask any questions that he may wish to ask. But in the meantime, may I express my appreciation and the appreciation of the committee for your very helpful testimony. You have been very good to testify previously, I think at Boston, was it not?

Mr. YOUNT. That is right.

Senator LEHMAN. And here too. You have been very, very helpful.

Senator BUSH. Do I gather, Mr. Yount, that you seem to prefer the so-called administration bill or S. 2862, rather than the other bill, S. 3137? Have you expressed or do you care to express any preferences between those two bills?

Mr. YOUNT. I was not attempting to express a preference, Senator. I was merely trying to express some preference for principle that might be incorporated in any bill.

I did say that I rather like the idea of permitting private insurance to participate on the bottom layer if they wanted to. I think that is a desirable thing. I am not certain that they would, and to the extent that one of these bills provides for that and the other does not, I like that provision.

I did express the view that if a subsidy is to be involved I would like to call it that and see it spelled out so we can measure it, and I was uncertain as to what was involved in what looked like an indirect subsidy in the other bill.

Senator Lehman explained that that was intended differently, but the language was a bit confusing to me.

Senator BUSH. Yes.

Well, in our bill, in S. 2862, the extent of the subsidy is pretty well set forth.

Mr. YOUNT. That is right. It is spelled out.

Senator BUSH. And that is one of the principal differences between the two bills, I believe.

I don't think we have any other questions here, Mr. Yount. This is a very fine statement. We are very glad to have it, and we appreciate very much your coming down here.

Without objection, we will file your entire statement in the record because you did not read it into the record.

Thank you very much, sir.

(The statement referred to follows:)

STATEMENT OF H. W. YOUNT, AMERICAN MUTUAL ALLIANCE

My name is H. W. Yount, and I am vice president of the Liberty Mutual Insurance Co. of Boston, Mass. I am appearing today on behalf of the American Mutual Alliance, a trade association with headquarters at 20 North Wacker Drive, Chicago, Ill. The membership of the American Mutual Alliance consists of 118 mutual fire and casualty insurance companies which collectively write premiums in excess of \$1 billion annually. These companies do business throughout the United States. Some of them write all lines of business in their class throughout the United States while others confine themselves to a limited number of coverages in restricted areas. Therefore, in size they vary from relatively small companies to relatively large companies.

Our companies are owned and operated by, and for, the benefit of our policyholders. Many of them trace their origin to the necessity for finding some method of coping with the economic loss for which insurance was not available, or if available for which coverage or costs were unsatisfactory or prohibitive. Perhaps it is because the catastrophic losses arising from floods fall into this category that the matter has been one of major concern both to our company managements and to our policyholders. We have no immediate solution to suggest to your committee. We do not share the extreme pessimism that insurance is wholly inapplicable. We believe that there may be areas where insurance may be possible and may be a partial solution.

We submit the following summary of our present conclusions with respect to the problem:

1. There is a certain amount of confusion in the thinking about the problem of flood losses and what should be done about them: The property damage and human misery which result are frequently catastrophic. Obviously, such losses require action on a variety of fronts. Remedial action may be required at the Federal level, at the State level, at the local government level, at the level of local or national private agencies, or at the individual level through self-protection. It must be kept in mind, however, that relief is not insurance—and insurance is not relief. If we are concerned with insurance we should confine our attention to the aspects of the problem which may possibly be handled by insurance and recognize that wide areas of the problem can be handled only by relief, public or private.

Insurance is a means of self-protection whereby individuals protect themselves against an expectancy of loss by paying into a common fund an amount based upon such loss expectancy. The amount paid into such fund is commonly known as an insurance premium and it should be adequate over a period of time to provide for losses and expenses. A basic principle of insurance is that the premium should bear a definite relationship to the expectancy of loss so that over a long period of time each group for which loss expectancy varies might be said to have paid for their own losses and expenses. This is illustrated by the everyday experience of life insurance costing more for a man age 50 than for a man age 30, fire insurance costing more in cities with a high incidence of fires, and windstorm and related insurance costing more in areas where such losses are frequent.

2. From an insurance standpoint it should be perfectly obvious that areas regularly subject to flood cannot be insured. The loss is certain and frequent and the only long-range solution to the problem is prevention through flood control and such immediate relief or rehabilitation as can be furnished in the in-

terim. While such a program is not within the purview of this committee, it is difficult to see how the entire problem can be appraised without an evaluation of the effect of a long-time program of flood control, possibly through cooperative action by the Federal, State, and local authorities. Analysis will probably indicate various degrees of long-range effectiveness of flood control, which in turn would point to the need of future zoning or other control of occupancy in probable flood areas.

For areas with adequate flood control or for which flood expectancy is low, there may be a possibility of insurance as a partial solution to the problem. Such a program should be developed after careful study and would necessarily be highly experimental in its early stages. In such an experimental program the rating system, even though crude, should be designed to reflect as accurately as possible estimated differences in long-range flood expectancy. Otherwise any insurance plan is doomed to failure through adverse selection. Where rates are too low the coverage will be purchased and it will not be purchased where rates are too high, thereby producing a certainty of an underwriting loss.

3. Realistically we must admit that even the most soundly conceived scheme of insurance will not be a complete solution to the problem of economic loss from flood. At best, it will be a partial solution. Availability of insurance means making it possible for individuals to protect themselves. The availability of insurance does not mean that it will be purchased universally or even widely. Our everyday experience in the insurance business demonstrates the truth of this statement. Windstorm and extended coverage insurance is available everywhere in the United States and has been for years. It takes a hurricane or a tornado or a succession of each to cause individuals to purchase adequate insurance. And yet in each such event there is a great deal of uninsured property loss and consequent suffering and a certain amount of relief is necessary. We should not delude ourselves into believing that there would be any different result if flood insurance were available.

4. In any insurance plan considered, we believe certain matters are fundamental:

(a) The property owner should bear a certain minimum loss himself. Such a deductible amount might be an aggregate for a location applicable to both building and contents, or there might be a separate and differing deductible for real property and personal property. Such a deductible principle recognizes the impact of the size of the loss upon the individual at a point where the economic loss involved is serious, eliminates a multitude of minor claims which are expensive to handle and frequently difficult in evaluation, and serves to keep the rates low enough to offer incentive to purchase insurance against the more serious loss.

(b) There is an upper limit on property insurance rates beyond which insurance will not be purchased except in extreme cases. Insofar as individuals are concerned in insuring their homes and personal property, it seems probable that any rate in excess of 1 percent would result in pricing the insurance out of the market even in areas where damage has been rather severe. If our experience on windstorm insurance and extended coverage is comparable, it seems fair to assume that a rate in excess of one-half of 1 percent will discourage the purchase of insurance on the part of a substantial portion of homeowners.

(c) In order to provide an incentive to purchase some insurance protection in more hazardous areas, the amount of protection might be reduced through co-insurance, thereby keeping the rates and premium charges below those otherwise applicable.

(d) There must be a reasonable relationship between the amount of insurance purchased and the value of the property insured. Perhaps the values for fire insurance purposes are the best readily obtainable on a uniform basis.

(e) A careful definition of "flood" is needed to include or exclude rising underground water, seepage, rising tides, wave damage, etc., in addition to stream run-off of excess surface water.

5. We believe that this problem is a major challenge to the insurance industry and would like to see methods of insurance developed which might eventually be assumed entirely by private insurance. At this stage it seems fair to assume that the development of private insurance may be contingent upon a demonstration that Government insurance is practicable. If so, we would prefer to see legislation so drafted that the gradual withdrawal of Government insurance would be possible with the development of private insurance. We would be reluctant to see Government enter the field with a subsidy of such a large part of the cost that private insurance would be precluded permanently from entering the field competitively.

6. Aside from normal underwriting uncertainty, two possible obstacles to the development of private insurance in this field are the absence of any present method of spreading the risks entailed from a sudden loss of catastrophic proportions within a limited area through reinsurance and the difficulty of accumulating catastrophe reserves under our present income-tax laws. It is possible that Government reinsurance might be provided to private insurers in order to attain through reinsurance of many companies the equivalent of a geographical and time spread.

7. If the Government should decide to experiment with an insurance program without private carrier participation, our association is prepared to offer the services of our companies and their field forces in any manner in which we can serve the public interest, either through the placement of such Government insurance or through assistance in the evaluation and settling of claims.

In conclusion, may we reiterate our belief that, at best, insurance would be only a partial solution to the problem of economic loss with which we are concerned and that an adequate insurance program to deal with those areas considered feasible may require a more careful study than has been possible to date. This would seem to indicate the need for caution in attempting to develop a reasonably sound program initially even though experimental in nature.

SUPPLEMENTARY STATEMENT

A review of the several proposals before your committee and of some of the material and testimony which have been presented in consideration therewith suggests that further attention might well be given to the following points:

1. In an experimental program such as proposed, it may be well to consider limiting the scope of the program at the outset to a limited number of classifications of property. It may be assuming too much that such an experiment can be applied even with moderate success to the varied problems arising in connection with public utilities, transportation agencies, large industrial plants and their equipment and machinery; municipalities with the problems of streets, roads, bridges, and public buildings; small business including business inventories; residence property including household effects; and farm property including farm machinery, livestock and equipment, growing crops, and household effects. Further consideration may indicate the need for limiting the program initially to real property insofar as residences and farms are concerned and perhaps to real property and business inventory insofar as small businesses are concerned. The problem of evaluation of loss of household effects from flood may be extremely troublesome and may be difficult to handle in the experimental stages of such a program.

2. We are generally opposed to the principle of subsidy as applied to insurance operations, although we recognize that in a developing economy Government subsidy may occasionally be necessary. If the principle of a subsidy is to be applied to the current experimental program, we would prefer to see it definitely stated so that the amount of subsidy may be evaluated.

It is inevitable that rate schedules may prove inadequate in the early years of any experimental program, but if they are based upon the best information and judgment available we can have no serious objection to subsidizing the deficit resulting therefrom until such time as the program can be placed upon a self-supporting basis.

Indirect subsidies which may result from an arbitrary modification of rates based upon needs of the purchasers are potential sources of difficulty to which we object in principle.

Any benefits or indemnities paid on the basis of need departs from the principle of insurance, and however justified borders on the principle of relief.

If the principle of subsidy is to be a definite part of a program, we would prefer to see some provision for the gradual elimination of such study so that eventually private insurance might be able to step into the program upon a basis of a reasonable expectation of an adequate income to support losses and expenses.

3. We favor provisions which will make it possible for private insurance to participate to the maximum extent in any program developed. For this reason broad flexibility is desirable so that private insurance might participate with the Government in direct insurance as well as reinsurance. It should be noted, however, that if a substantial amount of subsidy is to be included in the rates charged for Government insurance, this would serve to preclude private carrier participation on a direct basis.

4. We have seen no analysis of the estimated effect of the proposed program in terms of amount of expected losses to be indemnified. It should be noted that

the amount of liability at risk is not the amount of loss expected. To illustrate, if there is \$3 billion at risk on which the assumed rate is as high as 1 percent, which is further assumed to be adequate for losses only, the amount of losses expected to be paid would amount to \$30 million. If we talk in terms of an expected rate as low as 10 cents per \$100 of value instead of 1 percent, then the amount of losses expected out of \$3 billion at risk would be \$3 million. To the extent that these rates would also provide for expenses, the amount of loss expected would be reduced proportionately.

Expressed another way, the proposed program would provide a basis for insuring some 300,000 homes at an average valuation of \$10,000 each which number would be reduced to the extent that larger business or public properties for greater values would be included.

Senator BUSH. Is Mr. Yaffe here?

Will you come forward, please.

We remember you, Mr. Yaffe, from Hartford at the hearings there.

Mr. YAFFE. Thank you, sir.

Senator BUSH. Have you a prepared statement?

Mr. YAFFE. I have a prepared statement here. Unfortunately, I don't have copies for you.

It was my understanding that I was to appear at the Thursday meeting, at which time I was to have copies for all of you.

Senator BUSH. Well, would you just as leave wait over until Thursday?

Mr. YAFFE. I would just as soon.

Senator BUSH. Under those circumstances I think it would facilitate our consideration of your testimony if we did have copies of your statement so we could follow it.

Mr. YAFFE. I think it would be a lot easier.

Senator BUSH. Under those circumstances, we will excuse you today.

I have statements requested by Senator Lehman from various agencies for the record. Without objection, we will submit this letter from the Chief of Engineers, a letter from the Small Business Administration, a letter from Dr. Landsberg of the Weather Bureau, and a memorandum from the Federal Civil Defense Administration, having to do with disaster losses and expenditures for disaster relief.

(The letters referred to follow:)

DEPARTMENT OF THE ARMY,
OFFICE OF CHIEF OF ENGINEERS,
Washington, D. C., February 21, 1956.

Hon. J. W. FULBRIGHT,

Chairman, Committee on Banking and Currency,
United States Senate, Washington, D. C.

DEAR MR. CHAIRMAN: Reference is made to telephone request by Mr. William F. McKenna, counsel for the Banking and Currency Committee, for information as to flood damages resulting from recent floods in west coast States and for any revisions in figures previously furnished for the Northeast States.

Although preliminary and tentative figures of damage from recent major floods have been compiled by Corps of Engineers' field offices, these figures are not complete and have not been reviewed in this office. Damage surveys are still continuing in the field. However, I am furnishing you the best estimates available at this time, with the understanding they are not final. The attached tabulation shows damages by States and by river basins for the August 1955 floods on the east coast, and for the December 1955 and January 1956 floods on the west coast. Damage figures for the October 1955 flood on the east coast are not available at this time; however, indications are they will be relatively small as compared with those resulting from the August 1955 flood.

I trust that the foregoing information meets your needs at the present time.

Sincerely yours,

S. D. STRAIN, Jr.

Lieutenant Colonel, U.S.A., Chief of Engineers.

I. Estimated flood damages from Aug 18-20, 1955 flood in northeast States

	<i>Estimated damage (millions)</i>
(a) By States:	
Massachusetts.....	\$131.1
Rhode Island.....	38.7
Connecticut.....	351.4
New York.....	18.5
New Jersey.....	20.4
Pennsylvania.....	105.2
Delaware.....	.1
Maryland.....	.3
West Virginia.....	1.1
Virginia.....	10.7
North Carolina.....	.1
Total.....	677.6
(b) By river basins:	
Housatonic.....	22.2
Naugatuck.....	192.5
Connecticut.....	87.6
Thames.....	57.2
Blackstone.....	78.7
Charles-Neponset.....	5.5
Miscellaneous minor New England streams.....	77.5
Hudson.....	14.5
New Jersey coastal streams.....	3.3
Delaware.....	109.6
Susquehanna.....	16.8
Potomac.....	5.0
Rappahannock, James, York, Roanoke.....	7.2
Total.....	677.6

II. Estimated flood damages from Dec. 22-26, 1955, flood in Oregon

	<i>Estimated damage (millions)</i>
(a) By State: Oregon.....	\$13.6
Total.....	13.6
(b) By river basins:	
Willamette.....	9.2
Oregon coastal streams.....	4.4
Total.....	13.6

III. Estimated flood damages from Dec. 22-26, 1955, Jan. 14-15 and 25-27, 1956, floods in California and Nevada

	<i>Estimated damage (millions)</i>
(a) By States:	
California.....	134.8
Nevada.....	3.3
Total.....	138.1
(b) By river basins:	
Coastal streams, San Francisco district.....	58.6
Sacramento.....	38.8
San Joaquin.....	¹ 30.3
Streams in Los Angeles area.....	7.1
Nevada streams (Truckee, Carson, and Walker Rivers).....	3.3
Total.....	138.1

¹ Estimates for the San Joaquin do not include damages from the flash flood of Jan. 24, 1956, in the Tulare Lake area.

SMALL BUSINESS ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR,
Washington 25, D. C., February 29, 1956.

Hon. J. W. FULBRIGHT,
*Chairman, Senate Banking and Currency Committee,
United States Senate, Washington 25, D. C.*

DEAR MR. CHAIRMAN: Pursuant to Mr. McKenna's recent telephone discussions with Messrs. Gilbertson and Barber of this agency, we are enclosing certain statements and tabulations with respect to our disaster loan program activities, with special emphasis on such activities in the east and west coast areas which suffered damages as a result of floods during the latter months of 1955.

These statements and tabulations are being furnished in order that your committee may have available for its consideration more current data of the same type as were submitted last November and incorporated in part I of the hearings before your committee on various bills to provide insurance against natural and manmade disasters, and for other purposes.

The enclosures are identified as follows:

(a) Statement reflecting the number and amount of disaster loan applications received and approved, by dollar size groups, cumulative through December 31, 1955.

(b) Statement reflecting by States the number and amount of loans approved in the eastern and northeastern areas, classified between home loans and business loans, as of December 31, 1955.

(c) Tabulation reflecting by disasters, by States, the number and amount of loans approved and the number and amount of applications pending, as of December 31, 1955.

(d) Statement reflecting the number of disaster declarations made by this agency, by type or nature of disaster, as of December 31, 1955.

(e) Detailed report by field office of disaster loan activity in the eastern and northeastern areas, cumulative as of February 3, 1956.

(f) Detailed report by field office of disaster loan activity in California, Nevada, and Oregon as a result of the December 1955 floods, cumulative as of February 24, 1956.

(g) Statement reflecting by States the number and amount of disaster loans approved in California, Nevada, and Oregon as a result of the December 1955 floods, classified as between home loans and business loans, cumulative as of February 24, 1956.

We trust these data will prove helpful to the committee in its considerations. If we may be of further assistance in this respect, please let us know.

Sincerely yours,

WENDELL B. BARNES,
Administrator.

Disaster loan applications received and approved, by size,¹ cumulative through Dec. 31, 1955

(Dollar figures are in thousands)

Size	Applications received			Loans approved			SBA share ²		
	Number	Percent of total	Amount	Percent of total	Total ³		Number	Percent of total	Amount
					Percent of total	Amount			Percent of total
\$500 and under	181	4.4	\$71	0.1	4.8	\$61	157	4.8	\$61
\$501 to \$1,000	328	7.9	290	5.5	9.1	284	299	9.1	284
\$1,001 to \$2,500	608	14.6	1,132	1.8	560	1,034	562	17.0	1,037
\$2,501 to \$5,000	887	21.4	3,494	5.4	743	2,928	744	22.9	2,926
\$5,001 to \$10,000	945	22.8	7,728	12.1	780	6,096	782	23.1	6,120
\$10,001 to \$25,000	776	18.7	13,250	20.6	536	8,878	532	16.1	8,780
\$25,001 to \$50,000	238	5.7	9,151	14.2	151	5,869	152	4.6	5,964
\$50,001 to \$100,000	108	2.6	8,433	13.1	53	4,040	51	1.5	3,842
\$100,001 to \$150,000	25	.6	3,295	5.1	16	2,108	18	.5	2,378
\$150,001 to \$250,000	26	.7	5,596	8.7	16	3,391	15	.5	2,120
\$250,001 and over	24	.6	11,833	18.4	8	3,236	7	.2	2,730
Total	4,148	100.0	64,282	100.0	3,299	37,905	3,299	100.0	47,102
Average size			\$15,497			11,490			11,246

¹ Cumulative amounts approved at any one time exceed loans outstanding by reason of cancellations and repayments.² SBA share of the Small Business Act of 1953, as amended.³ Excluding 7 applications received in the amount of \$4,487,000 which were approved under sec. 302 D.F.A. for \$4,806,000, the average size of applications received is \$14,444.⁴ 544 loans representing an SBA share of \$10,238,000 were temporarily approved under sec. 207 (a) of the Small Business Act of 1953, as amended.⁵ Distribution by size class is based on total amount of all loans approved, including bank share of participation loans.⁶ Distribution by size class is based on amount of direct loans approved and SBA share of participation loans approved.

Disaster loans approved, classified between home loans and business loans, in eastern and northeastern areas suffering damage from hurricanes and floods during August, September, and October 1955, as of Dec. 31, 1955

State	Home disaster loans approved		Business disaster loans approved		Total loans approved	
	Number	Amount	Number	Amount	Number	Amount
Connecticut.....	189	\$1,301,328	777	\$15,821,889	966	\$17,123,217
Massachusetts.....	91	267,005	239	5,175,245	330	5,442,250
New Jersey.....	46	124,346	33	714,410	79	838,756
New York.....	11	22,450	38	521,750	49	544,200
Pennsylvania.....	83	336,368	144	2,589,130	227	2,925,498
Rhode Island.....			60	578,000	60	578,000
Vermont.....			1	20,000	1	20,000
Maryland.....	3	6,225			3	6,225
North Carolina.....	90	160,738	112	609,753	202	770,491
South Carolina.....			1	45,000	1	45,000
Total.....	513	2,218,460	1,405	26,075,177	1,918	28,293,637
Percentage of total.....	26.7	7.8	73.3	92.2	100.0	100.0

Disaster loans, by disasters, by States, cumulative through Dec. 31, 1955

[Cents omitted]

Disaster and date declared	Approved loans			Pending applications	
	Number	Amount		Number	Amount
		Gross	SBA share		
Earthquake (Aug. 25, 1952): ¹ California.....	1	\$6,000	\$6,000		
Flood (Apr. 3, 1953): ¹ Maine.....	27	10,775	10,775		
Tornado (Apr. 21, 1953): ¹ Georgia.....	1	8,000	8,000		
Tornado (May 12, 1953): ¹ Texas.....					
Tornado (June 9, 1953): ¹ Ohio.....					
Tornado (June 10, 1953): ¹ Massachusetts.....	11	72,700	72,700		
Flood (June 11, 1953): ¹					
Iowa.....	2	33,000	33,000		
Montana.....	1	1,800	1,800		
Total.....	3	34,800	34,800		
Gales, snow, and high tides (Nov. 12, 1953):					
Connecticut.....	1	1,000	1,000		
Massachusetts.....	2	8,400	8,400		
New Jersey.....	37	201,532	201,532		
New York.....	19	113,232	113,232		
Total.....	59	324,164	324,164		
High tides (Nov. 20, 1953): California.....	1	9,000	9,000		
Tornado (Dec. 7, 1953):					
Arkansas.....					
Louisiana.....	1	2,000	2,000		
Mississippi.....	27	398,691	325,691		
Texas.....					
Total.....	28	400,691	327,691		
Gale, snow, or tides (Dec. 17, 1953):					
Maine.....					
New Hampshire.....	1	400	400		
Forest fire (Jan. 4, 1954): California.....	6	37,030	37,030		
Heavy rains and landslides (Jan. 12, 1954):					
Oregon.....	3	14,000	14,000		
Tornado (Mar. 17, 1954):					
Alabama.....					
Georgia.....	12	34,025	34,025		

Disaster loans, by disasters, by States, cumulative through Dec. 31, 1955—Con.

(Cents omitted)

Disaster and date declared	Approved loans			Pending applications	
	Number	Amount		Number	Amount
		Gross	SBA share		
Tornado (May 4, 1954):					
Arkansas.....					
Iowa.....	1	\$1,841	\$1,841		
Louisiana.....					
Oklahoma.....	2	14,000	14,000		
Texas.....	3	21,850	21,850		
Total.....	6	37,691	37,691		
Floods (May 18, 1954): Massachusetts.....	10	43,700	43,700		
Thunderstorms (May 18, 1954): New Mexico.....	8	61,800	61,800		
Flood (June 24, 1954): Iowa.....	6	91,032	91,032		
Hurricane, floods (July 2, 1954): Texas.....	80	315,716	315,716		
Earthquakes (July 21, 1954): Nevada.....	14	57,319	57,319	1	\$55,000
Rain and floods (July 22, 1954): West Virginia.....	17	67,150	67,150		
Floods (Aug. 2, 1954): Arizona.....	8	71,400	71,400		
Hurricane (Sept. 1, 1954):					
Connecticut.....	55	207,512	207,512		
Maine.....	54	86,200	86,200		
Massachusetts.....	101	725,131	725,131	1	43,000
New Hampshire.....	9	24,700	24,700		
New York.....	4	33,000	33,000		
Rhode Island.....	236	1,674,636	1,674,636	1	149,000
Vermont.....					
Total.....	459	2,751,179	2,751,179	2	192,000
Hurricane (Oct. 18, 1954):					
Delaware.....	1	6,000	6,000		
Maryland.....	90	290,540	290,540		
New Jersey.....	6	34,000	34,000		
New York.....	1	20,000	20,000		
North Carolina.....	210	1,465,555	1,465,555		
Pennsylvania.....	5	12,500	12,500		
South Carolina.....	131	2,118,486	2,118,486		
Virginia.....	5	21,540	21,540		
Total.....	449	3,968,621	3,968,621		
Flood (Oct. 27, 1954): Indiana.....					
Tornado (Feb. 8, 1955): Mississippi.....					
Flood (March 29, 1955):					
Alabama.....					
Mississippi.....					
Wind and water (Mar. 28, 1955): Michigan.....	1	5,000	5,000		
Flood (May 23, 1955): Colorado.....	13	27,200	27,200		
Cyclone and tornado (May 26, 1955):					
Kansas.....	44	217,114	217,114		
Oklahoma.....	58	546,320	546,320		
Total.....	102	763,434	763,434		
Tornado (June 6, 1955): Arkansas.....					
Flood (June 17, 1955): Mississippi.....					
Flood (June 21, 1955): Nevada.....	17	145,350	145,350		
Freeze (June 17, 1955): North Carolina.....	3	8,800	8,800		
Tornado (June 21, 1955): Colorado.....					
Freeze (June 22, 1955): South Carolina.....					
Tornado and flood (July 6, 1955): Nebraska.....	3	32,650	32,650		
Flood (July 6, 1955): Wyoming.....					
Tornado (July 22, 1955): Minnesota.....					
Flash flood (July 29, 1955): New Mexico.....	17	44,800	44,800	1	8,500
Freeze (Aug. 15, 1955): Arkansas.....	1	6,000	6,000		
Hurricane (Aug. 15, 1955):					
North Carolina.....	88	394,406	394,406	1	7,334
South Carolina.....					
Hurricane (Sept. 23, 1955):					
North Carolina.....	114	376,085	376,085	3	19,905
South Carolina.....	1	45,000	45,000		
Total.....	115	421,085	421,085	3	19,905

Disaster loans, by disasters, by States, cumulative through Dec. 31, 1955—Con.

[Cents omitted]

Disaster and date declared	Approved loans			Pending appli- cations	
	Num- ber	Amount		Num- ber	Amount
		Gross	SBA share		
Hurricane and floods (Aug. 22, 1955):					
Connecticut.....	742	\$14, 236, 728	\$13, 744, 525	16	\$543, 714
Delaware.....	1	925	925		
Massachusetts.....	330	5, 442, 250	5, 427, 250	16	335, 500
New Jersey.....	78	837, 956	837, 956	3	43, 000
New York.....	46	512, 450	509, 450	6	92, 000
Pennsylvania.....	227	2, 925, 498	2, 751, 368	10	493, 835
Rhode Island.....	60	578, 000	578, 000	2	13, 500
Vermont.....	1	20, 000	20, 000		
Total.....	1, 485	24, 553, 807	23, 869, 474	53	1, 521, 549
Rains and floods (Oct. 17, 1955):					
Connecticut.....	224	2, 886, 489	2, 843, 942	15	341, 833
Maryland.....	2	5, 300	5, 300		
Massachusetts.....	1	800	800	2	51, 500
New Jersey.....	3	31, 750	31, 750	13	528, 680
New York.....					
Pennsylvania.....					
Total.....	230	2, 924, 339	2, 881, 792	30	922, 013
Freeze (Aug. 31, 1955): Georgia.....	2	15, 000	15, 000	2	47, 500
Hurricane (Sept. 23, 1955): Texas.....					
Drought (Aug. 16, 1955):					
Alabama.....					
Arkansas.....	1	6, 000	6, 000		
Colorado.....				1	150, 000
Florida.....					
Georgia.....	1	20, 000	20, 000	2	23, 000
Illinois.....				2	95, 000
Kansas.....	1	12, 000	12, 000	1	19, 500
Kentucky.....					
Louisiana.....				1	6, 000
Mississippi.....					
Missouri.....					
Nebraska.....				1	7, 000
New Mexico.....				1	11, 000
North Carolina.....				1	10, 000
Oklahoma.....	3	30, 914	30, 914		
South Carolina.....	1	28, 000	25, 200	1	10, 000
South Dakota.....				1	17, 500
Tennessee.....					
Texas.....	4	39, 000	38, 700	3	480, 000
Virginia.....				1	6, 000
Wyoming.....	1	10, 000	10, 000		
Total.....	12	145, 914	142, 814	16	835, 000
Freeze (Dec. 8, 1955):					
Oregon.....					
Washington.....				4	23, 280
Flood (Nov. 18, 1955): Virginia.....					
Flood (Dec. 12, 1955): Washington.....				2	48, 400
Flood (Dec. 30, 1955):					
California.....					
Nevada.....					
Oregon.....					
Grand total.....	3, 299	37, 904, 978	37, 101, 998	115	3, 680, 481

Areas declared prior to SBA lending authority.

Types and number of disaster declarations as of Dec. 31, 1955

Hurricanes.....	6	Fire (forest).....	1
Floods.....	18	Freezes.....	5
Tornadoes.....	9	Gales and high tides.....	3
Drought.....	1		
Landslides.....	1	Total.....	45
Earthquake.....	1		

**Statistical report of disaster field offices, eastern and northeastern areas,
cumulative as of Feb. 9, 1956**

	Applications					
	Filed		Approved		Declined	
	Number	Amount	Number	Amount	Number	Amount
Woonsocket, R. I.	88	\$1,029,347	66	\$491,800	6	\$79,090
Springfield, Mass.	99	1,432,774	83	530,315	4	10,600
Worcester, Mass.	84	2,446,855	52	308,390	4	39,000
Webster, Mass.	88	3,075,515	66	381,315	1	3,500
Port Jervis, N. Y.	20	125,305	16	90,405	2	22,000
Kingston, N. Y.	25	4 0 6 0	14	226,070	5	27,700
Putnam, Conn.	52	770,320	35	205,620		
Waterbury, Conn.	369	10,719,997	361	2,621,824	9	64,800
Torrington, Conn.	141	2,293,024	102	883,190	4	16,300
Hartford, Conn.	209	2,940,420	167	1,394,190	10	72,400
Winsted, Conn.	155	4,198,607	119	929,125	5	35,000
Ansonia, Conn.	123	6,169,605	90	693,959	5	43,500
Danbury, Conn.	20	151,620	17	118,620		
Stamford, Conn.	39	459,593	35	355,500	1	5,500
Norwalk, Conn.	59	1,325,470	41	322,782	1	5,000
Stroudsburg, Pa.	128	1,890,694	89	609,237	8	63,300
Scranton, Pa.	64	779,458	34	238,800	9	76,000
Easton, Pa.	67	1,332,364	44	211,750	9	68,000
Tamaqua, Pa.	6	59,400	(1)	(1)		
Flemington, N. J.	83	903,246	49	258,049	13	173,834
Trenton, N. J.	55	637,006	35	213,110	3	4,000
New Bern, N. C.	80	373,226	69	293,593		
Wilmington, N. C.	18	93,789	6	16,200		
New Bern, N. C.	121	507,950	110	269,135	8	68,100
Philadelphia, Pa.	31	981,080	48	1,033,650	20	314,600
Boston, Mass.	130	1,966,363	108	1,455,730	22	251,130
New York, N. Y.	57	1,749,275	93	2,540,400	16	354,350
Richmond, Va.	45	386,884	25	155,855	12	70,089
Washington office			114	12,313,027	31	4,862,383
Total	2,456	49,279,857	2,088	29,161,641	208	6,730,086
Applications withdrawn	149	2,136,222				
Net total received	2,307	47,143,635				

¹ Transferred to Scranton, Pa.

NOTE.—Loans approved by Treasury under sec. 302, 7 in amount of \$4,306,000. Loans declined by Treasury under sec. 302, 2 in amount of \$222,300.

Disaster loans approved, classified between home loans and business loans in California, Nevada, and Oregon areas suffering damage from December 1955 floods, as of Feb. 24, 1956

State	Home disaster loans approved		Business disaster loans approved		Total loans approved	
	Number	Amount	Number	Amount	Number	Amount
California ¹	84	\$273,435	170	\$1,416,574	254	\$1,690,009
Nevada	4	5,840	12	72,400	16	78,240
Oregon	16	67,483	14	79,024	30	146,507
Total	104	346,758	196	1,567,998	300	1,914,756

¹ Includes loans approved under the "Deferred participation agreement" plan 48 for \$352,025.

*Statistical report of disaster field offices in California, Oregon, and Nevada
disasters of Dec. 30, 1955, cumulative as of Feb. 24, 1956*

	Applications					
	Filed		Approved		Declined	
	Number	Amount	Number	Amount	Number	Amount
California:						
Eureka.....	51	\$714,300	23	\$181,800	1	\$8,500
San Francisco.....	67	433,735	44	145,605		
Santa Cruz.....	68	588,545	47	274,100	5	14,850
Santa Rosa.....	48	347,022	35	209,790	2	20,000
Stockton.....	14	60,739	9	40,895	1	3,500
Visalia.....	33	170,384	25	143,694	5	23,240
Yuba.....	25	153,800	14	64,800	1	5,500
Oregon:						
Grants Pass.....	28	186,335	18	68,823	1	10,000
Coquille.....	5	24,800	3	19,000		
Roseburg.....	14	261,148	8	30,960	1	2,000
Nevada: Reno.....	21	103,700	15	53,240		
Regional offices:						
San Francisco ¹			9	232,300		
Seattle.....			1	27,724		
Washington office.....			1	70,000		
Total.....	374	3,044,508	252	1,562,731	17	85,590
Applications withdrawn.....	30	168,598				
Net total received.....	344	2,875,910				

¹ In addition, approvals under the "Deferred participation agreement" plan total 48 for \$352,025.

UNITED STATES DEPARTMENT OF COMMERCE,
WEATHER BUREAU,
Washington, February 24, 1956.

Mr. WILLIAM F. MCKENNA,
General Counsel, Committee on Banking and Currency,
United States Senate, Washington 25, D. C.

DEAR MR. MCKENNA: Thank you for the opportunity to present for the record revised estimates for the flood and hurricane damages in 1955.

The first figures for the floods in the Northeast were obtained hastily and ran considerably higher than the facts later established warranted. The most reliable figure presently available for flood damage caused by hurricane Diane is \$677 million. Flood damage over the country prior to Diane is estimated at \$31 million. The December 1955 floods in the West are estimated to have caused \$100 million damages. This brings the total for flood damages for the calendar year 1955 to \$808 million.

The most reliable information available for hurricane damage alone, exclusive of the subsequent floods, for the year 1955 amounts to \$290 million.

The above figures, as is the case of figures for previous years submitted, were collected incidental to our primary purpose of surveying the meteorological and hydrological aspects of storms and floods.

Very truly yours,

H. E. LANDSBERG,
Chief, Climatological Services Division.

MEMORANDUM FROM FEDERAL CIVIL DEFENSE ADMINISTRATION

An outline of the Federal disaster assistance available to States, local governments, and individuals under Public Law 875, 81st Congress, as amended, and as administered pursuant to Executive Order 10427, should be of value to this committee.

Such Federal disaster assistance, however, is not confined to this authority.

Public Law 875 was enacted to "provide an orderly an continuing means of assistance by the Federal Government to the States and local governments in

carrying out their responsibilities to alleviate suffering and damage resulting from major disasters, to repair essential public facilities in major disasters, and to foster the development of such State and local organizations and plans to cope with major disasters as may be necessary."

Section 3 is perhaps the most important portion of the bill. It contains the basic authority whereby all agencies and departments of the Federal Government, when directed by the President (delegated to the Federal Civil Defense Administrator under Executive Order 10427), may provide assistance to State and local governments. Any Federal agency, when so directed, may provide assistance by—

1. Utilizing or lending, with or without compensation therefor, to the States and local governments, their equipment, supplies, facilities, personnel, and other resources, other than the extension of credit under the authority of any act.

2. Distributing, through the American Red Cross or otherwise, medicine, foods, and other consumable items. (This includes farm commodities or products owned or controlled by the Commodity Credit Corporation under the authority of Public Law 480, 83d Cong.)

3. Donating or lending equipment and supplies, determined under then existing law to be surplus to the needs and responsibilities of the Federal Government to the States for use or disposition by them for the purpose of the act including the restoration of public buildings damaged or destroyed in such major disaster and rehabilitation of individuals in need as the result of such major disaster. (As amended by Public Law 134, 83d Cong.)

4. Performing on public or private lands protective and other work essential for the preservation of life and property, making emergency repairs to and temporary replacement of public facilities of local governments damaged or destroyed in such disasters, by providing temporary housing or other emergency shelter, or making contributions to the States and local governments for these purposes. (Provision relating to temporary housing and emergency shelter added by Public Law 107, 82d Cong.)

The Federal disaster assistance program is administered largely through the States. The act provides that any Federal agency is authorized to accept and utilize, with the consent of any State or local government, the services and facilities of such State or local government or any of their agents or employees in carrying out the purpose of the act.

To an individual who has been forced to vacate his house as the result of a disaster, the following emergency assistance is available:

1. Housing or temporary shelter.

2. Foodstuffs, medicine, and other consumable supplies (e. g., blankets, bedding, etc.) which may be distributed through the Red Cross or the States.

3. Surplus personal property donated for rehabilitation through the States, including the negotiated sale of surplus property for the rehabilitation of disaster-stricken small-business concerns or individuals.

4. Debris and wreckage removal from the premises if it constitutes a public-health hazard, and if protective or other work essential for the preservation of life or property is required, through Federal contributions to the States. Certain disaster loan authorities are vested in the Housing and Home Finance Agency and the Farmers' Home Administration, for assistance through loans on liberal credit, independent of Public Law 875.

For a farmer within the major disaster area, feed and seed loans are available under Public Law 115, 83d Congress, and emergency loans may be made to farmers and stockmen under Public Law 38, 81st Congress.

Executive Order 10427, dated January 16, 1953, placed the responsibility for the administration, direction, and coordination of disaster relief activities of the Federal Government in the Federal Civil Defense Administration.

ACTIVITY WITH RESPECT TO THE FUNDS APPROPRIATED TO THE PRESIDENT UNDER THIS ACT

The following table shows the amount available at the time the Federal Civil Defense Administration was made responsible for administering the disaster relief program, the subsequent additions through appropriations and recapture of unexpended funds from other agencies, and the allocations made during the period of administration of the fund by the Federal Civil Defense Administration.

Analysis of disaster relief appropriation by fiscal year as of Feb. 23, 1956

Amount transferred to FCDA May 15, 1953.....	\$20,105,296.00
Appropriated by Congress June 30, 1955.....	3,500,000.00
Appropriated by Congress Feb. 14, 1956.....	25,000,000.00
Returned to President's fund by Housing and Home Finance Agency.....	6,060,940.04

Total available to FCDA..... 54,666,236.04

Date allocated	Recipient	Type of disaster	Amount
FISCAL YEAR 1953			
May 15, 1953	Texas.....	Tornado.....	\$365,000.00
June 2, 1953	Michigan.....	do.....	40,000.00
June 8, 1953	Louisiana.....	Flood.....	220,000.00
June 11, 1953	Montana.....	do.....	250,000.00
June 15, 1953	Massachusetts.....	Tornado.....	510,000.00
June 22, 1953	Michigan.....	do.....	127,500.00
Do.....	Iowa.....	Flood.....	102,000.00
Total.....			1,614,500.00
FISCAL YEAR 1954			
July 2, 1953	Louisiana.....	Same as June 8, 1953.....	204,000.00
Do.....	Texas.....	Flood.....	40,800.00
July 9, 1953	New Hampshire.....	Forest fire.....	152,931.00
Aug. 12, 1953	Michigan.....	Same as June 22, 1953.....	16,218.00
Do.....	do.....	Same as June 2, 1953.....	12,036.00
Sept. 3, 1953	Iowa.....	Same as June 22, 1953.....	71,664.00
Nov. 3, 1953	Alaska.....	Severe hardship.....	51,000.00
Nov. 9, 1953	Montana.....	Same as June 11, 1953.....	71,400.00
Dec. 7, 1953	Georgia.....	Tornado.....	178,500.00
May 7, 1954	do.....	do.....	153,000.00
May 26, 1954	Florida.....	Flood.....	255,000.00
Do.....	Mississippi.....	Tornado.....	167,280.00
Total.....			1,373,829.00
FISCAL YEAR 1955			
Aug. 9, 1954	Texas.....	Flood.....	\$894,493.83
Do.....	Iowa.....	do.....	178,500.00
Do.....	South Dakota.....	do.....	40,800.00
Aug. 11, 1954	West Virginia.....	do.....	62,730.00
Sept. 14, 1954	Rhode Island.....	Hurricane.....	2,550,000.00
Oct. 4, 1954	Massachusetts.....	do.....	2,550,000.00
Oct. 8, 1954	Nevada.....	Earthquake.....	194,944.82
Oct. 13, 1954	Maine.....	Hurricane.....	1,020,000.00
Oct. 20, 1954	New York.....	do.....	306,000.00
Oct. 27, 1954	Connecticut.....	do.....	510,000.00
Nov. 3, 1954	South Carolina.....	do.....	765,000.00
Do.....	North Carolina.....	do.....	1,530,000.00
Do.....	California.....	Flood, erosion.....	598,740.00
Nov. 20, 1954	New Mexico.....	Flood.....	51,000.00
Feb. 15, 1955	Indiana.....	do.....	178,500.00
Mar. 10, 1955	Alaska.....	Severe hardship.....	(10,200.00)
May 16, 1955	Hawaii.....	Volcano.....	102,000.00
June 3, 1955	Colorado.....	Flood, tornado.....	102,000.00
June 14, 1955	Oklahoma.....	do.....	127,500.00
June 20, 1955	Kansas.....	Tornado.....	127,500.00
			11,879,508.65
FISCAL YEAR 1956			
July 5, 1955	Nevada.....	Flash flood.....	\$204,000.00
July 12, 1955	SBA.....	Hurricane.....	34,030.45
Aug. 16, 1955	Kansas.....	Same as June 20, 1955.....	204,000.00
Sept. 1, 1955	Colorado.....	Same as June 3, 1955.....	74,140.00
Aug. 29, 1955	North Carolina.....	Hurricane.....	1,020,000.00
Sept. 7, 1955	Rhode Island.....	Hurricane, flood.....	1,020,000.00
Do.....	Pennsylvania.....	do.....	1,020,000.00
Do.....	New Jersey.....	do.....	1,020,000.00
Sept. 9, 1955	Massachusetts.....	do.....	1,020,000.00
Sept. 1, 1955	New Mexico.....	Flood.....	76,500.00
Sept. 9, 1955	Connecticut.....	Hurricane, flood.....	1,020,000.00
Do.....	New York.....	do.....	510,000.00

NOTE.—All figures indicated within parentheses denote credits to the fund.

Analysis of disaster relief appropriation by fiscal year as of Feb. 23, 1956

Date allocated	Recipient	Type of disaster	Amount
FISCAL YEAR 1956—con.			
Dec. 9, 1955	Montana	Flood	(\$9,531.92)
Dec. 16, 1955	North Carolina	Hurricane	1,530,000.00
Do.	Oklahoma	Flood, tornado	86,700.00
Jan. 4, 1956	California	Flood	1,020,000.00
Jan. 12, 1956	Alaska	Severe hardship	25,500.00
Jan. 24, 1956	South Carolina	Hurricane	403,000.00
Do.	Oregon	Flood	153,000.00
Do.	Nevada	do.	255,000.00
Jan. 23, 1956	California	do.	1,020,000.00
Jan. 27, 1956	do.	do.	1,020,000.00
Feb. 7, 1956	Michigan	Tornado	(6,577.19)
Do.	do.	do.	(19,497.82)
Do.	Iowa	Flood	(61,069.01)
Do.	do.	do.	(52,126.06)
Do.	South Dakota	do.	(6,629.91)
Feb. 8, 1956	Oregon	do.	510,000.00
Do.	New Mexico	do.	43,860.00
Feb. 9, 1956	New Jersey	Hurricane, flood	(918,000.00)
Feb. 10, 1956	Rhode Island	do.	(612,000.00)
Do.	California	Flood	2,040,000.00
Do.	Rhode Island	Hurricane, flood	(1,013,667.84)
Total			12,635,630.70
On loan to agriculture, Oct. 26, 1955			500,000.00
Total allocation			\$28,003,468.35
Balance in master account, Feb. 23, 1956			26,662,767.69

NOTE.—All figures indicated within parentheses denote credits to the fund.

FLOODS ON THE EAST COAST IN AUGUST AND OCTOBER 1955 AND ON THE WEST COAST IN DECEMBER 1955 AND JANUARY 1956

On top of other agency resources, FCDA has authority, when the President declares a major disaster, to direct any agency to go beyond its statutory responsibility and to reimburse it from the Federal disaster fund. In view of the magnitude of the flood damage and the inadequacy of the Federal disaster fund, the various agencies were authorized by the President to expend their own available funds under FCDA direction and to adjust their accounts later.

Estimates of total damage

The damages faced by the disaster States which have been declared eligible for Federal assistance by the President under authority of Public Law 875, 81st Congress, according to latest estimates, amounted to a total of property damage of \$737,400,000. This was distributed among the States as follows:

Massachusetts	\$131,000,000
Rhode Island	20,000,000
Connecticut	236,000,000
New York	18,000,000
New Jersey	21,000,000
Pennsylvania	85,000,000
California	215,000,000
Nevada	2,800,000
Oregon	8,600,000
Total	737,400,000

States principally affected in the August flood disaster were Massachusetts, Rhode Island, Connecticut, New York, New Jersey, and Pennsylvania.

States principally affected in the October flood disaster were Massachusetts, Connecticut, New York, New Jersey, and Pennsylvania.

States principally affected in the December flood disaster were California, Nevada, and Oregon, with a recurrent situation in California in January 1956.

SERVICES, GOODS, AND MONEY CONTRIBUTED BY THE FEDERAL DEPARTMENTS
AND AGENCIES*Department of Agriculture*

East coast floods.—Approximately 50,000 persons were fed through welfare agencies and school-lunch programs, and by distribution of food to individuals. In some counties along the coast it will be necessary to continue providing food for farmers for several months. Under the emergency feed program, assistance amounting to \$240,000 was provided to farmers in maintaining their basic herds. Crop-insurance payment for losses are being made. At the present time, the crop-insurance losses are estimated at \$508,000, covering the States of Massachusetts, New York, Connecticut, and Pennsylvania with the heaviest loss being in the State of Connecticut. The United States Department of Agriculture does not provide crop insurance to the States of Rhode Island and New Jersey. The total crop-insurance payments for such losses cannot be determined until the spring price of insured crops is known. Advice has been provided to farmers, meanwhile, as to the best methods of rehabilitating farmlands. Evaluation of present conservation practices is presently being conducted, in order to determine the accuracy thereof. Programs of emergency loans to farmers are under way. The last report to Federal Civil Defense Administration by the Department of Agriculture estimated agency loans, in addition to the regular loans of the Farmers' Home Administration, at \$402,000, including 1,381 loans. The Department of Agriculture has increased vigilance in the inspection of meat and meat food products since the August floods. In addition to the assistance described above, the Federal Civil Defense Administration transferred \$500,000 from the President's disaster relief fund to the United States Department of Agriculture at the direction of the President, to supplement the Department's regular agricultural conservation programs, in the States of North Carolina, Connecticut, and Massachusetts in the following amounts: \$300,000, \$150,000, and \$50,000 respectively.

West coast floods.—The Agricultural Marketing Service provided food for flood-stricken families. Commodity Stabilization Service provided feed for cattle. This agency also established an emergency feed program for five counties in California and planned to set up an individual feed program for farmers needing help in feeding foundation breeding herds. The Agricultural Extension Service provided literature outlining flood assistance and set up an educational and direct service program on rehabilitating farms, homes, improvements and equipment. This agency is working in direct contact at present with approximately four to five thousand farms. The Farmers' Home Administration supplied trained personnel to administer programs on the need for temporary stock feeding and determining requirements of long-term emergency feed program. This agency is also appraising the need for emergency agriculture assistance not otherwise available to farmers from other sources. Production emergency loans have been authorized in many counties. The emergency feed program will be extended as required.

The Forest Service provided considerable personnel and equipment and supplies in addition to maintaining and operating an aerial tram to assist an isolated community of 2,000 people. Food and supplies were transported into the extended areas for individuals and cattle. The damage to federally owned national forests is estimated at \$2,350,000.

Soil Conservation Service rendered direct assistance to approximately 6,000 separate families. The Agricultural Stabilization and Conservation Committee is providing considerable assistance in an attempt to restore flood-damaged farmland to productive use. This agency has allocated \$735,000 for rehabilitation work which is not reimbursable to the Federal Government.

In addition to the assistance described above, the Federal Civil Defense Administration is transferring \$2,439,400 from the President's disaster relief fund to the United States Department of Agriculture at the direction of the President, to supplement the Department's regular agricultural conservation program, in the States of California, Nevada, and Oregon.

Department of Defense

The military services traditionally assist civilians in disasters. This type of assistance, which is furnished during the initial stages of an emergency, consists of rescue, relief, and protective measures. During the recent west coast floods, military forces coordinating through the Sixth Army provided Army officers and troops supplemented by 1,500 National Guard men to assist in rescue relief

and rehabilitation protective measures. Current estimate of supplies and equipment furnished in support of disaster operations, while incomplete, totals approximately \$520,000. Considerable supplies and equipment including cots, blankets, etc., in addition to heavy construction equipment and helicopter service were provided.

Corps of Engineers

Northeast flood.—In the hurricanes and floods of August and October 1955, the Corps of Engineers, which is a technical service of the Department of the Army, was assigned the following responsibility by the Federal Civil Defense Administration under FCDA Disaster Order No. 1: (a) performing on public and private lands, protective and other work essential for the preservation of life and property; (b) debris and wreckage clearance; (c) emergency repair to and temporary replacement of public facilities, except as reserved to other agencies. Due to the inadequacy of funds available to the President for disaster relief purposes, funds available to the Corps of Engineers for other purposes had to be used in the northeast floods to perform the majority of the work described above.

Overall estimate of work completed as of Feb. 15, 1956

Percentage of completion.....	77
Amount obligated.....	\$29,322,717
Expenditures	\$23,053,689
Estimate of eligible Public Law 875 work performed.....	\$34,353,000
Total estimated cost of work eligible under Public Law 875 temporarily funded by Corps of Engineers (to be reimbursed by appropriation directly to Corps).....	\$31,600,000
Total cost of work temporarily funded by Corps of Engineers to be reimbursed by FCDA to Corps (eligible under Public Law 875).....	\$2,753,000

West coast floods.—In the west coast flood area in December 1955 and January 1956, the FCDA delegated to the Corps of Engineers the responsibility for—
 (a) Removal and disposal of dead animals.
 (b) Removal of debris.
 (c) Emergency channel clearance.

Overall work estimated and percentage of work completed as of Feb. 10, 1956

Percentage completed.....	34
Amount obligated.....	\$1,449,000
Expenditures	\$890,900
Contracts completed.....	34
Contracts in progress.....	13
Work completed in locations.....	7
Work in progress in locations.....	11
Present estimated cost of work performed by Corps of Engineers, to be refunded by FCDA (eligible under Public Law 875).....	\$2,651,700

Department of Commerce

This Department is surveying damage to industrial plants and making recommendations for priorities on rapid tax amortization, and recovery and rebuilding of damaged industrial plants in addition to channeling contracts for material and goods to the affected areas to assist in the economy of such areas. Business and Defense Services Administration surveyed industrial damage in the affected States and provided assistance in obtaining machine tools and other equipment from Government stockpiles to expedite the return to production of plants having defense contracts. It also assisted industrial plants in obtaining Government contracts and supplies of raw materials.

Bureau of Public Roads

Under Federal Civil Defense Administration Disaster Order No. 1, which was a delegation of authority by the Federal Civil Defense Administration to the Department of Commerce, the Bureau of Public Roads coordinated and supervised emergency highway restoration and provided the Federal Civil Defense Administration with estimates and analyses of overall highway damage. The

Bureau cooperated with State highway authorities in surveying damage to highways, roads, and bridges. A number of Bureau of Public Roads engineers were assigned to the Federal Civil Defense Administration regional offices to coordinate disaster relief and to evaluate, report and recommend Federal Civil Defense Administration action on damaged highways, bridges, sewers, water mains, gas mains, public buildings, schools, etc. The Bureau of Public Roads, after surveying the damage on Federal-aid highways, advised the affected States of the emergency provisions of the Federal-Aid Highway Act and offered such States assistance in planning and programing restoration work under the Federal Aid Highway Act. Bureau of Public Roads personnel worked with States in planning and designing of the replacement facilities, and assisting to restore the normal flow of traffic. This bureau also correlated this work with the Federal Civil Defense Administration and with the Corps of Engineers who were performing certain highway work on other local roads as delegated by the Federal Civil Defense Administration.

Almost all damaged highways and bridges have been temporarily repaired with a limited few routes still being detoured. A large portion of the restoration work on the Federal-aid system has been programed and some projects are under construction by contract. The Federal funds involved in the reconstruction of highways under the above-named program must be equally matched by States.

The overall estimate of damage to highways, on and off the Federal aid system as a result of the east and west coast floods totals \$128,768,600, broken down as follows:

Northeast flood

State	Federal aid system	Other than Federal aid system	Total
Connecticut.....	\$13,142,300	\$18,284,100	\$31,426,400
Massachusetts.....	7,954,700	15,927,300	23,882,000
New Jersey.....	3,325,000	5,526,700	8,851,700
New York.....	4,998,500	4,680,000	9,678,500
Rhode Island.....		900,000	900,000
Pennsylvania.....	11,986,000	5,014,000	17,000,000
Total.....	41,406,500	50,332,100	91,738,600

West coast flood

California.....	\$17,000,000	\$17,500,000	\$34,500,000
Nevada.....		230,000	230,000
Oregon.....	1,100,000	1,200,000	2,300,000
Total.....	18,100,000	18,930,000	37,030,000

Executive Office of the President

The Office of Defense Mobilization authorized the Department of Commerce to provide materials priorities for defense-supporting industries in disaster areas. ODM arranged with procurement agencies to give the same preferential treatment to disaster areas in placement of contracts under provisions of DMO VII-7 as is given to surplus labor areas. Activities under this arrangement have resulted in channelling of defense and other contracts of \$10,000 or more to aid the disaster areas, as of February 13, 1956, as follows:

Contracts totaling \$1,208 million were channeled to the Northeast flood area, of which 124 actions by the Department of Defense totaling \$19,550,000 were given preferential treatment under DMO VII-4 and DMO VII-7. Department of Defense contracts for this area totaled \$1,194 million.

Contracts totalling \$51,284,000 were channeled to the west coast flood area.

Office of Defense Mobilization received Treasury approval of 7 defense production act loans in the Northeast flood area totaling \$13,871,000.

ODM has issued 8 certificates of necessity in the amount of \$11,553,400 for tax amortization purposes in the Northeast as of February 13, 1956, and 1 certificate of necessity in the amount of \$1,900,000 is pending for the west coast area. In addition, a large number of actions have been taken by procurement agencies to adjust contract delivery schedules for firms in both disaster areas.

Small Business Administration

The Small Business Administration opened emergency offices throughout the disaster areas to provide assistance to small businesses and homeowners affected by the flood. The following is the status of this program in the recent flood disaster areas as of February 8, 1956:

	Loans approved	Dollar value
Northeast flood.....	2,090	\$30,360,641
West coast flood.....	215	1,370,131
Total.....	2,305	31,730,772

General Services Administration

GSA has made available surplus Federal property valued at approximately \$11 million for use in disaster relief, including trailers and school busses for emergency housing, as well as numerous items of supply and equipment. GSA announced that surplus Federal property may be sold to the States at 10 percent of original acquisition cost for use in replacing the furniture, fixtures, or inventories of small business in disaster areas. GSA provided records management assistance to Federal and State agencies in the disaster areas for protection of Government and other important records and documents and provided space, supplies and equipment to Federal agencies establishing emergency offices in disaster areas. Efforts are being made through the Federal Supply Service to give preferential treatment to firms in disaster areas in placement of contracts.

Health, Education, and Welfare Department

The Department of Health, Education, and Welfare provided technical experts to FCDA regional offices to assist in coordinating disaster activities in the flood areas.

Supplies of food and drugs in disaster areas were inspected, and contaminated foods amounting to over \$17 million were ordered destroyed in the Northeast flood area.

Surveys were made of flood damage to water treatment plants and assistance and advice provided as to measures necessary to restore them to operation. Typhoid immunization programs were undertaken in the affected States, as well as rodent and insect control measures.

Department of Labor

The Department of Labor coordinated and directed the State employment services in surveying the labor situation and in providing estimates of unemployment as a basis for Red Cross and other welfare agencies to determine their relief loads.

The unemployment services provided emergency manpower assistance to employers and civil defense officials in the disaster areas by referral of workers. At employment offices where files had been destroyed by the floods, placements were made by calling men out of line in front of unemployment claim windows and by sound trucks circulating in the streets to inform people of available jobs and the location of emergency offices.

Bureau of Labor Statistics prepared reports on the employment and general economic situation in the disaster areas.

Department of Interior

The Department of Interior through its National Park Service, Bureau of Indian Affairs, and Bureau of Reclamation have provided considerable personnel and assistance in the west coast flood area. Part of the area affected is on federally owned property or in areas where the Interior Department has specific Federal responsibility to individuals, such as on Indian reservations. The damage to national parks is estimated in excess of \$1 million. Damage estimate to Government-owned reclamation projects is not available at this time. However, it is believed that it will exceed \$50,000. Detailed statistics as pertains to this Department will be available at a later date.

Department of the Treasury

The Coast Guard carried out rescue operations along coastal areas affected by the floods, evacuating large numbers of persons from positions of peril. Amphibious vehicles, portable boats, and helicopters were used in these operations.

Veterans' Administration

There has been a substantial increase in the Home Loan Guarantee Division activity of this agency as a result of the floods and hurricanes.

Housing and Home Finance Agency

The Housing and Home Finance Agency administered Public Law 875, 81st Congress, until January 1953, and has been most cooperative in assisting disaster victims particularly in such things as easing credit and providing temporary housing. This agency's activities in disaster emergencies falls into two categories: First, assistance to the American National Red Cross, through and by authority of the FCDA, to alleviate the immediate and emergency housing problems of families displaced by disaster and, Second, the long-range problems of financing the repair, rehabilitation, and replacement of permanent housing and assistance to local communities in the redevelopment of disaster-affected areas. This agency, through its various constituents, provided assistance in the recent disasters as follows:

Public Housing Administration provided additional shelter, at the direction of FCDA, to supplement shelter provided by the American National Red Cross. This consisted of utilization of surplus public housing and trailers or other emergency-type housing available under the jurisdiction of the Public Housing Administration.

The Federal Housing Administration assured use of its insured financing to new construction or repairs and assisted in determining the extent of damage to insured properties and necessary actions to protect owners, lenders, and the Federal Government.

Federal Housing Administration authorized lenders to permit temporary suspension of payments on insured loans from borrowers who are disaster victims. This agency removed credit restrictions imposed where disaster loans were involved and authorized the use of special Federal Housing Administration's insured loan assistance for low-cost housing for disaster victims.

The Federal National Mortgage Association facilitated commitments to purchase disaster-relief mortgages where private market for such mortgages was not available. This was restricted to Government-insured or guaranteed mortgages.

The Community Facilities Administration provided loan assistance to public bodies in order to provide or restore essential public works and to replace those destroyed by the disasters. This agency also provided non-interest-bearing advances to local communities for the planning of public works.

Urban Development and Slum Clearance Administration provided grant assistance for urban planning and long-range urban renewal in areas where disaster had created a need, in addition to its normal program. This program can materially assist a disaster-affected area to the extent that such areas can, in several years, recapture a great portion of the disaster loss sustained and contribute to economic rejuvenation of such areas.

Assistance provided by the HHFA.—Northeast flood: \$2,500 vacant public housing units opened for occupancy by flood victims; 141 surplus trailers provided at FCDA direction to the States of Connecticut and Massachusetts; 300 temporary defense housing units provided to the State of Connecticut. West coast flood: Rehabilitation of Yuba City farm labor camp, California, to provide rehousing of occupants. Provision of trailer housing for Del Norte and Sutter Counties, Calif., at FCDA direction. A number of families in the counties of Del Norte, Humboldt, and Sutter in California were homeless by reason of the flood. This agency in cooperation with the American National Red Cross, the Federal Civil Defense Administration and State and local officials provided required housing to alleviate the situation. Applications for 475 trailers have been received by the three counties previously named. The Housing and Home Finance Agency programs will be used in the west coast flood area by about approximately 5,000 homebuilders in conjunction with the home administration program. There is no estimate available to FCDA on the HHFA insurance program at the present time.

AMERICAN NATIONAL RED CROSS

Northeast floods

[Actual figures as of Dec. 31, 1955]

Families affected	43,398
Families and small business applying for assistance.....	16,180
Assisted:	
Families.....	14,805
Small businesses.....	1,062
Relief expenditure total as of Dec. 31, 1955.....	\$17,780,108
Homes destroyed.....	1,709
Homes damaged.....	27,927
Families affected.....	43,398
Dead (per American National Red Cross report).....	207
Injured.....	8,547
Hospitalized.....	474
Registration.....	16,180
Funds committed.....	\$17,780,108

West coast floods

[Estimates as of Jan. 17, 1956]

Families affected.....	29,700
Families and small businesses applying for assistance.....	11,673
To be assisted:	
Families.....	10,757
Small businesses.....	361
Relief expenditure, estimated total overall as of Jan. 17, 1956.....	\$8,000,000
Homes destroyed.....	1,311
Homes damaged.....	16,710
Families affected.....	29,709
Dead (per American National Red Cross reports).....	73
Injured and ill.....	3,796
Hospitalized.....	284
Registration.....	11,673

Senator BUSH. We stand in recess until next Thursday morning.
 (Whereupon, at 4:30 p. m., the subcommittee recessed, to resume
 at 10:30 a.m., Thursday, February 23, 1956.)

FEDERAL DISASTER INSURANCE

THURSDAY, FEBRUARY 23, 1956

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
SUBCOMMITTEE ON SECURITIES,
Washington, D. C.

The subcommittee met, pursuant to call, in room 301, Senate Office Building, at 10:40 a. m., Senator Herbert H. Lehman, chairman of the subcommittee, presiding.

Present: Senators Lehman, Robertson, and Bush.

Senator LEHMAN. The hearing will come to order. Mr. Berry.

How do you do, Mr. Berry? We are very glad to have you testify before us. Have you any prepared statement?

STATEMENT OF J. RAYMOND BERRY, GENERAL COUNSEL, NATIONAL BOARD OF FIRE UNDERWRITERS

Mr. BERRY. I do not, sir. My name, however, is J. Raymond Berry. I am general counsel for the National Board of Fire Underwriters, which is a stock company organization. I do not have a prepared statement today, Senator. Our president has testified before you, Mr. J. Victor Herd. I come here to proffer the assistance of the fire insurance industry, or that portion of it for which I speak, and hold myself available if I can help you in response to any questions.

Senator LEHMAN. Will you briefly explain the functions performed by your organization?

Mr. BERRY. The national board? The National Board of Fire Underwriters is divided into about four departments. We have a department which is investigating arson, that is, the crime of arson, all over the United States.

We have a statistical department which acts as a statistical agent for the various State supervisory authorities. The experience of our member companies, and in some cases of all of the stock companies that may be doing business in a particular State is reported to our actuarial bureau and there the experience of all the companies is put together by classes, and that class experience is then made available to the respective insurance departments.

Then we have my department, which is the law and legislation department, and it is my job to take care of legislative matters where they arise, and also if a particular court case came up, or a tax case came up which was common to the whole business it would be my job to see that case was properly presented.

I think those are the major divisions.

Senator LEHMAN. I assume the major part of your work is statistical or research?

Mr. BERRY. I would say so.

I forgot to say, and I should have, and I thank you for reminding me, that one of the major parts of our work is fire prevention. We have a large staff of engineers who go around to the various municipalities and make inspections of the fire-prevention facilities there and will grade cities as to the quality of their fire prevention. As a matter of fact, that was one of the first activities of the national board.

Senator LEHMAN. You do not write any policies yourself?

Mr. BERRY. We do not, sir.

Senator LEHMAN. In assembling data for ratemaking purposes, has your organization ever made use of statistics assembled by the United States Geological Survey?

Mr. BERRY. May I say that we do not assemble data for ratemaking purposes. We assemble data so that that data may be available to the insurance departments and to our members, and perhaps to municipalities that have been graded by it. What they do with it thereafter is their own doing, but I would, I think, be safe in saying we have not collected statistics from the Geological Survey. I know of none such.

Senator LEHMAN. You are familiar with the work that is being done by the United States Geological Survey. I wonder whether in your opinion statistics from them would prove of added help in computing a rate for flood insurance or indemnity if the appropriate legislation is enacted to authorize such a program?

Mr. BERRY. My knowledge of it, I think, is confined to the testimony I read given on the House side by Mr. Langbein. I would say that that material should be helpful if you get around to the making of rates on floods.

As I remember it, I think Mr. Langbein said it would be dangerous to attempt to do this on a national basis unless you had surveys from all of the States, and I think he had only 18, at that time.

There was another bit of testimony, too. I don't know whether it came from the Geological Survey, but it came from the Chief of the Weather Bureau, and to me it was a very trenchant observation. His name, I think, was like Langbein. Could I ask Mr. McKenna?

Mr. McKENNA. Mr. Williams?

Mr. BERRY. No.

Mr. McKENNA. Or Dr. Landsberg?

Mr. BERRY. Landsberg. That was it. He testified and was asked his opinion as to what was causing these storms in the Northern Hemisphere, and he said he didn't know, but he believed it was caused by the movement of the cold air northward—I do not know if he said this part—so that the hot air came up further from the south. Then he said that the polar icecap was melting quite rapidly, or very rapidly. That was not pursued any further, but from what I have been told, if that continued that could change a great many things in this Nation.

He said that the climate of the Northern Hemisphere seemed to be getting warmer. Those are two big unknowns and I was hoping they would be pursued.

Senator LEHMAN. Mr. Berry, I know there are many factors going into the making of rates. Among them, however, are two that seem

to me to be of very great importance. One is the risk involved in coverage and the second is the density of the coverage itself, in other words, the number of people who are willing to take out an insurance policy at reasonable rates.

Mr. BERRY. Yes.

Senator LEHMAN. Mr. Herd gave us some interesting actuarial information the other day. There is some supplemental information, however, we would very much like to have from you. Can you tell the subcommittee what method a private insurance company would use to forecast the number of purchasers in computing a premium schedule for insurance to be offered by a newly formed fire insurance company?

Mr. BERRY. I cannot, Mr. Senator. I hasten to disclaim any ability as a ratemaker. I am a lawyer for fire insurance companies. I can say this, however: I have seen fire insurance companies start and they begin by starting a selling organization, i. e., their agencies, that is, the stock companies are prone to do it that way. And then through those agencies they expect to do business as a result of the zeal of the agent, who is paid on a commission basis and gets his income from the amount of zeal which he shows.

Senator LEHMAN. Is it not a fact that generally speaking—there may be some exceptions—the rates of all responsible insurance companies are based on the same risks and substantially the same conditions? They would be substantially the same?

Mr. BERRY. Oh, yes, sir. In the fire insurance business we believe that is substantially correct. In other words, the same risks are going to run off at approximately the same rate or order, all other things being equal. Therefore we believe that there is a true rate which all companies should be just about at.

Does that answer your question?

Senator LEHMAN. I asked that question because I was rather surprised to hear you say you have nothing to do with the making of rates, or the statistics leading up to the making of rates.

Mr. BERRY. I can elaborate on that. They have rating bureaus in each of the States, or substantially each of the States.

Senator LEHMAN. They have what?

Mr. BERRY. Rating bureaus which make the rates. They will take the grading which our engineers put on cities. They will get a report from the municipalities in their State and the rating bureau from that will use that material as one of the things they will take in developing what the rate should be. A city, for example, with a poorer fire department than one with a better fire department must expect to be graded lower as far as fire fighting is concerned. Therefore its rate, as that particular weighting goes, would be higher in relation to the one that had the better. But we do not do the rating of it. We do have statistics which others will use or insurance departments will use, and we turn them over to them.

Senator LEHMAN. To the individual companies?

Mr. BERRY. Both to the companies and to the municipalities and to the rating bureaus.

Senator LEHMAN. Do the State insurance departments have a voice in the fixing of rates?

Mr. BERRY. Yes. A substantial voice.

Senator LEHMAN.
cal or research?

Mr. BERRY. I would

I forgot to say, and
me, that one of the
have a large staff of
palities and make
and will grade cities
matter of fact, the
board.

Senator LEHMAN.

Mr. BERRY. We do

Senator LEHMAN.
has your organization
United States Geologic

Mr. BERRY. May
purposes. We assess
insurance department
municipalities that have
after is their own
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such.

Senator LEHMAN.
by the United States
opinion statistics
a rate for flood insur-
is enacted to author-

Mr. BERRY. My
mony I read gives
that that material
of rates on floods.

As I remember
to attempt to do
all of the States.

There was an
came from the
Weather Bureau
name, I think,

Mr. McKENNA.

Mr. BERRY. No

Mr. McKENNA.

Mr. BERRY. In
opinion as to what
phere, and he said
movement of the
part—so that he
said that the pop-
That was not
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He said that
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would be pursued

Senator LEHMAN
into the making

voice in the initiation of
scrutiny and approval or

In the rest of the
are subject to a disapproval
they become effective, and

in what category of disas-

—fire and extended cov-
to you on Tuesday.

as I understand it, means
the coverage by loss from

The extended coverage
of fire, but because it is attached
—an extended coverage
which are in this form attached,
and hurricane.

cover loss from floods?

covered that in some detail.
cover against the peril of flood,
any degree of familiarity
against the peril of flood.
written on fixed-location prop-

whether you can answer this ques-
But do the insurance com-
policies on homes, let us say, or
consider vulnerable to floods?

where fire insurance is not
asked the question, I remember
was a problem of getting insur-

At least there was supposed to
before the New York Legis-
bearing there was not a single risk
available.

any flood insurance that is avail-

fixed-location property I do not. Of
personal property you have heard about

I am talking about real prop-
with regard to the districts for
I mean, there is a variation, I sup-

that is, our engineering
population. The rating
smaller than 25,000 population. We
other than the statistics as to
the prevention and the collection of the
sent to us for correlation at

Senator LEHMAN. How frequently are the insurance premium schedules revised in the light of actual experience, or for any other reason?

Mr. BERRY. There is no set time that I know of. That is constantly going on in the rating bureau.

Senator LEHMAN. When you say "constantly," what do you mean by that?

Mr. BERRY. Every day. There will be studies made as to whether this class should not be modified or another class should not be.

Senator LEHMAN. Is that done by individual companies?

Mr. BERRY. It is done by a rating bureau ordinarily in the fire insurance business because of the need to make rates in the fire insurance business in concert. There are some companies that are independent in the fire insurance business, but I know of none of them that is operating across the board, as we call it. There may be a fire company—there is a fire company which is writing just automobile and perhaps one class outside of automobiles—dwellings—which does not belong to a rating bureau.

Senator LEHMAN. What is a rating bureau?

Mr. BERRY. A rating bureau is an organization of companies which is regulated at the State level and gets a license from the State to make rates on fire insurance and allied lines.

Senator LEHMAN. Are the expenses of that bureau paid by the insurance companies?

Mr. BERRY. They are, sir.

Senator LEHMAN. Or by the State?

Mr. BERRY. They are borne by the insurance companies.

Senator LEHMAN. Do you have any opinion on how long it would be necessary to experiment with a program such as that proposed in these bills in order to determine whether a commercially feasible insurance program can be developed? I ask that because obviously we are approaching this thing on a somewhat experimental basis.

Mr. BERRY. Senator, I want again to reiterate my lack of knowledge as a rating man. However, I followed the hearings in the House pretty close and I do know in the history of insurance you will find we have been writing this for some three thousand years and there have been times when flood insurance has been tried, and it has always been abandoned. From the House side one of the things I know is important is the selection that you get—that you not get an adverse selection. I know you have heard that phrase used but a significant statement was made on the House side as to the crop insurance experiment.

That has been going, I think, for some 16 or 18 years. Even though you wash out the first 8 years which were perhaps not truly experimental and may have been overly enthusiastic, I think you will find in the House testimony of Mr. Fretts, of the crop-insurance people, that of all the farmers who were eligible to get crop insurance—and this, as I understand it, is an all-risk cover and all farmers, no matter how good they are as farmers, are exposed to the peril of drought or insects—nevertheless the crop insurance program is being bought only by 24 or 25 percent of the farmers who would be eligible for it. I am quite sure I am quoting that witness correctly.

If that is true as to the program where the peril is common to all, I am left with the impression the program where the peril is common

only to a few would result in a smaller percentage buying. That is not a rating man's conclusion, but just a conclusion a lawyer might draw from some testimony he heard.

Senator LEHMAN. All right. You say only 25 percent would avail themselves of the right to insure.

Mr. BERRY. Yes.

Senator LEHMAN. Is that not due, at least to a very considerable extent, to the high premiums that are charged and the cost of the insurance?

Mr. BERRY. I would have thought so, had Mr. Fretts not said they had been buying at a rate as high as 35 percent, and even at that rate Federal Crop decided that they could not write it in those drought areas and finished and stopped it. I think he also said in the river bottoms they decided not to write any more. The rate, or one of the rates I think he mentioned, was 3 percent. That would be a high rate by the standards of fire insurance.

Senator LEHMAN. 3 percent of what?

Mr. BERRY. Of the amount that is being insured under Federal Crop.

Senator LEHMAN. Has your organization ever made any study of the probable actuarial rates that would have to be charged on flood insurance?

Mr. BERRY. No, sir. That study, or the closest thing to a study on that, was the engineering study made by the American Insurance Association.

Senator LEHMAN. We have had a number of insurance people appear before us and they tell us with great conviction on their part that flood insurance from the actuarial standpoint is not practicable. But I have never yet heard any of them give us any facts showing that a real study has been made, a statistical study, with regard to the actual risks that would be involved.

Mr. BERRY. Mr. Chairman, I have read the engineers' report to the American Insurance Association. Of course, that does not undertake to make rates or show how rates would be made, because they are not ratemakers; but the physical analysis there I think supports the conclusion which the insurance people have taken.

But there is another very salient thing, I think. These people want to write insurance. That is their business. The more they write, the more business they do and the more money they make. They are in business for a profit and if they could make money at this they would want to write it. They have edged into it from time to time and they are writing, as you know, a substantial amount now on movable stuff. However, the experiments always wound up being abandoned. They would not have been abandoned in my judgment if they had been profitable.

The marine business has never been abandoned and it is the oldest form of insurance. They stayed with it because they knew it was a business they could make money out of. If they could make money I think you would find them in there. They want it.

Senator LEHMAN. That is all right, but I wonder—and I have never been satisfied on this point—I wonder how deeply the insurance companies have actually studied this thing. I mean, it is one thing merely to jump at a conclusion based on the factors as they have observed

them, and another thing really to make a careful study of the rates that would have to be changed.

Mr. BERRY. I am sure they have not jumped to a conclusion. When this subject was first opened up back in 1951, as far I was concerned we came down and testified before the House committee, and then the American Insurance Association started that study which is still continuing. I know that association has had meetings where those reports of the engineers were considered and we had the consensus of opinion and open discussion by representatives of well over 100 of the companies that are writing insurance generally in the United States.

Senator LEHMAN. I am pretty well convinced that the Government cannot run a government insurance project on an exact actuarial basis—not without the experience of many years. But we would like to know what the actuarial basis, if one could be worked out, would be. It would be very helpful to us, and I think it would be very helpful to the insurance companies, because we are anxious to turn this thing over to the insurance companies as soon as possible.

Do you know of any place where those figures could be obtained?

Mr. BERRY. I do not know where those figures could be unless you can derive them from the study made by the engineers and the testimony which has been adduced here.

Senator LEHMAN. Can you tell us how much uniformity exists amongst State laws regarding premium schedules and reserves for property insurance?

Mr. BERRY. Let me take the second first because it is easier. On reserves the State laws are almost entirely uniform as to our reserves on unearned premium. As to uniformity of schedules, the State laws do not purport to describe the schedules. The State laws regulate the rate, and the manner in which the rate is arrived at is one which the rating bureau determines. We will have different rating methods pursued by different insurers.

Senator LEHMAN. Do you have any opinion as to the workability of a program which would require joint State and Federal participation? The reason I am asking you that is in Senator Bush's bill he provides for State participation. Under the bill which some of my colleagues and I have introduced, we do not provide for that.

I personally do not think it would be practical and I so expressed myself. Do you have any opinion about that?

Mr. BERRY. I have, and it is purely my own. I can see some virtue in both approaches and some weaknesses in both.

For example, when our business was held to be interstate commerce and we needed to bolster our State regulatory pattern back in 1944, and there was a surprising shortage of rate regulatory laws, in just about one complete cycle of the legislatures, that is, 2 full years, we had a respectable pattern of rate regulation throughout the United States. So that would be pretty fast action, I would say. I do not know if you would get that fast action now on this problem.

But the second thing I thought about when I heard Senator Robertson raising the point in Virginia was this: The testimony on the House side was that zoning was a local problem, that is, flood zoning. If you do not get some sort of State participation I would be worried as to whether you would ever get any flood zoning. If by zoning the residents of a city, or some residents of a city, are not going to be able

to get this flood insurance, I would expect there would be considerable pressure on the Government of that city not to zone. So I can see some delay on one side and some danger on the other.

Senator LEHMAN. I think the same result could be obtained by adjustment of rates based on risks and based on the vulnerability of the property. That, of course, is included in both Senator Bush's bill and mine. I do not think it is possible to write a uniform rate for all insurance. The risks would have to be taken into account.

Mr. BERRY. Excuse me, Senator. I did not mean zoning as to rate. I meant zoning as to construction. For example, there was testimony on the House side there were some 10 million people who were violating river beds and using part of the river beds for living or manufacturing. I think there were 50 million acres, or some such amount, mentioned. The Government men who testified, who were the hydrologic engineers, or counterparts of those, were disturbed that a program might be developed which would encourage the abusing of river beds. It seems that developers find it inexpensive to get land there and they will erect buildings in areas which are subject to recurrent flood. That could be stopped by local zoning as to what you could erect.

I am not talking about zoning as to rate, but if I am going to be unable to get insurance because my house is down in a river bed area. I am going to try to stop any zoning that would keep me from getting that insurance. That is one of the things in it.

Senator LEHMAN. I think you have to recognize the difference in the risks involved in connection with different pieces of property situated in different areas. But if you did recognize that and if you made that effective it would seem to me it would discourage people from building or remaining in the low areas. That might, of course, in certain cases, price out the possibility of getting insurance policies.

Mr. BERRY. Price would have something to do with it, certainly: but zoning as to building is essential if this program—

Senator LEHMAN. Of course, it would be fine if you could zone and if you could start all over again, or if we had started a hundred years ago on an intelligent basis to zone, so that it would be making it possible, although I doubt very much if under those circumstances industry would have developed at least in certain areas of the country as it has since then. I say that because in the earliest days we were dependent upon our water power entirely and it is obvious that it would be advantageous to build factories and homes adjacent to rivers the waters of which could be used for one purpose or another. You cannot move those and throw them all out, but you can, of course, discourage it or discourage new building and encourage zoning laws which, I think, are of very great importance. I think we all do.

If you make a difference in rates rather than say, "Now, look here, you just cannot have any policy at all because your house is in a vulnerable area," then you are taking care of them. I know the difficulty of the thing, but I do not think the answer is—

Mr. BERRY. I certainly see the difficulty. You have hit it. We are trying to solve in 5 or 6 weeks something we took 200 years building up.

Senator LEHMAN. That is right.

Mr. BERRY. We cut down our forests and used our riverbeds in carrying the logs down, and we used our streams for making water

power, and now we are complaining because the rivers are striking back at us.

Senator LEHMAN. Of course, we have to try to cure a lot of evils fairly rapidly—evils which have existed two or three hundred, or maybe a thousand years. If we did not do that we would be static and I do not think we want to be that at this time.

Mr. BERRY. I am sure of that. I was reading in the Times of Governor Ribicoff's speeches in Connecticut. He is telling the people there the great progress they are making in rebuilding their towns.

Senator LEHMAN. Mr. Edelstein calls my attention to the fact that in my bill, and I think in Senator Bush's bill, we have a provision that the Administrator could not grant insurance policies or issue insurance policies to areas which were in violation of the zoning laws of the State.

Mr. BERRY. That is right.

Senator LEHMAN. You recognize that?

Mr. BERRY. And because of that provision if the States are not participating I am quite sure the pressure will be on the States not to pass zoning laws because if passed some citizens would not be able to get any insurance. That was the point I was hoping to get across.

Senator LEHMAN. Could you explain briefly for the record the general method used by private insurance companies in fixing reinsurance rates?

Mr. BERRY. I do not think they fix them generally. I do not profess to be a reinsurance man, but the reinsurance I know is fixed by negotiation on an individual company basis.

Senator LEHMAN. Unless we adopt some program similar to those proposed in the bills before the subcommittee, what protection can be assured for homeowners whose homes are destroyed by flood but who still owe a mortgage debt on those homes, and for businessmen who may be discouraged from assuming additional obligations in order to revive a business washed out by a flood? Have you any suggestions as to what can be done?

Mr. BERRY. I wish I had a quick answer to that one. I think one great value of these hearings is that everyone seems to recognize now if a program is going to be adopted it is going to have to be some sort of subsidy. Senator Bush's bill has a 40 percent subsidy plus whatever subsidy is involved in carrying the general expenses, which I think Government witnesses have said would run about 25 percent of the premium. So you have a 65 percent subsidy there.

As I recall your bill, Senator Lehman, I do not think there is any percentage set as to how much is subsidy.

Senator LEHMAN. No.

Mr. BERRY. But everyone seems to agree if you are going to take this approach it is going to be a subsidy. Whether that is the proper approach, I certainly do not speak as a spokesman for the insurance companies when I am giving my own theory on a thing like that. I do not know. But I see, I think, a great problem, if this or if either of these approaches were taken and a flood occurred and I had no insurance and you did have, and 65 percent of the money you were getting was money which I had contributed to out of general taxes. If you were to be paid and I was not paid I think it would present a real problem. It impels you in the direction of direct relief.

I think too there are substantial difficulties in that direction that I am not inclined to minimize.

Senator LEHMAN. One final question. You, of course, in the fire-insurance companies, have been fixing rates.

Mr. BERRY. I fixed them?

Senator LEHMAN. No. The fire-insurance companies in fixing rates for their premiums are taking into account a great many factors.

Mr. BERRY. Oh, yes.

Senator LEHMAN. Some of them, of course, are as a result of the research and study work that your organization has done. However, there are a number of factors that are taken into account. Can you tell us in what respect the method of fixing flood-insurance premiums differs from the method of fixing fire-insurance premiums?

Mr. BERRY. I think I can give you part of that, at least. Our engineers will go out and they will grade the cities in the State of New York. Their study will be as to the quality of the fire departments, the sufficiency of the water supply and the efficiency of the alarm system, and training of the men, and things of that character. I do not see where that would bear any relation to floods. Perhaps some remote relationship in that flood may encourage fire and thus the quality of the fire department would have a bearing, but it seems to me it would be very much more remote if it were relevant at all. I do not know where a rating or an attempt to rate a flood would tie on to the processes of rating for fire.

When you come to schedule ratings where each risk is inspected and the various hazards which would encourage fire, such as open stairways, and creating drafts, and things like that are concerned, I do not see how they would be relevant as risks in floods.

I should not talk about how fire rates are made, but I do not see where that would have any relation to flood rates, Senator.

Senator LEHMAN. Senator Bush, I have asked these questions largely for the purpose of developing certain technical aspects of this question with respect to the States. He has nothing to do with the fixing of rates or the writing of policies, but I wanted these technical things on the record. Do you want to ask him any questions?

Senator BUSH. No questions.

Senator LEHMAN. Thank you very much indeed.

Mr. BERRY. Thank you, Senator.

Senator LEHMAN. We appreciate your coming.

The next witness is Mr. Charles H. Martin, American Society of Insurance Management.

Mr. Martin, have you a prepared statement?

STATEMENT OF CHARLES H. MARTIN, REPRESENTING THE AMERICAN SOCIETY OF INSURANCE MANAGEMENT

Mr. MARTIN. Yes, Senator Lehman. Shall I read it, sir?

Senator LEHMAN. Yes. Will you read it and then supplement it in any way you wish?

Mr. MARTIN. Very well.

Senator Lehman and members of the committee, my name is Charles H. Martin, insurance manager for a large chemical company. I appear today as a member of a newly formed committee appointed by the

American Society of Insurance Management to help develop insurance coverage for floods and other perils not now readily insurable.

Lest the name be misleading, this society is a national organization of professional insurance managers, both part-time and full-time. It represents many types of industry—large and small—but does not negotiate or contract for insurance. It is for the personal and professional benefit of its members in their efforts to safeguard employee personnel and to protect the assets and income of their employers—by evaluating risks, fostering loss prevention programs and buying insurance coverage for the unforeseen loss.

We welcome this opportunity to present our views to this committee. The scope of your studies and the testimony on record are both impressive. Frankly, we have not been able to digest it all prior to this meeting today, although most of it is quite palatable.

If it pleases the committee and staff, we would like to submit later a memorandum outlining specific suggestions relating to the bills.

Senator LEHMAN. That will be very agreeable.

Mr. MARTIN. Meanwhile, we offer a few thoughts for your consideration:

1. We have heard many times the phrase, "Only those located in flood areas want flood insurance"—but lately you have seen torrents and turbulent waters raging outside the conventional flood plains. We have also heard there is no way to set the proper rate actuarially unless help is provided outside the insurance industry in the form of indemnity or reinsurance.

Actuarially sound rates, however, have been set for other perils, notably explosions of various kinds, where records are meager. It has also been done in general liability and product liability where a forecast of future losses is exceedingly difficult. I understand cooperative efforts in the field of aircraft product liability, for example, are making headway. It was done also in war damage and in the field of vandalism and malicious mischief, although on a smaller basis.

It has been said that we, the buyers, would not pay the required premium. Most of us have never seen a proposal we could reject. Which comes first, the hen or the egg? Those few of us who have seen proposals or actually written coverage have been displeased with the forms offered, the definition of flood, and the exclusions. Price is not necessarily the deciding factor.

The questionnaire sent out by the Associated Factory Mutual Fire Insurance Co's., to its policyholders some time ago was comprehensive, but limited to a small but important segment of the buying public. A better sampling of buyer interest could be made if all insurers in the field did likewise—sending questionnaires directly to their policyholders.

This, of course, suggests a more accurate poll of the insured, not only as to flood, but including perils for which he is now essentially his own insurer.

2. We think, if a permanent or temporary Federal plan is adopted, there are certain features which most risk managers would like to see, among which are the following:

- (a) An inspection plan not limited to ratemaking but providing active professional loss prevention engineering within the plant or home insured. This would, of course, supplement the activities of the various flood-management agencies.

(b) A choice of deductibles, including very high ones, so the loss retention by the insured will be set to meet his requirements or perhaps that of his mortgagee. This is not suggested in the sense of gambling, but rather to tailor the coverage closer to individual needs.

(c) A definition of flood which will include all perils now recognized: rising waters, surface waters, wave wash, tidal wave, high water, wind-driven water, and some of the newer concepts, such as muddy waters, percolating waters, vagrant waters, and perhaps the most destructive of all, turbulent waters. The damage covered should include not only that due to the wetness of water, but the kinetic energy in it. Peculiar exclusions could easily creep into the definition of flood.

(d) Expediting expense, overtime, et cetera, required to restore income-producing facilities should be included.

(e) Extra-expense insurance to cover the cost of temporary offices elsewhere should ultimately be worked into the plan.

(f) Control of salvage should be carefully worded to avoid placing on the market food, pharmaceuticals, or other materials which the prudent manufacturer would dispose of for the safety of the public.

Senator BUSH. What is that now? I do not quite understand that paragraph (f). Does that belong in an insurance bill?

Mr. MARTIN. Yes, sir, Senator. Salvage being the right of an insurer after the loss—the right to take what is salvageable and to sell it for scrap or some other purpose at a portion of its value. Those things should be controlled in the area of food, or pharmaceuticals, or other articles.

Senator BUSH. Is that not a matter which could be handled by administrative regulation under either of these bills rather than be put into the law? That is, on a matter such as that?

Mr. MARTIN. Yes, Senator. I think it could be.

Senator BUSH. All right.

Mr. MARTIN. Continuing my statement:

(g) Provision should be made for coinsurance on an optional basis for those who wish to share their loss in exchange for lower premium cost.

(h) Provision should be made for those who wish to insure on a repair or replacement basis rather than actual cash value.

(i) The coverage should, in our opinion, apply to persons or to property, depending upon the nature of the risk. We believe the final bill could be made flexible in this regard.

(j) We think additional perils could be covered on a sound actuarial basis with the use of different deductibles and different limits of coverage, depending upon the particular hazard.

Senator LEHMAN. What do you mean by that?

Mr. MARTIN. We could have a \$300 deductible for water damage, and perhaps \$1,000 deductible for earthquake, or some other peril of that type, depending upon what the actuarial studies might indicate.

(k) The engineering studies which have served to discourage segments of the insurance industry from furnishing flood coverage could be broadened to determine the effect of pooling with flood not only certain other uninsurable perils, such as earthquake, peacetime atomic radiation, and others, but also certain hazards now insured under the extended coverage clauses of various types.

3. The staff report of January 9, 1956, suggests many topics for further study and development and raises many questions still unre-

solved. This is to be expected because of the complexities of the problem. The National Association of Insurance Commissioners has not yet made its views known. These are important to the buyer for his coverage and costs are governed by the various State regulations. Studies relating to loss prevention within a plant, in addition to public flood-control projects, are being conducted by the Associated Factory Mutuals, the Factory Insurance Association, and others, not the least of which are the industries now insured.

This suggests at least two things:

(a) Whatever legislation is passed should be flexible enough to be readily amended when new information is made available.

(b) Certainty of loss is one thing in the case of a flood, but certainty of an underwriting loss is quite another. The diverse opinions held by several prominent groups of insurers as to whether or not flood insurance is practical today might be resolved by appointing a study group to represent all segments of the insurance industry, including the other contracting party, the buyer, on a continuing basis.

The American Society of Insurance Management will be happy to cooperate.

Thank you.

Senator LEHMAN. Thank you very much, indeed. Have you any questions?

Senator BUSH. No.

Senator LEHMAN. We thank you very much. You have been very helpful.

Mr. Edelman?

Mr. EDELMAN. Senator Lehman, Mr. Miller, representing the Northern Textile Association, is in quite a rush and has a very short statement. Might he testify ahead of me?

Senator LEHMAN. Yes; that will be entirely satisfactory, of course.

Mr. EDELMAN. Then Mr. Miller will testify.

STATEMENT OF JOSEPH L. MILLER, REPRESENTING THE NORTHERN TEXTILE ASSOCIATION AND THE QUINEBAUG-FRENCH RIVER MANUFACTURERS ASSOCIATION

Mr. MILLER. My name is Joseph L. Miller. My address is 1025 Connecticut Avenue NW., Washington, D. C. I appear in behalf of (1) the Northern Textile Association, and (2) the Quinebaug-French River Manufacturers Association. The Northern Textile Association represents New England textile mills—cotton, synthetic fiber, and woolen. The Quinebaug-French River Association represents the mills, factories, and citizenry of these two river valleys in the upper Thames River Basin of Connecticut and Massachusetts. Southbridge and Webster, Mass., and Putnam, Conn., are the three principal towns along these industry-lined rivers.

Only a few textile mills were seriously damaged by the storm and floods of last August 19 which played such havoc with industry along the Quinebaug and the French Rivers. The preponderant part of the textile industry lies north and east of Diane's worst damage. Previous hurricanes of the last two decades, however, have caused losses to textile mills running into the millions. Especially hard hit had been those tidewater mills where salt water flooding has caused not only

the usual damage associated with floods, but also irreparable injury to machinery. The New England textile industry therefore is as interested in flood insurance as are those areas worst hit last summer.

Damage last August to public, private, and industrial property in the Quinebaug and French River Valleys has been carefully estimated at \$35 million. One plant alone—the American Optical Co., at Southbridge, Mass.—suffered a loss of \$3,100,000.

We would like to be perfectly frank with you gentlemen in stating that we believe flood prevention is the best form of flood insurance. We understand that four authorized but long-deferred Quinebaug and French River flood control projects, three of them still on the Army engineers' drawing boards, would have prevented a minimum of 60 percent of the damage in those valleys last August. We hope that the Congress this spring will appropriate sufficient money to move these projects from dreams to reality.

In this connection also, I would like to point out that several of the tidewater textile mills, after the hurricane of 1954, did considerable private flood prevention work—bricking up first floor windows, building dikes, water-proof bulkheads, and the like. When they sought to write off the cost of this work as a current business expense, or at the least to apply rapid amortization to it, they found that it must be considered as a capital improvement, just like a new building, and written off over a period of 20 to 30 years, whereas the cost of insurance premiums could have been written off as a business expense. They hope that this Congress will give them a break for their private initiative, and make rapid amortization optional.

The problem of flood insurance itself is so intermingled with that of flood prevention that I assume you will forgive these digressions. We favor Federal flood insurance. We incline toward the general provisions of the Lehman-Kennedy bill, but obviously favor the larger indemnity provided by the Bush bill. But we are not insurance experts. We must leave the details of the program to you. We know we cannot afford the flood insurance reported to be offered privately at 30 percent annual premiums. We also understand that one of the reasons this premium is so high is that the insurer must build up reserves fast to cover contingencies, or face the possibility of going broke. We also know that the United States Government is going to be in business a long time and can well afford to take a longer-range view, bringing premiums down accordingly. Please bear in mind, gentlemen, that a catastrophe like last summer's has economic repercussions throughout the country.

Dr. Seymour Harris, head of the Economics Department at Harvard University, has done considerable work on this subject from a New England point of view. I would like to call to your attention his testimony before your subcommittee in Boston last November 9 in behalf of the New England Governors' Conference (hearings, pt. I, p. 450 et seq.) as an excellent presentation of the New England case.

Thank you very much.

Senator LEHMAN. I want to point this out: You made reference here to flood control, and I think there is little difference between Senator Bush and myself as to the advisability of pushing with the greatest rapidity possible an adequate flood control program. The Chief of the Corps of Engineers testified before us some weeks ago

to the effect that just giving effect to the projects which have already been approved for flood control, at the rate that appropriations have been made by Congress, it would take 22 years to complete them. That, of course, would not give any effect to new flood control projects that would be suggested, and many of which undoubtedly have merit.

So while I am thoroughly in favor of the continuing of our flood control work, and I hope on an extended basis, I do not think we should place too much hope in that particular category.

Mr. MILLER. We just mean to bring out, Senator, that these things go hand in hand.

Senator LEHMAN. We know that.

Mr. MILLER. I hope we do not have to be beating on Senator Bush's door in behalf of Putnam, Conn., for 22 years.

Senator LEHMAN. I hope not too, but that has been the experience of a great many flood control projects.

There is just one other question I want to ask you. You referred to the coverage. There is a difference in the amount of coverage provided for in the two bills, that is, Senator Bush's bill and mine. There is some difference, as I recall it, in the coverage on residential property. There is also a difference in the coverage on industrial property.

Senator Bush's bill provides for a maximum of \$250,000 for one concern or one individual. My bill provides a maximum of \$100,000 per property or per location. That means, of course, in the case of Senator Bush's bill, if a company had a half a dozen or 10 plants they could write only \$250,000 in the aggregate on the entire group of plants. Under my bill it would be possible to write \$100,000 on each plant.

Have you any opinion as to the relative merits of those two proposals?

Mr. MILLER. I almost think I could defer to Senator Bush on that, but most of these companies up at the Quinebaug and French River Valleys are individual companies, home-owned, small mills. The \$250,000 coverage appeals to them a whole lot more. It also does frankly to one of the leading members of this association, the American Optical Co., because although they have diverse operations in a half a dozen plants, there is only one of theirs, I believe, that would be subject to any flood risk.

Senator BUSH. If I might just observe, I agree entirely with what the witness has said and while I think there is merit in the Senator's proposition of \$100,000 on the different units, I do not think it is as practical because if you are going to have a flood like we had in the Northeast it is unlikely that the same person in the broad sense—a corporation, or whatever—would have more than 1 exposure in that area, you see. Therefore your \$100,000 limitation would cut a corporation down, a modest, small-sized corporation, considerably lower than the provision of \$250,000 in our bill. You offer him a chance to insure more than one exposure, but you do not really offer him as much protection as a practical matter. That might be said to be a matter of opinion, but certainly in the light of experience I would certainly think the people in the Northeast, the small-business people and all of them, would prefer to have the \$250,000 limitation which we provide rather than the multiple limitation as provided in the Senator's bill.

Senator LEHMAN. Of course, in certain cases at least, the wider coverage that would come from separate policies based on a number of

plants belonging to the same corporation would also spread the risk of the Government. It is the converse or reverse side of the proposition.

Senator BUSH. But the effect nevertheless would be in one case to limit it to \$250,000 and in another case to \$100,000 within a given State, you might say.

Senator LEHMAN. That is right.

Senator BUSH. So the question is whether the \$100,000 limitation is right or the larger one is right.

Senator LEHMAN. The situation could be briefly described that the company having 10 plants could insure each one of those 10 plants for \$100,000 and, of course, have to pay a premium on the policy for each one of those plants.

Senator BUSH. But the Senator will agree with me that it is most unlikely a company will have 10 plants or even 3 plants in an area such as we are talking about in the Northeast, or even in the Northwest, where we had the floods in Oregon and northern California. It is most unlikely they would have multiple plants in that kind of an exposed area. That is my only point.

Senator LEHMAN. I understand that, and I think it is a moot question.

Now let me ask you this: To your knowledge do any of the members of your group or of the association carry any flood insurance at the present time?

Mr. MILLER. When I went up and talked to them, Senator, in January, some said that it was unavailable in their experience. Among them the largest of these companies, the American Optical Co., said they had made some effort and could not get the insurance. Most of them said they understood that they could get it at about a 30 or 33 $\frac{1}{3}$ percent annual premium.

Then there was a story—and I give it to you as a story because I cannot tell you the name of the company, but it was all over the French River Valley up there—the first of August last year, when all of the high brass of one of these little mills was off at a convention somewhere a very junior executive bought some 30 percent complete coverage flood insurance. When the bosses came up they like to fired him. Only 2 weeks later he was a hero.

Senator LEHMAN. That just happens in real life.

Senator BUSH. Was he promoted?

Senator LEHMAN. I just want to point out for the record that under the bill which we propose we fix a limit of \$100,000 on the industrial property per location, \$10,000 for each 1- to 4-family home, so that the Government under the bill, if enacted, would assume the risk on the first \$10,000 of residential property and \$100,000 on industrial property. But there would still be the opportunity of increasing that amount by having policies written by the insurance companies under a reinsurance arrangement.

Of course, the insurance companies would not be liable until the loss had reached more than \$10,000 on a home and \$100,000 per industrial property.

In the back of my head—and I have no figures to prove it, unfortunately, because there are no figures—I think the insurance companies' risk would be very, very much reduced.

Senator BUSH. Mr. Chairman, as long as we are on this point I would like to make this observation. \$250,000 seems like a lot more money than \$100,000; and it is. But many of these plants, as my friend here knows, up our way in our area—and that is why I cannot get that out of my head and I think it is very important—but these plants are small plants where they employ 50, or 60, or a hundred people. They are not rich plants where they have large amounts of excess cash in the bank, and that sort of thing. These plants are modest, going concerns and have the lives of 50, or 60, a hundred, or two hundred people dependent on them. When they get struck, as they have here, it seems to me that \$250,000 is not too much to expect and to be able to be insured for.

The main thing, and the purpose of this insurance is, so that the plant can get back into business and restore these jobs. I quite agree that the large people like the American Brass and others who employ thousands of people in our area, have other means of relief. It has all been brought out in the hearings. They have tax relief, and so forth, and the great protection of the dispersal of their plants in other parts of the country, and that sort of thing. But these small plants which employ 50, or 60, a hundred and 200 people, constitute a large section of the backbone of the industrial Northeast.

Those are the people we have definitely in mind when we are talking a \$250,000 limitation, and not the big manufacturer. He is not going to get much out of it. The New Haven Railroad lost—I do not know how much yet, but they have a Government loan of \$10 million, or at least a loan underwritten and insured by the Government, and they are now back because that is not enough. They really need probably \$15 million. All they can possibly get under our bill is \$250,000. I do not know whether they could get a multiple under your bill or not.

Senator LEHMAN. Probably.

Senator BUSH. I do not know. They might. They might be able to get two or three hundred thousand out of your bill. But it is not to insure the big fellow. I want to make that point very, very clear for the record. It is to insure the modest, small, middle-sized fellow who is really the backbone of our economy, who is employing 50 or 60, a hundred or two hundred people, because that is the kind of plant for the most part that makes up the economy up there.

I want to make that clear for the record in justification of the larger figure in this bill.

Senator LEHMAN. I have no further questions and I want to thank you, Mr. Miller. It was very interesting.

Mr. MILLER. Thank you very much.

Senator LEHMAN. The next witness is Mr. Edelman, but Mr. Edelman said his attention was drawn to the fact that Mr. Yaffe lives in West Hartford, Conn., and is probably anxious to get home, so he has been good enough to yield to Mr. Yaffe, if Mr. Yaffe wants to get home.

Thank you very much indeed, Mr. Edelman.

**STATEMENT OF SIMON M. YAFFE, INSURANCE AGENT,
WEST HARTFORD, CONN.—Resumed**

Mr. YAFFE. Senator Lehman and members of the committee, I have a statement which I will present to you. There are a few insertions that go with that and I shall call to your attention the particular point at which those insertions shall be made.

I hope you will forgive me if I present this statement in what you might consider to be an unorthodox manner, with a view to revising the comments as I go along.

Mr. name is Simon M. Yaffe. I live in West Hartford, Conn. On November 15, 1955, I was a witness at the hearing which the United States Senate Banking and Currency Committee conducted in Hartford, Conn., for the purpose of getting information which would be helpful in formulating some plan of disaster insurance on a national scale. (See p. 802, pt. 1.)

Senator LEHMAN. May I say to you your testimony at that hearing was very useful to this committee.

Mr. YAFFE. Thank you very much.

Speaking as an individual, an insurance agent for about 20 years, with no authority granted me by anyone or any group to speak for them, but having in mind the interest of the thousands who had suffered serious losses in the recent floods, with the hope that others would not suffer such losses in the future, I presented my views on disaster insurance and the outline of a plan for the committee to use as a formula for such insurance.

At that time, I gave reasons why no private insurance companies can or should take over any plan of disaster insurance. I pointed out that it is vital to the existence of such companies that rates for all coverages be promulgated on an experience basis, that such rates would necessarily be very high, that only those directly exposed would buy the insurance—this would be selection against the companies—a vicious circle would be set up and the law of diminishing returns would eventually kill the program.

It is my wish, with your permission, to comment on and analyze two of the bills submitted to the Senate—S. 2862 as submitted by Senator Prescott Bush of my State, Connecticut; and S. 2137, the Lehman-Kennedy bill, as submitted by Senator Lehman on February 6, 1956.

At this point I would like to insert the first of the insertions which I have left with you.

Senator BUSH. Have we copies of the insertions here?

Mr. YAFFE. Yes.

At this point please permit me to add to the principal statement which you have. I listened to the testimony before this committee on Tuesday, and when I returned to my hotel I noted the headline in the Washington Evening Star. It referred to more devastating floods and resulting damage from them in the State of Oregon.

My day's experience reminded me of a fact of which you of the committee and all of the experts in this room are well aware. Neither of the bills under discussion here would reduce the losses caused by this disaster by 1 cent. But we must not forget some very basic principles we all learned in our early studies of economics and espe-

cially in insurance. The basic principle of insurance is the assumption by many of the monetary losses of the few. It is this principle which has made the insurance industry great—the sums of money paid after the Chicago fire, the San Francisco earthquake, the many claims paid to individuals and businesses throughout the years.

It is not the annual statements of the companies, or the vast assets to guarantee the fulfillment of obligations, important as they are but rather the integrity of the leaders of the industry that makes me proud to be an insurance agent.

We must not lose sight of the fact that some means must be established to ease the loss suffered by individuals in a given locality because of a disaster over which they have no control.

I shall take up the Bush bill first. What I have to say is based on what appears in the Congressional Record of January 5. It is my understanding that the amendment submitted on January 18 does not alter the plan to any great extent. In the February 6 Congressional Record, Mr. William F. McKenna made a profound analysis of the provisions of S. 2862 with criticisms of particular sections and paragraphs of the bill. I agree with most of his observations and frankly I can add a few of my own. For instance, in his introductory remarks concerning this bill, Senator Bush said:

It was necessary to limit coverage to a single individual to \$250,000. This is ample to meet the needs of householder, the butcher, baker and the small proprietors on Main Street * * *

I hope you will forgive me; I cannot resist this. A little bit of levity: As to this, I can only say, "some householder, some butcher, some baker."

Senator BUSH. Mr. Chairman, of course, I am delighted to forgive the gentleman for any frivolous statements he may make, but I do wish to read into the record at this point the entire quotation which Mr. Yaffe read a portion of. I refer to page 96 of the Congressional Record of January 5, in the lower right-hand part of the page, and I would like to read those three little paragraphs into the record, because I think this testimony does not give a correct impression of my views on this subject.

This is frankly an experimental 5-year program. As such, it contains an overall limitation on outstanding flood indemnity contracts of \$1,000 million increasable to \$2,900 million within the discretion of the President, and of \$100 million of reinsurance. Because of the overall limitation on indemnity contracts, it was necessary to limit coverage to a single individual to \$250,000.

This is ample to meet the needs of householder, the butcher, baker, and other small proprietors on Main Street, the farmer and the owners of small manufacturing enterprises. These folks need protection the most. They would be able to buy, at the most reasonable cost within limits of practicality, coverage against flood losses to their homes and other real property, household effects, business inventories, stored agricultural commodities, and other personal property for which protection is not now available.

Although many large corporations suffered heavy losses in the 1955 floods, they are in a better position to withstand them. Many are in a position to act as self-insurers: all are entitled to tax deductions not available to ordinary individuals.

I would like to add to that, Mr. Chairman, that my own survey of the situation in our afflicted towns—which I venture to say has been quite as thorough as that of my friend, Mr. Yaffe—convinces me on Main Street amongst the storekeepers in places like Winsted and Torrington, and others, there are those who have lost more than

\$100,000, which is the limitation on my good friend, Senator Lehman's, bill. I have no apology whatever to make for that \$250,000 limitation. I hope you were here and heard the earlier discussion on that point when our friend, the previous witness, testified.

That is all I have to say on that point.

Mr. YAFFE. Senator Bush, may I comment on your statement?

Senator BUSH. Oh, yes.

Mr. YAFFE. The reason for my including that in the prepared statement is this: That you draw no distinction as to limits of coverage as between householders—the man owning the small home and the man in business on Main Street—or the man owning a manufacturing plant. I agree with you. I agree with you that \$250,000 may not be a large limit. It may or may not be, let me put it that way, a large limit to place on the amount of coverage.

Senator BUSH. May I right there—neither bill draws a distinction between the householder and small-business operator. They speak of them each as persons and there is no distinction drawn in either bill as to them.

Mr. YAFFE. At the hearing in Hartford I think one of the comments I made at that time was that I felt where it was the obligation and the responsibility, I might say, of the community at large, to see to it that his brothers are entitled to decent living conditions that had been taken away from them through no fault of their own, it was still not any responsibility or obligation of the taxpayers of this country to replace household property which might run to the value of \$100,000 or \$200,000. I do not believe that the taxpayers should be asked to replace Rembrandts, or oriental rugs, or anything of that sort. I think there is a need for such a thing—

Senator BUSH. Do you think personal property should be included under the bill?

Mr. YAFFE. I do, but I think there should be limits to which the taxpayer should be held responsible for that. I think I cover that subject a little further in my prepared statement. But that is the principal reason for my breaking it down.

I do not disagree with the portion which refers to the \$250,000 for the small-business man, but what I do object to is the limitation of \$250,000 on households or household contents, or anyone's personal belongings.

Of course, I am not in that category at all. I do not have any such property. But if my property was completely wiped out, I do not think it is anyone's responsibility to put me back in the lap of luxury.

Senator BUSH. I do not think there is anything in either bill that is intended to put people back in the lap of luxury.

Mr. YAFFE. As I understand it, Senator Bush, under your bill it would obligate the Government or whoever is the insurer to cover personal belongings, or personal property, real or otherwise, to the extent—

Senator BUSH. Both bills do that.

Mr. YAFFE. To the extent of \$250,000.

Senator BUSH. May I point out to you there is no distinction between the bills on that. Both bills cover personal property.

Mr. YAFFE. I think not. I think Senator Lehman's bill definitely sets a limitation as to the amount of coverage which should be placed

upon homes and personal property of homeowners. I think that is an important distinction between the two bills.

Senator LEHMAN. I place a limit of \$10,000 per home.

Mr. YAFFE. Against \$250,000.

Senator LEHMAN. Yes. As far as residential property is concerned.

Senator BUSH. The bill which you refer to, S. 2862, says on page 5:

The Administrator shall, by regulation, determine (1) the types and location of property with respect to which indemnities shall be provided; (2) the nature and limits of losses or damage which may be covered by such indemnity contracts—

And so on.

I think it is obvious by my remarks and everything else in this that there is no intention here to cover Rembrandts or that type of thing. The bill is designed basically and primarily to offer indemnity to the people who need it the most. They get the most benefit out of the bill.

Senator LEHMAN. May I ask you, is there any limitation on the insurance covering homes in your bill?

Senator BUSH. \$250,000.

Senator LEHMAN. It is not limited to \$10,000 as it is in my bill?

Senator BUSH. No. The limitation, of course, is made to some extent by the cost of the insurance in that connection. There is some limitation. No one will buy \$250,000 of insurance on a home, I do not believe.

Mr. YAFFE. I want to make just one statement, Senator Bush. It is certainly not my intention to question in any way at all your intention so far as producing proper coverage for those who suffered losses under the flood is concerned.

Senator BUSH. Thank you for that.

Mr. YAFFE. I think your record in the State of Connecticut and what you have done speaks for itself. I am not questioning motives at all.

Senator BUSH. Thank you.

Senator LEHMAN. Will you proceed?

Mr. YAFFE. Another point—the maximum amount of coverage under this bill for all policies issued under it including reinsurance is approximately \$3 billion. The factor which would contribute most to the success of any plan of insurance, large-scale participation, has a lid put on it.

Senator BUSH. Is that not true of both bills?

Mr. YAFFE. When I discuss Senator Lehman's bill I shall comment on that also. I refer to that. I think there is a slight difference between the two and I shall refer to that.

Senator BUSH. I would simply point out at this point in the record that the limitation you speak of is in both bills.

Mr. YAFFE. My interpretation of the two is that the limitation is not the same in both bills. I think I point that out a little later in my presentation.

Senator BUSH. All right.

Mr. YAFFE. I could go on and on and add to the criticisms offered by Mr. McKenna, but important as they may seem to be, they do not point to what is basically wrong with the bill. Commas and semicolons may be added, definitions clarified, certain provisions may be altered or revised, but the bill would still be unsound because the premises on which it is based are unsound.

The bill states that there is not generally available to the people of the United States—and I am sort of paraphrasing the language which you use in your presentation in the bill—the bill states that there is not generally available to the people of the United States any program of flood insurance through private insurance companies. This is no accident. These companies have known and know now that they cannot assume the risk of offering coverage for large-scale floods and other disasters. It is not a question of getting an additional 20 or 40 percent added to the cost of offering this coverage. They have all the facts they need and because of this they show no interest in the program. Instead of assuming new risks, they have in many instances refused to insure property for extended coverage and the rates for this have been getting higher and higher.

In our particular locality several years ago the 3-year rate for a home so far as extended coverage was concerned was 15 cents. After one of the heavy storms we had it jumped to 30 cents. It is now 45 cents, and there are certain places in Connecticut where you just cannot get it at all. Some of these shore cottages and places along the waterfront there cannot get it at all.

While the administrator has the right to accept or reject risks or cancel coverage, the real selection of risks will come from the insurance companies, which in order to keep losses down will screen applicants and eliminate those who need the insurance the most.

May I comment apart from this? That is good insurance practice. Insurance companies expect all of us agents who act as underwriters to be selective in the choice of our risks. They do not want us to go out into substandard neighborhoods. They do not want us to insure people who might be considered substandard risks.

Senator BUSH. May I ask this question to see what you are getting at, Mr. Yaffe?

Mr. YAFFE. Yes.

Senator BUSH. Do you object to the Government, as both bills provide, using the good offices and services of the insurance industry in connection with the distribution of this insurance and the settlement of claims? Do you object to that procedure?

Mr. YAFFE. I would prefer to answer that after I have made other statements in my presentation. I will be very happy to answer that, because I think the answer I would give you would have to include some of the statements which I will make later.

Senator BUSH. However, I will point out that under our bill, and I think the chairman's also, although I cannot quote his, but I will quote S. 2862 first, section 103, where it says:

The Administrator shall, by regulation, determine (1) the types and location of property with respect to which indemnities shall be provided; (2) the nature and limits of losses or damage which may be covered by such indemnity contracts; (3) the fees, terms, and conditions of such indemnity contracts; and (4) such other matters as may be necessary to carry out the purposes of this Act.

The bill or the law specifically gives this power to the Administrator. Under the Lehman bill in section 6 it says, and I quote:

The Commissioner is authorized to provide for the determination of types and location of property with respect to which insurance or reinsurance shall be made available under this act, the nature and limits of loss or damage in any area (including subdivisions thereof) which may be covered by such insurance or reinsurance, and such other matters as may be necessary to carry out the purposes of this act.

The authority is placed squarely in the lap of the Administrator in both bills.

Mr. YAFFE. I think there is one great difference, or at least a difference as I see it. After examining the bill which you have submitted, in particular alongside of the bill submitted by Senator Lehman, frankly I am a little uncertain as to whether this is a bill of Government insurance in combination—making use of the facilities of private insurance companies—or a private insurance company bill making use of the offices of the Government. In other words, frankly I cannot see anything in the bill which indicates who gets the profits, if any, or who pays the losses. Do the private companies get the premiums? Do they collect the premiums? Frankly, I do not see those particular provisions in the bill.

Senator BUSH. In which bill?

Mr. YAFFE. In your bill.

Senator BUSH. How about the other bill?

Mr. YAFFE. The other bill is a specific bill which does not include any participation by any private insurance company in partnership in any way at all with the Government.

Senator BUSH. I would just like to pause at that point to check that statement. In section 11, on page 9 of Senator Lehman's bill, it reads:

(a) In providing insurance or reinsurance under this act, the Commissioner shall use to the maximum practicable extent the facilities and services of private organizations and persons authorized to engage in the insurance business under the laws of any State or district, Territory or possession of the United States or the Commonwealth of Puerto Rico (including insurance companies, agents, brokers, and adjustment organizations); and the Commissioner may arrange for payment of reasonable compensation for such services.

Also it says in the next paragraph:

(b) The Commissioner is authorized to enter into agreements for financial participation of private insurance companies in the underwriting or risks assumed, and for their proportionate participation in premiums received and profits or losses realized or sustained.

Mr. YAFFE. My comment to that—

Senator BUSH. I do not object to the witness pointing out fallacies in these matters, but to say 1 bill contains it and the other 1 does not, when the language is perfectly clear, I cannot undersand. I would like to ask you a perfectly frank question: Have you actually read both bills?

Mr. YAFFE. Yes sir. Very carefully. Far into the night.

May I comment on the particular portion of the Lehman bill which you just read?

I am not an attorney and I do not feel competent to make legal decisions or legal interpretations. But that bill—my understanding, rather, of that paragraph is that it permits the Government to make use of licensed agents to distribute that. They would qualify under that particular bill, or that portion of the bill; licensed agents or adjustment bureaus. They could go out and hire adjustment bureaus to adjust certain losses. They have the right under that particular clause to take these various actions. But no matter what they do it is still primarily a Government bill.

As to participation by private companies, I think Senator Lehman's bill made it very, very clear that it was his hope that a system of flood

insurance could be established so that eventually it could be handed over to private companies for them to handle on their own basis if it were proven that they could do so profitably.

Senator LEHMAN. I think the difference, Senator, between the two bills is this: In this particular my bill provides for definite Government operation with premiums to be set by the Government and the premiums to be paid in to the Government. It does give the right, of course, or directs the Administrator where possible to use the good offices of the insurance companies in connection with what is distinctly a governmental operation.

Your bill, however, as I recall it, at no point definitely sets this forth as a governmental operation. The only real participation that the Government would have in it would be after an actuarial rate was set that the Government would pay 20 percent of that actuarial rate. The policyholders would pay 60 percent under your bill, the United States Government or the Federal Government 20 percent, and the State government 20 percent. It ceases to be a Government-controlled and Government-operated undertaking. I do not think that was your intention at all.

Senator BUSH. The Senator is right in that, but the point the witness is making is that there is a difference between the bills respecting the use the Government can or should make of the private insurance industry. There is no difference basically. There is a little difference in the language, but both bills encourage the Administrator to use the facilities of the private insurance agencies. The Senator's bill and my bill both do that. That is the only point I want to make, and they both spell it out very clearly.

Mr. YAFFE. Senator Bush, the only thing I can say to that is I think Senator Lehman has presented it in much better form than I did, but the thoughts are identical. My feeling and my interpretation of the intentions of the bill and those particular features of it coincide 100 percent with those of Senator Lehman, as he just expressed it.

Senator BUSH. The witness is certainly privileged to form any impressions he wants of the presentation, but I submit that the language in the bills speaks for itself, and they both accomplish the same purpose so far as encouraging participation—

Mr. YAFFE. If you care to substitute Senator Lehman's language for mine, that is perfectly agreeable to me.

Senator LEHMAN. May I comment on that? I am quite sure that it was not your intention to make this less than a Government operation and to confine it entirely to the Government paying 20 percent of the premium. But I think the effect of the language of your bill would accomplish just that.

Senator BUSH. The purpose of the 20-percent participation for the State had nothing to do with this point we are discussing here. That was to give a State some interest and responsibility; to encourage the States; to encourage localities; to encourage preventive measures; and to pass ordinances that would minimize the danger of building in the flood valleys and flood plains; to try to encourage everybody to prevent damage, rather than to invite it. In other words, it has an indirect encouragement toward flood protection work that should be going on within all of these States that are in danger.

That in part is the purpose of this 20-percent participation by the States and I think that is a sound reason for it being in there.

Senator LEHMAN. Will you proceed, unless you have something further, Senator Bush?

Senator BUSH. No. That is all.

Mr. YAFFE. Will you forgive me, since you brought up the question of the 20-percent participation by the States, if I make the observation that that 20 percent participation by the States represents a veto power on the part of each of the 48 States against the provisions of that bill. The various States do not even have uniform insurance laws. There are some companies that are licensed to do business in Connecticut which cannot do business in New York. And that is true in many States. Do we have to have 48 different versions of the act? Frankly, I think that is another weakness in the bill.

May I go on, please?

Senator LEHMAN. You may proceed.

Mr. YAFFE. The basic fallacy of this bill, as you can see, is that it uses every fact and factor which has convinced private companies that they cannot profitably handle this type of business. It uses the old yardsticks which have been proven inadequate for this type of business.

By that I am referring to the promulgation of rates on experience or on an actuarial basis, or however you want to put it.

The provision providing for a subsidy of 40 percent from the States and Federal Government contributes nothing. After all, does not the Government get its income from the people who would pay the premium and also pay the taxes to pay for the Government's contributions, expenses, and losses under the act?

In other words, this 40 percent is nothing new that is created.

Senator LEHMAN. I would enlarge a little on that. I do not quite follow you on that. I am not at all in sympathy with the formula that is contained in Senator Bush's bill, but I do not quite see your reference to the income which the Government receives from the people or the taxpayers.

Mr. YAFFE. This 40 percent which is contributed by both Federal and State Governments, assuming we have met all of the obstacles and they have passed all of the requirements necessary to put it through—this 40 percent is not money that is pulled out of the air. It is still a premium which the public pays, if not in the form of a premium for insurance, then in the form of higher taxes. That money must be raised somewhere. There would have to be some provision for raising that money. That is my idea. Just merely offering it at a bargain rate does not reduce the actual cost of the insurance.

Does that answer your question, sir?

Senator LEHMAN. Except I think your comments on that would apply also to the subsidy.

Mr. YAFFE. Yes. It applies to any subsidies.

Senator BUSH. Will you not permit me to make an observation? I have to leave to go to the Senate floor to introduce a bill which I promised to introduce today. I wanted the record to show that is why I am leaving the meeting today. I am sorry I cannot hear the rest of your testimony.

Mr. YAFFE. I am sorry. Would it be possible for you to stay for one sentence?

Senator BUSH. Oh, yes. I will do that. I will pick it up in the record. Where is the sentence?

Mr. YAFFE. About a paragraph or two beyond where I am. I respectfully ask the sponsors of this bill to note my next statement. You are opening the back door for the entrance of Federal regulation of insurance companies. I do not take a stand on this question now, but if that is what you wish, let's open the front door.

Senator BUSH. Does that statement apply to both bills?

Mr. YAFFE. No, sir.

Senator BUSH. Or to all of these? The Lehman-Kennedy bill, too?

Mr. YAFFE. No, sir, it does not. It applies particularly to the Bush bill.

Senator BUSH. Does it apply in a general way to all of the bills or not?

Mr. YAFFE. No, sir.

Senator BUSH. They all invite the insurance companies to participate in the placement and administration.

Mr. YAFFE. They do not, because if the Federal Government participates in any way and has \$3 billion, the risk being handled through the private insurance companies, then it is only natural that they should insist on certain safeguards and certain examinations of the books and certain regulations. They must do that.

Senator BUSH. But, Mr. Chairman, what I want the witness to do is to point out the difference between the two bills in this respect. He has singled out our bill for criticism on this point. I contend from the material I have already read into the record that the two bills are virtually identical in that respect. Will the witness kindly point out the difference as he sees it?

Mr. YAFFE. Yes, sir. The Lehman-Kennedy bill is strictly a Government insurance bill. It is not a bill issued or offered by any private insurance company. The private insurance companies do not participate, as such. Perhaps only as agents by invitation. Therefore, there would be no need for regulation of private insurance companies.

Senator BUSH. I am sorry. I must be very obtuse about this but I have just to read you again what the Lehman-Kennedy bill says. If there is some important difference I would like to find out what it is, but the Lehman bill says in section 11 (a):

In providing insurance or reinsurance under this act the commissioner shall use to the maximum practicable extent the facilities and services of private organizations and persons authorized to engage in the insurance business under the laws of any State or District, Territory or possession of the United States or the Commonwealth of Puerto Rico (including insurance companies, agents, brokers, and adjustment organizations); and the Commissioner may arrange for payment of reasonable compensation for such services.

(b) The Commissioner is authorized to enter into agreements for financial participation of private insurance companies in the underwriting of risks assumed, and for their proportionate participation in premiums received and profits or losses realized or sustained.

That is the end of the quotation. If that does not invite the private insurance companies to come in and work with the Government I do not see how it could be stated any plainer. I commend the Senator for the clarity of the language in that connection.

Senator LEHMAN. The difference is, as I pointed out before, under the language of my bill this is recognized as a Government operation.

Senator BUSH. No. We are talking here about only one point, Senator, and that is the participation of private companies.

Senator LEHMAN. Under the section you have read the Government does two things. In the first place it can use the facilities of the insurance companies and the agents of the insurance companies under certain circumstances, notably in the appraisal of the damage that has been done for which the Government is liable.

The other is that the Government can invite the participation of the insurance companies in certain things at the pleasure of the Government. We do that today, if you recall, in connection with the small-business disaster loans. The loans still remain as Government loans, but in some cases the private lenders have been invited to participate.

Senator BUSH. Mr. Chairman, it is not possible for me to concede one bill is a Government bill and the other is not, because our bill is definitely a Government bill. Again I do not want to fill the record with these quotations, but on page 3, title I, of the bill S. 2862, section 101 (a), it says:

Subject to the provisions of this act and such terms and conditions as he may prescribe, the Administrator is hereby authorized to issue indemnity contracts obligating the United States to indemnify persons for damage to or loss of real property, business inventories, stored agricultural commodities, household effects, and such other personal property as he may determine, as a result of floods occurring within the limits of the United States.

There is no point in contending one is a Government bill and the other is not. The Senator is making his point about the State participation, and that the committee will have to consider.

Senator LEHMAN. No. I was not making it.

Senator BUSH. But from time to time that has come up, very properly, because that is the basic difference between the two bills, and that is the question the committee must consider. But to say one bill invites the insurance industry into a situation differently from the other bill is just not sustained by the facts and the language of the bills.

Mr. YAFFE. May I ask the Senator, please, could the insurance under your bill stand up—I mean, could it be issued without participation by insurance companies?

Senator BUSH. It possibly could, but the bill is designed to encourage the participation and permit the Government to avail itself of it.

Mr. YAFFE. I take exception to that because I think that is one of the basic differences; that under the Bush bill it presupposes—it goes further than that—it is a necessary part of the bill that the private insurance companies participate in the program. It is a necessary part. I think the difference in the Lehman bill is that private companies may participate if they wish.

Senator BUSH. May I point out again to the witness that I wish you would really read the language on these points because our bill says this in section 401:

The Administrator shall encourage the maximum participation of private companies in the administration of the indemnity and reinsurance programs under this act.

He shall encourage it. It is not mandatory that he has to.

Mr. YAFFE. No. I think it is the intention of the authors of both bills that they are willing to encourage participation by private companies, but the important difference is at what level that participation is to take place.

Senator BUSH. May I say to the witness I think the Lehman bill is more mandatory in language than my bill. For instance, I have

just read where it says under our bill the Administrator shall encourage the maximum participation, but the Lehman bill says, and I think very properly—

the Commissioner shall use to the maximum practicable extent the facilities and services of private organizations * * *.

“Shall use.” That is mandatory.

Senator LEHMAN. I think the main real difference—and there are many other differences, of course—but one very real difference in language—and I do not say in intent because I am sure your intention is also to provide Government insurance—but my bill says in section 4, “Authority to Insure and Reinsure,” as follows:

To aid in carrying out the purposes of this act, the Commissioner is authorized and directed to provide insurance and reinsurance against loss resulting from damage to or destruction of real or personal property—

And so forth. You see, there is a definite direction to the Administrator.

Senator BUSH. Mr. Chairman, I am sorry to leave such an interesting discussion at this point.

Senator LEHMAN. I am sure you will read the testimony.

Senator BUSH. I certainly will.

Senator LEHMAN. Will you proceed, please? The hour is getting late.

Mr. YAFFE. The next paragraph takes in some of this discussion which we just had.

Next, the bill evolves around a sort of partnership between the United States Government and the private insurance companies. It may or may not have been the intention of the proposers of this bill, but I see that under this bill the Government will have to guarantee all payments by insurance companies. With approximately \$3 billion at risk, the Government would have to adopt numerous safeguards. Next comes the statement I made to Senator Bush.

I respectfully ask the sponsors of this bill to note my next statement.

You are opening the back door for the entrance of Federal regulation of insurance companies. I do not take a stand on this question now, but if that is what you wish, let us open the front door.

Any plan involving the handling of flood insurance by private insurance companies in partnership with the Government will bring this about.

I like S. 3137. I like its declaration of purpose and the means it uses for carrying out that purpose. I like its recognition of the fact that when disasters strike one part of the country, the general welfare of the entire country is adversely affected, and that any solution must be on a national scale. I like the plan for “studying the feasibility and need for similar programs in the case of other forms of disaster.”

I am sorry Senator Bush is not here, but I think when he spoke of introducing other forms of disaster insurance he was concerned lest it be considered socialistic. I think that is incorporated in his remarks when he introduced his bill.

As an insurance agent, I like what the act does to encourage private insurance companies to participate in this flood insurance plan.

Before going into an analysis of the Lehman-Kennedy bill, let us keep one point always in mind. The United States Government is in

the insurance business now and has been for a long time. It is, no doubt, the largest insurance company of any in business, writing multiple lines, yet I do not know of a single private insurance company that has suffered in any way because of competition with it.

The social security law provides funds for retirement at age 65, as well as certain survivor benefits. Every agent who has sold annuities to individuals and every insurance company which has prepared retirement plans for groups of employees, has offered its own insurance as a supplement to what the worker gets under social security. Unemployment insurance plays an important part in guaranteed annual wage plans.

The plan presented in S. 3137 whereby the limits of coverage are low and private companies are encouraged to write insurance above the limits of the Federal floor insurance, will result in millions of dollars of new, profitable business for private insurance companies. The insurance which they would write under this plan could truly be on an experience basis. The cost of underwriting these policies would be low and the services of the insurers would not be as great a factor as it would be under S. 2862.

Participation in the program by private insurance companies would be on a 100 percent voluntary basis. They can enter this field of business, or not, as they wish. They can establish their own rates for policies they offer. These should be based on the risks involved according to the location. They should be based on all the factors involved, including administrative costs and—yes—they are entitled to a profit. Insurance companies and their agents stand at the head of the list in the service they have given their country without cost.

Where under the Bush bill every policy would have to be processed by both the insurance company and the Administrator, under the Lehman-Kennedy bill each insurer would take care of its own business.

In my home town, while a large percentage of homes suffered some damage, there was not a single total loss. Under the Lehman-Kennedy plan, private companies would have paid out very little in claims. Under the administration plan, insurance companies would have been swamped with claims, thus making it impossible for them, meaning these companies, to offer insurance at low rates.

The loss deductible clause follows the practices under existing insurance policies and is more equitable. The small property owner is not penalized by having a larger deduction than the bigger property owner. I think this requires some explanation. Under the Bush bill, with the provision that there be a \$300 deductible clause, plus 10 percent of the amount of insurance, we could conceivably have a situation where a small householder with \$2,000 of personal goods would have a \$500 deductible clause, and he would be paying and have a 25 percent deductible factor in his insurance, while the man with the very, very large amount of property would still have practically a 10 percent deductible clause.

Senator LEHMAN. When you talk about \$500, that is made up by \$300 deductible, plus 10 percent?

Mr. YAFFE. 10 percent of the \$2,000.

Senator LEHMAN. That would be only on personal property.

Mr. YAFFE. Yes. That same inequity and same thing would be out of balance. I submit that that particular feature sort of disproves some

of the intentions of the Bush bill as the Senator expressed it a while back when he said it was his intention to take care of the little fellow. In this particular instance I think the little fellow gets it, and the big fellow—

Senator LEHMAN. That was the intention of my colleagues and myself, that is, to eliminate that discrimination by making a very small deduction.

Mr. YAFFE. Yes. Therefore, I think that deductible clause in the Lehman bill is a more equitable thing. It does further the general practices.

Since the amount of the reserves under any insurance plan is no indication of the company's liability from the risk standpoint, but rather an evidence of strength, I hope that the total liability of the Commissioner, as stated in section 8, refers to the liability in excess of the reserves in the funds established under the act. There should be no ceiling on the number of policies which may be written.

Senator LEHMAN. What do you mean by that?

I hope that the total liability of the Commissioner, as stated in section 8, refers to the liability in excess of the reserves in the funds * * *.

Mr. YAFFE. I mean this, sir: That under the Bush bill there is a definite statement to the effect that indemnity contracts may not be written for more than \$2,900 million, including reinsurance.

Senator LEHMAN. That is \$100 million in addition.

Mr. YAFFE. I am not quibbling over \$100 million. That is a definite statement in the bill. The bill as you submitted it does not refer to liability in the same way. I am thinking of a situation where we might be fortunate and go along for a period of years and build up reserves amounting to 1 or 2 billion dollars. Those reserves are right there. Those are reserves for existing contracts. I see no reason why under the insurance plan there could not be issued an amount of insurance well beyond the \$3 billion limitation.

Senator LEHMAN. My recollection of the bill I introduced is while we do mention reserves, we do not use that reserve as a deduction from the total liability of the insurance written.

Mr. YAFFE. In other words, the liability would be in excess of the reserves.

Senator LEHMAN. The liability would be \$3 billion over a period of years, without consideration of any reserves that might have been set up.

Mr. YAFFE. I am sorry. I still do not get that. Does that mean there is also a ceiling of \$3 billion in the total amount of insurance that could be written under the act?

Senator LEHMAN. \$3 billion. That is in the bill.

Mr. YAFFE. The maximum amount which can be written.

Senator LEHMAN. At risk.

Mr. YAFFE. Then in that case I would criticize your bill on that point.

Senator LEHMAN. That is in the bill.

Mr. YAFFE. I think the same criticism as far as that particular clause is concerned—

Senator LEHMAN. I do not quite follow you. That may be a fair criticism but do you advocate unlimited liability? Would you advocate that the Government at this time, during a period when the

project is certainly still on an experimental basis, put no limit on the amount of risk?

Mr. YAFFE. Of the total number of Government contracts. Yes, sir.

Senator LEHMAN. What?

Mr. YAFFE. Yes, sir. In other words, I can think of a situation where the number of policies issued on property insured under the FHA or under VA loans—there is a provision in your policy for compulsory participation under those circumstances—I think you could have a situation where there would be \$3 billion of insurance on the books and there would be no insurance available for others.

Senator LEHMAN. That is perfectly possible. That would be perfectly possible if you had any kind of a limitation. There is always the possibility. The only way you would obviate that would be to have it as an open-end liability. While I can see that you can make out a very good case for that, I think as a practical matter in getting the legislation through the Congress at this time it would increase our difficulties very much if there were not some limitation placed on the liability. The need of a limitation might very possibly disappear after a certain period of experience, but I think it is very difficult to have Congress write unlimited liability.

Mr. YAFFE. Senator Bush asked earlier if the criticism that I offered against the lid which he put on it did not also apply to that provision in your bill. If that is the meaning of the bill then the answer is "Yes."

Senator LEHMAN. As far as the lid is concerned. I may be mistaken on that.

Mr. YAFFE. I would like to see it changed.

Senator LEHMAN. The committee may feel that the lid should be taken off. But I do think, much as I may deplore it, it would very greatly increase the difficulties in getting the legislation through the Congress at this stage of the game, you understand.

Mr. YAFFE. The reinsurance provisions are for the purpose of encouraging private companies to participate in this program. The bill is specific as to competing with insurance companies, and makes provision for working in cooperation with everyone engaged in the insurance business.

I like section 12 of the act, referring to federally aided property. I interpret that as referring to the VA approved loans, and FHA, and others. Some of the saddest results of the recent floods came when some of the victims found that they not only lost their homes and all their possessions, but that they still owed the full amount of their mortgage. To make matters worse, FHA insurance did not apply, where there was no property for the lending institution to turn over to the FHA. I pointed out the situation is such that there are many banks, and perhaps insurance companies, if you pardon a colloquialism, that are holding the bag. People owe them a sum of money for the mortgages and there is no security behind those mortgages, and the FHA insurance does not apply.

The mortgagers have no security for their loans. The policies covering property under this provision will serve as a tremendous nucleus for the success of the program.

Let me summarize my feelings about S. 3137. I do not see in it a cure-all for all the problems arising out of floods and disasters. There

are a few provisions I would like to see revised. But here is a plan in the true American form. The Government takes part only to the extent that it is necessary. The rest is left to private enterprise with no encroachment or interference by the Government. Changes will be necessary in the future in the light of experience, but this plan starts on a sound basis and goes in the right direction.

Senator LEHMAN. Thank you very much indeed, Mr. Yaffe. You have been very helpful indeed. There is just one question I want to ask you. You refer to reserves, and in our discussion with the insurance people, of course, that term was used. As I understand it, the reserves which are shown on the books of the insurance company are not really reserves against their liabilities. They are reserves against the premiums.

Mr. YAFFE. I am sorry. I cannot answer that question. I am sure there are experts in this room who can do a better job of it than I can. Frankly, I am thinking in terms of the reserves which are set aside for life insurance. In life insurance, reserves are set aside to meet obligations. Those reserves are for the purpose of meeting the obligations under the contract. They are invested on a specific interest formula. There is a specific interest formula, I should say, involved, and that is what I have in mind.

Senator LEHMAN. But I always thought—that was my interpretation and I always believed—these reserves were reserves against the actual maximum liabilities, whether it be life insurance, or fire insurance, or other forms of insurance. But several of the witnesses, who have been experienced insurance people, have testified it is not an actuarial reserve against the policies that have been written. They explained unless they exempted a major catastrophe in the policy, why, every insurance company might go broke. No amount of reserves which they set up would be sufficient to cover that. They explained that reserves meant reserves against the premiums.

Mr. YAFFE. Sir, I heard that statement about the possibility of this tremendous catastrophe and calamity which could wipe out all of the reserves and all of the cash balances. I imagine they have enough cash on hand to meet their normal obligations. But at the time I made a little note where I said, the total limits under liability policies, automobile or business insurance, reach fantastic figures. No insurance company counts on payment in full under all of the contracts any more than banks count on all depositors withdrawing their money at the same time. I think that is the answer to that particular point that was raised.

Senator LEHMAN. Thank you very much, indeed. It was very useful. I think we will stand in recess until 3 p. m.

(Whereupon, at 12:55 p. m., the subcommittee recessed until 3 p. m. of the same day.)

AFTERNOON SESSION

Senator LEHMAN. The hearing will come to order. Mr. Edelman, will you go ahead?

STATEMENT OF JOHN W. EDELMAN, WASHINGTON REPRESENTATIVE, TEXTILE WORKERS UNION OF AMERICA, AFL-CIO, AND THE CONFERENCE OF NEW ENGLAND CIO COUNCILS

Mr. EDELMAN. Mr. Senator, my statement that you have before you is rather long and somewhat general, and with your permission may I file it for the record?

Senator LEHMAN. So ordered.

Mr. EDELMAN. I will make 2 or 3 very brief points just in regard to what the testimony attempts to point up.

As I make clear here, this is, as it were, supplementary testimony to that offered by the national organization and does not attempt to discuss the specific features of any of the legislation before this committee. I think that in general my purpose in coming before the committee was to try to add a little emphasis and a little human interest material to the general arguments in favor of this legislation.

The New England councils and my own union wish to have themselves very clearly on record as emphasizing the necessity for legislation along these lines because of the experience of our membership and many of the people in this general region.

Might I also file for the record, Mr. Senator, a resolution entitled "The Redevelopment of the New England Economy." This was a resolution adopted by the Connecticut Industrial Union Council at its convention in January of this year. It deals with the whole problem of the New England economy, plus outlining a program of resource development and conservation for the New England region and specifically endorses the type of flood insurance legislation which is proposed in your bill. I am particularly anxious to have this resolution in the record because it again emphasizes the general approach of the wage earners in these affected areas who feel that insurance is, after all, a minor part of the program and that the obvious prevention must be the long-range and fundamental approach. While this particular resolution is in the name of one of the councils in the New England region, it actually expresses the opinion and judgment of the six State councils affiliated with the old CIO, and is I think a very clear indication of the type of program which these groups intend to pursue in this and subsequent Congresses. I think that in addition to working very vigorously for the action of this Congress on this specific legislation the groups I am speaking for here feel that there must be a very energetic effort to accelerate the pressures for flood control legislation in the areas that have been subjected to floods and so forth in the recent years. We feel that there is a very growing awareness on the part of the wage earner group which in the past has not been as active in promoting legislation of this type as should have been the case, a greater awareness of the necessity for activity on their part in this general field, and growing sense of responsibility for understanding and informing themselves as to the type of legislation that should be sought.

Senator LEHMAN. I know you were here this morning when I made a statement about the slow progress that is being made to consummate flood control projects that have already been approved: but, in addition to that, in several of our hearings in New England testimony was given to the effect that some of the flood control projects in

New England had been held up in the past by the opposition of certain interests who objected seriously to possible development of any public power in connection with these flood control projects. Have you seen any change in that situation?

Mr. EDELMAN. Well, in response to that question, Mr. Chairman, as you know, we are an active proponent of the point of view that feels that multipurpose development is essential to comprehensive river basin development, and so on, and is the only fundamental solution for this problem. We wish simply to indicate that there is much clearer awareness among the wage earner groups in the States that this is the crux of the issue, that they must firmly take a position in respect to this matter and make their opinions felt in relation thereto. I think that there is some evidence that more activity along these lines will be demonstrated, and that there will be greater effectiveness in the wage earner groups in respect to this type of legislation. They will not confine their activities simply to economic and social questions with which they have been more familiar in the past, but they will familiarize themselves in this field, learn the problems involved, and demonstrate some effectiveness in trying to work for the multipurpose type of program.

One final point that I would like to emphasize, Mr. Chairman is that, as Mr. Miller pointed out in his testimony, he just made a brief reference to the fact that the manufacturers he is representing put a good deal of confidence in the proposals on this subject by Dr. Seymour Harris, of Harvard, who is the chairman of the New England Governors Textile Commission. I just simply would like to underline that statement by pointing out that the recommendations that Dr. Harris made in a rather informal and condensed form before the hearing in Boston were not merely the opinions of Dr. Harris as an expert and as an interested citizen, but did represent the opinions of the tripartite body of which he is the chairman. I think you are aware of the fact that the New England Governors Textile Commission includes representatives of the public and representatives of the employees and employers in each of these States. This is a commission which I think represents a very significant cross-section of the economic and social interests in the region which has worked very closely with Dr. Harris, and has come to feel that his leadership is not only in the right direction but that he offers very competent and important advice. It seemed to us, Mr. Chairman, that not sufficient attention has been given to the point that he made about the costs of flood and disaster insurance in his testimony, which impressed our group enormously, which as you will recall was perhaps 75 cents a thousand. There seems to have been no willingness on the part of public figures concerned with this issue to either criticize, defend, or in any way really comment on this essential point made by Dr. Harris. It seemed to the groups that I am talking for that if it were possible—and we cannot conceive of his being fundamentally astray on the issue—that protection could be bought at a figure anywhere in this neighborhood that you would get a participation on the part of both the individual citizens and business in general throughout the United States of very much larger proportions than perhaps anybody is willing to believe possible up to this time.

Senator LEHMAN. I heard Dr. Harris' testimony up in Boston. I do not know whether you were there or not.

Mr. EDELMAN. I was not.

Senator LEHMAN. I do not recall any figure that he gave.

Mr. EDELMAN. I have here a summarized version of his testimony that he presented to the committee. Could I just merely read this one paragraph from his testimony so that it can be here where it can be reached. He said, under the heading "Coverage and Rates":

One approach is to assume costs of \$300 million per year as estimated officially (with estimates to vary with experience). Then all property in the plain flood areas might be covered. An expert for the Hoover Commission has estimated the property thus to be covered at \$400 billion. Hence the cost would be 75 cents per \$1,000, or \$7.50 per \$10,000 on the average. Insofar as the coverage was extended to nonflood areas, the costs would be reduced. On the assumption that all wealth would be covered, the costs would be reduced to 37½ cents per \$1,000. On the assumption that the Federal Government would bear the costs of administration also to offset savings on taxes and disaster relief, the cost to property owners should not exceed 30 cents per \$1,000, or \$3 per average home per year.

Then he goes on to point out:

The ideal situation would be to add the payment of the general property tax. On the assumption that \$200 million were to be collected, the net addition to the general property tax would be 2 percent of present revenues of \$10 billion.

I think that he points out later that he assumes this would be politically impossible, but he thinks that the 75 cents per thousand figure is valid and could be justified.

Senator LEHMAN. The committee has not had so far as I know any figures anywhere near as low as that.

Mr. EDELMAN. Might I suggest, Mr. Senator, that I will immediately, make available several copies of this summary to the members of the Senate Banking and Currency Committee and to the staff, and in addition to which could I suggest that some effort be made to have Seymour Harris testify further on this question. No doubt he has given more thought and study to this problem. He may have arrived at some revision of these figures or had some substantiation of these original estimates by further study. If these figures were valid at the time and if they still have validity, it seems to me that there is something here of very great significance, and as I say, the possibilities of enacting legislation which would be regarded as a perfectly enormous boon by the people of the United States and to which they would very widely contribute, would be improved.

Senator LEHMAN. Proceed.

Mr. EDELMAN. I think that in addition to my formal statement that is approximately what I would like to point up, Mr. Senator.

Senator LEHMAN. One of our great difficulties, Mr. Edelman, is that we have had no authoritative experience as to the cost of this insurance on any basis that even approaches the actuarial condition. Our estimates have run as high as from a few cents a hundred to \$25 or \$30 a hundred. The insurance companies have been unwilling or unable to give us any figures on which we could form a basis for an estimate and which they should have in order to come to any conclusion that this was not a practical thing. The figures that you have given are very interesting indeed. Dr. Harris undoubtedly testified to this effect at the hearing in Boston, but I do not recall these figures. Of course, these are based on the coverage in the aggregate and on \$400 billion.

(The following was later received for the record :)

MEMORANDUM

To: Senator Lehman.
From: William F. McKenna, counsel.
Subject: Disaster insurance.

During the hearing held by you as chairman of the Subcommittee on Securities on Thursday, February 23, relating to disaster insurance, Mr. John Edelman, testifying for the Textile Workers' Union of America, CIO, invited attention to testimony given in Boston by Prof. Seymour Harris, on November 9, 1955, suggesting the possibility of a rate of 75 cents per \$1,000 for flood insurance. It appears from Professor Harris' testimony that this rate was calculated on the basis of \$300 million average flood loss annually in the United States as compared with an estimated \$400 billion worth of property located on flood plains in the United States. You expressed interest in the source of Professor Harris' statistic concerning the value of property located on flood plains.

In his testimony before the committee in Boston, Professor Harris attributed this figure to the Hoover Commission reports. I have made further investigation and find that it apparently stems from material on page 1251 of volume 3 of the task-force report on water resources and power, dated June 1, 1955. This represented work by a task force of the Hoover Commission on Organization of the Executive Branch of the Government of which Admiral Moreell was chairman. With respect to this figure, the context is as follows:

"(3) Use of flood plains is essential in our economic life. This is evident from the fact that an estimated 10 million people in the United States live on flood plains totaling perhaps 50 million acres on which we have placed investments aggregating some \$400 billion."

Page 1249 of volume 3 of this task-force report notes that the article of which the quoted portion is a part was based largely on chapter V of the book *Floods*, by Hoyt and Langbein, published by Princeton University Press in 1955.

However, upon discussing this matter with Mr. Walter B. Langbein, one of the authors of *Floods*, I learned that the \$400 billion figure did not appear in that book. Mr. Langbein stated that he had gone to some effort to trace the origin of the figure within the Hoover Commission task force but had not succeeded. Under the circumstances, it seems dangerous to rely upon the validity of this figure in the absence of further verification.

Mr. EDELMAN. Just to respond to the point that you made, Mr. Chairman, it has been the feeling of the labor organizations in general that it is very clear to us that this program, at least in the first several years, should be regarded clearly on an experimental basis. That the likelihood of any significant contributions from the insurance companies would be slight and that we should proceed on the basis of certain assumptions which would be made by economists of some practical experience and general competence. In view of the Harris estimate, which seems to offer such an important opportunity, as it were, it seems to me that it should be subjected to very considerable discussion by economists either of different points of view or of others that have other information on this problem or experience in different regions. Conceivably a panel of men of similar competence might be established to present some analysis on this question upon which the committee could act. It seems to me that many of the questions that were raised this morning as between, for instance, the different bills, the maximum amounts, and so forth, perhaps would diminish in importance if the costs were as low as they seem to be here. I think that if these costs were in that general range it is my feeling that the number of persons in the United States and the number of regions that would purchase this would quickly provide a reserve so that it might be possible, for instance, to go to somewhat higher maximum amounts, although the maximum amount I think is less important than the question of provisions for protection that would enable the

individual or the business to begin again, as it were, without crippling themselves economically.

Mr. Senator, this morning I happened to talk to Norwich, and they tell me that of these two plants, the one in Mechanicsville that went down there still is no hope of opening, and the other plant, the Putnam plant, has now found, they think, new premises in one of the abandoned buildings and may resume. I do not know what the details are in these particular cases, and I did not have a chance to get the information, but it is perfectly clear that what is required here—and I think you made the point again this morning in the course of the testimony here—is sufficient protection to enable that business to resume operations. These 2 plants, between them I do not suppose employ more than 300 people, but the point is that these 300 people—and I think you are well aware of this point, Mr. Senator—the majority of them do not get employment elsewhere. Connecticut is one of the few States in New England happily in which there is no labor surplus, except in very minute cases. The displaced textile workers are the exception to that rule. I am not making a case that you need flood insurance merely for textile establishments. I am simply pointing out the fact that unless you can get the kind of compensation and protection that will enable these people to get going you do get a community problem in addition to the problem suffered by the individuals and the businesses involved.

Senator BUSH. This is perhaps parenthetical, but in the prepared statement that Mr. Edelman filed, on page 8 he says: .

According to Fred Searle, there is an added cruel twist to this story. It appears that certain of the people he is reporting on were temporarily rehoused in public housing units nearby—

this is up in the Farmington River Valley—

However, under the law, these public housing units must be vacated by April 1 because the flood victims are not technically eligible as tenants.

I wonder if the chairman would ask the staff of the Banking and Currency Committee to get a report from the Public Housing Administration on that. I think we ought to know about it. I wrote the agency on February 21.

Senator LEHMAN. I would be very glad to.

(The following was received with reference to the above:)

PUBLIC HOUSING ADMINISTRATION,
February 28, 1956.

HON. PRESCOTT BUSH,
United States Senate,
Washington, D. C.

DEAR SENATOR BUSH: This is in reference to your letter of February 21, 1956, and that of Mrs. Muriel G. Downs, of 80 Clement Drive, West Hartford, Conn., which you enclosed. Mrs. Downs is apparently fearful that she will be evicted from her temporary living quarters in Oakwood Acres on April 1 and has requested the assistance of your office in obtaining an extension of occupancy beyond that date.

The notice issued to the flood disaster families on February 3 by the Housing Authority was intended as a reminder to those families that the project is merely a temporary haven for them, and that they should not relax their efforts to secure a permanent home elsewhere. It is not the intention of this Administration or the housing authority of the town of West Hartford to evict any flood disaster families on April 1, 1956.

It should be borne in mind that Oakwood Acres is a temporary war housing project which was in the final stages of disposition at the time of the flood

disaster. A number of buildings have already been demolished and we are continuing that process as other buildings become vacant. We hope to return the underlying land to the owner thereof as expeditiously as possible. This is necessary if we are to comply with the provisions of the Lanham Act. Under these circumstances it is extremely difficult to continue the project in operation indefinitely.

We realize that the housing in the lower rental ranges in the Greater Hartford area is still limited. It was with that thought in mind that a schedule was established for vacating tenants from the project. On April 1, the flood disaster families will receive an official notice to vacate. This notice will give them 6 months from that date to find other housing accommodations. We believe most of those affected should be able to find suitable housing before the terminal date of the notice, September 30, 1956. As the terminal date draws near each remaining tenant's case will be examined individually to see whether evictions from the project would impose a hardship on him. If so, it is proposed to give limited extensions of occupancy until a place can be located within his financial reach. The local housing authority has been asked to document these cases carefully so that these families will suffer the minimum amount of hardship.

The correspondence which Mrs. Downs sent you and the attachments thereto are returned with this letter as requested.

Sincerely yours,

CHARLES E. SLUSSER, *Commissioner.*

Mr. EDELMAN. Mr. Chairman, I put that reference in when Mr. Senior called me about this, hoping that perhaps a little inquiry would be made. I assumed, Mr. Chairman, that what the problem is there is that these are overincome individuals, and I assume that some provision would have to be made to extend the emergency period to permit them to continue occupancy there under the circumstances.

Senator BUSH. The chairman will get the facts on that, and we will see if we cannot do something about it. I am glad you brought it up.

Senator LEHMAN. In Senator Bush's bill he provides that an actuarial rate be set, and of the actuarial rate the property owner pays 60 percent, the Federal Government pays 20 percent, and the State government pays 20 percent. My bill of course differs from that. There is no participation on the part of the State at all, and it is a direct payment to the Federal Government, which sets the rate. It just is not bound by an actuarial rate at all. The question I wanted to ask you is: Do you believe in the participation of the States in this matter?

Mr. EDELMAN. On that point I am very clear indeed, Mr. Chairman, and I believe that the Industrial Union Council in Connecticut has made its position clear on that point to Senator Bush. On that point we feel we would just stymie the whole thing quite effectively, (a) that there are possibilities that some States would not act, (b) it would be cumbersome, and (c) many of the States are unable to proceed on that basis. Certainly experience in New England in respect to State action on a number of important conservation projects leads us very strongly to the feeling that this has to be a Federal program. We can understand the Senator's motive there, but it seems to us that it is not feasible and just unworkable, and on that point we are willing to take a forthright and immediate position. On some of the issues we are not completely ready to make up our minds. We are going to make certain representations to this committee in respect to the differences between the two bills. We do not want to be completely amateurs on this question and just remain utterly silent. We will try to say something sensible about it, but on the basis of our previous experience we say the States, no. Also we have the feeling, sir, that this program in the first several years should be completely

experimental. Obviously, in the course of time as experience is gained it should be placed on a self-supporting or actuarial basis. The objective of achieving a sound actuarial rate for this type of protection is, of course, one which we strongly endorse and support. We do not think it is possible to achieve that at this point, and we feel it would delay matters in all likelihood unless it were frankly and clearly a measure which would be in the first instance part subsidy. The subsidy in all likelihood would be very slight, with Government paying the cost of the administration and the individual as great a share as was possible. I think unless assumptions of that kind were present it would seem to me that the likelihood of getting something that would work quickly would be somewhat remote.

Senator LEHMAN. I have not had a chance to read your formal statement. Does this statement contain a discussion in some detail of the provisions of the two bills?

Mr. EDELMAN. I should have made that a little more clear, Mr. Senator. This is actually a little collection of human interest material and some little case history material. It puts a little flesh and blood perhaps on the bare bones of the statistical and theoretical testimony offered by other witnesses. It does not contain a discussion and analysis of the two bills. There was some little analysis of the general theory underlying both types of legislation in the testimony offered by Mr. Riley for the AFL-CIO. I simply would now undertake in the next several days to attempt to make the kind of more complete analysis that would be of some possible use to this committee of the differences between the types of bills.

I understand clearly that I do not have to convince these particular Senators as to the importance of action and the need for flood insurance protection, and what would be more valuable to you would be some practical discussion of the practical ways and means. We will try to be a little more useful.

Senator LEHMAN. That is perfectly true, and we would be very appreciative if you would let us have that discussion just as promptly as possible. This is the 12th or 13th hearing this committee has held, and we will have at least one more meeting. After that as soon as possible we want to go into executive session and discuss the bills with the other members of the committee, who unfortunately are not as familiar with this situation as Senator Bush and I are because relatively few of them have attended the hearings. So if you could let us have that promptly we would appreciate it very much, and it would be very useful to us.

Mr. EDELMAN. Let me undertake to do so.

Senator LEHMAN. Thank you very much.

(The prepared statement of Mr. Edelman follows:)

STATEMENT OF JOHN W. EDELMAN, WASHINGTON REPRESENTATIVE, TEXTILE WORKERS UNION OF AMERICA, AFL-CIO, AND THE CONFERENCE OF NEW ENGLAND CIO COUNCILS

The statement I shall offer here today is intended to be supplementary to and in support of the testimony offered on the 17th of this month by George D. Riley, representing the combined American Federation of Labor and the Congress of Industrial Organizations.

In addition to testifying for my own union, which has a large membership in the areas seriously hurt by the two floods and tidal inundations of last autumn, I have been asked to emphasize the special interest and concern with this prob-

lem of the New England Conference of CIO Councils, with an aggregate of some 400,000 members in 6 States.

While I have no formal brief to speak for the six AFL State councils in New England, I do know that the views of these bodies on the subject of flood or disaster insurance is identical or similar to those I shall express here.

As I see it, the point of my testimony is to bring to the attention of the Congress a few firsthand reactions (about the need for flood insurance) from citizens in areas seriously affected by the floods. There has been some disposition to accept the view that people forget about disasters very shortly after the waters have receded and normal routines have been reestablished. Also, there is a widespread misconception about actual losses suffered by the majority of families in disaster areas. The American Red Cross has, on the whole, done a magnificent job; but no relief agency can actually compensate for total losses. The individuals, even those whose homes were not washed away or permanently damaged, or who did not suffer personal physical injury, still have a very big bill to pay when the final damages are analyzed and added up.

I reproduce herewith portions of letters I have received in the past few days from several individuals whose business it has been to appraise and understand what happened as a result of the flood and its aftermath.

The following notes are from Charles F. Ferguson, executive secretary, Pennsylvania CIO-Community Services Council:

"During the past 4 years I have been on the scene and participated in rehabilitation work caused by natural disasters in the Southeast, Kansas, Missouri, and the 1955 flood in Pennsylvania.

"You are correct in stating that there are unpaid bills as a hangover of disaster in spite of a really good job done by American Red Cross.

"The loss of small items of real and personal property is never replaced and the total replacement or repair of habitations inevitably involves indebtedness over and beyond what American Red Cross can reasonably be expected to provide.

"The flood struck eastern Pennsylvania with the greatest damage occurring in the Delaware Valley. This area includes economically distressed communities such as Wilkes-Barre and Scranton, and there is no question but what industry suffered a setback that further compounded unemployment and hardship in the coal-mining regions.

"I have talked personally to many union members, officers, and officials during and months after a disaster and as a result of these discussions I vigorously affirm that people do not forget a disaster and would welcome and purchase insurance to provide adequate protection against natural disasters if the cost is within their ability to pay.

"Money raised through voluntary contributions will never be adequate to fully restore the losses sustained in a flood—therefore American Red Cross can only do a minimum job. For example, a family that loses an expensive dining room set may get as replacement 1 table and 4 chairs; a \$300 refrigerator may be replaced by a \$50 icebox and so on through the hundreds of items found in the average household.

"A 6-room house can be moderately equipped at a cost of \$400 per room or a total of \$2,400, exclusive of clothing, power, tools, handtools, hunting and/or fishing equipment, children's toys, cleaners, etc. On this investment in the necessities of normal family life I doubt, from personal observation, that a flood victim recovers more than 50 percent of loss from all sources."

A pertinent bit of information and comment also from Pennsylvania has been received from Joseph D. Rader of Easton, who represents local unions in the Delaware Valley, including Stroudsburg, where some of the most drastic flood damage occurred.

Mr. Rader writes me that in his area some of the textile plants with which Pennsylvania deals have even at this date not been able to resume full operation. The Brookdale mill, a weaving plant in Stroudsburg, was flooded to within 6 inches of the ceiling last August. Formerly this company employed about 40 people. But the manufacturer has not been able to get his looms back into efficient operation, although he has struggled for months to recondition the equipment. Finally, he has had to tear out all the old machinery and install new stuff. From the day of the flood to the present there have been less than a dozen people at work. Right now only four are earning a pay.

Mr. Rader in his communications insists that among the members of the Textile Workers Union the most serious monetary losses suffered were among those families who had paid for homes and savings. Very few of these persons requested or received Red Cross or any other type of assistance, except possibly

emergency food or clothing in the first few days of the disaster. Today these people, many of them middle aged, have been obliged to assume mortgages and other debts, plus entirely depleting their hard-built reserves. The majority of the families in the Delaware Valley, whose homes were damaged by flood, paid for repairs themselves. These bills came to thousands of dollars in many cases.

Mr. Rader urges, on behalf of the citizens he knows and can speak for, that low-cost insurance be made available by action of this Congress. It is his firm conviction that every man and woman he knows who has a dollar left to his name would promptly subscribe for such protection.

From Mr. Thomas Policastro, president of the Rhode Island Industrial Union Council, I received the following notes:

"Has all the flood damage of last fall been substantially fixed up and the individual victims compensated?"

"The answer is definitely no. While it is true that the Red Cross did render great assistance, it must be borne in mind that the vast majority of the victims did not apply for assistance, consequently they received none. The fact that they did not apply does not mean that the blow was any the less severe. Lifetime savings intended for the period of retirement and old age were wiped out. Many are so far in debt that they look forward to long years of skimping to get out of debt. The Red Cross cannot hope to restore all that the victims have lost.

"Plants in full production?"

"To our knowledge two textile plants are permanent casualties of the flood. R. I. Plush Co. was sold at auction. Masurel Worsted still has not repaired its first floor which was the preparation room. For other plants refer to testimony of Mayor Coleman and William Farrell, of Woonsocket, R. I., at the hearing in Providence, and also in Washington before Labor Committee.

"Do people forget?"

"No. As soon as an adverse weather report comes along, they remember all too well the terrible danger to life, limb and property. One cannot imagine, one must experience the feeling of utter helplessness when nature goes on a rampage. If anyone has forgotten, it is because his bones, his flesh and his property were not in jeopardy.

"No part of this country no matter how high, no matter how low, is safe from hurricanes. In Canada hurricanes were unknown until Hazel caused such loss of life and property. In the city of Warwick, R. I., many empty foundations of buildings remain to scar the landscape. Most of these will never be replaced because no lending agency will now advance any money either for the rebuilding or repair of such property. Many of these buildings represented the savings of provident people who rented them as an investment. They are now in such condition that they cannot either rent or sell the property, but must still pay the taxes. This represents an extreme burden.

"We, the people of limited means, must have disaster flood insurance. An insurance policy would be the one, the only means whereby every victim would receive compensation to the extent of his losses, leaving him no better and no worse than before the disaster occurred. There could be no question of charity involved.

"For many of us not only our homes and possessions are in danger in time of flood or hurricane, but the very means whereby we live, our jobs, are also threatened."

The following from John W. LaPorte, of Woonsocket, R. I., manager of the Textile Workers Union Northern Rhode Island Joint Board, confirms and underlines what other witnesses say:

"Has flood damage been repaired?"

"Talking to people here in the flood area of Woonsocket, I find that many of them lost furniture that was far more valuable than what was replaced, by the Red Cross. It means that within a short time they will again have to spend money to bring their home up to the standard which it was before the flood. I have also spoken with workers who had valuable power tools that were completely ruined, and of course, they received no compensation for these.

"We do have plants in Woonsocket which have made changes and they are now using other floors than the ground floor for any production so that in case of floods they will not suffer the damage which they have in the past. Several plants have not as yet reopened since the flood.

"The employers as well as the employees are definitely interested in flood insurance in this area.

"You say that some of the Members of the House of Representatives feared that once the flood was over, that it would be forgotten by the people. These Representatives could not have been hit by the flood or they certainly would not have made any such remarks. Any time that there is a heavy rainfall, the people are now watching the rivers and preparing to protect their properties against flood damage.

"Workers do not have money to replace any properties which are lost. They are very conscious of any protection that they can get such as unemployment compensation, ill health, and old age, and they would be the first to buy flood and hurricane insurance, knowing full well that without such protection, their life's work could be wiped away in a matter of moments.

"These statements have been given to me by workers who were affected by the last flood and I am sure that that is the sentiment of the community as a whole."

FROM ANSONIA, CONN.

Mr. Leo Perlis, director of the now combined American Federation of Labor and Congress of Industrial Organizations community services committee, has sent me carbon copies of several letters that have come to his notice, dealing with problems raised by flood victims.

The facts about individual losses which come to light in this correspondence are, I believe, typical of many thousands of cases and provide irrefutable and moving arguments for prompt and helpful action by the Congress.

I should, of course, be glad to give the names and addresses of the individuals referred to herewith if any Member of Congress should wish to verify this information. The following letter, written by the secretary of a steelworker's local union, deals with the problems of a man who at the time of the flood was living in a rented home.

"DEAR LEO: I am writing to you in an effort to assist Brother C. who is a member of our Local 3571, United Steelworkers of America, AFL-CIO, and who was one of the victims of the great flood of August 19. I am turning to you because you and Brother John Carny were good enough to come to Ansonia, Conn., shortly after the flood to personally advise us as to the operation of the Red Cross disaster committee, and, because you are national director of the community services committee, I feel that you possess the sympathetic point of view to assure the utmost consideration for Brother C. and his family.

"George and his wife, Julia, and their 2 children, Judy 8 years of age, and George, Jr., 3 years old, lived in a 2-family house at (address deleted) in Seymour, Conn., and which was owned by a widow and was swept down the Naugatuck River by the floodwaters of August 19. They lost all of their furniture and personal belongings except for the clothes they wore at the time they fled from their home. However, they did manage to save their automobile.

"George, like others who suffered loss as the result of the flood, applied to the Seymour Red Cross Advisory Committee for assistance, but, after considerable investigations, he was told that he did not qualify because he was able to take care of himself. It was estimated that it would cost approximately \$2,000 to replace the necessary furniture which was washed away, and the committee felt that he had sufficient resources to absorb the loss. Incidentally, this did not include the cost of the clothing and other household and personal effects lost by them.

"The steelworkers' representative on the Ansonia Advisory Committee and I called on a Mr. Charles Lemlux, who was in charge of the operations of the Ansonia committee and which was the main headquarters for the Ansonia, Derby, and Seymour area. Mr. Lemlux told us that, though George did suffer considerable loss from the flood, the committee felt that he did not qualify for assistance because he had a good wage and had a program of savings deductions each week. In effect, George did suffer a loss but was not in 'need.'

"I feel that the question of whether or not a 'need' does exist is to a great extent a matter of opinion. It seems to me to be grossly unfair, if not cruel, to require a person to deplete his hard-earned savings by the very substantial amount of 40 percent to pay for part of his flood losses—savings accumulated by 19 years of hard work as a molder in a foundry; savings accumulated by living as a responsible couple, practicing self-denial so as to make possible the eventual purchase or building of a home, an education for his children, and a little financial security against hard economic depression or illness.

"It could very logically be argued, as it was by persons who were denied help, that, though a person's place of business was washed away or destroyed by the

flood, he did not necessarily have a 'need' which qualified him for assistance in reestablishing his business—all he needed was to look for another job, and there is a great demand for help at this particular time.

"I, for one, am not content to dispose of the question of fair treatment for C and his family by citing the platitude, as Mr. Lemieux did to us, that America was made great by the efforts of 'people who got ahead by pulling themselves up by their own bootstraps.' I think America became great also as the result of its people acting together, helping each other in times of adversity—in the manner of unions in more ways than one. I firmly believe that the line was drawn all too closely in this case."

In an explanatory covering note from Mr. Perlis on this case, I find that the person had accumulated cash of just over \$4,000 in 4 savings accounts and had paid-up insurance policies on each of the 4 members of the family.

The one comment I would offer to underline the eloquent appeal by the steel-worker of Ansonia is that the very best way that upright and self-reliant citizens could help themselves and at the same time extend mutual aid to their fellows would be through purchasing flood insurance through a federally operated non-profit corporation or system.

Mrs. P. J. Lambert, on behalf of local 687 of Simsbury, Conn.: Mrs. Lambert says her position is well expressed in a statement by a local educator, Dr. Ferd J. Herzig, of 40 Riverside Road, Simsbury, who writes as follows:

"Re flood insurance.

"On Riverside Road in Simsbury, Conn., there are over 20 homes badly damaged by both the August and October floods. While Red Cross help was substantial, it was inadequate and did not rehabilitate us to our former status. Take for example my property; I had a relatively new barn which was swept away by the flood. The Red Cross formula could not help me replace it since I do not earn my living by farming. My garage was damaged, but Red Cross does not help with garages, nor do they help with the outside painting of a house. I think that a conservative estimate of Red Cross help was approximately 50 percent of actual damage throughout this area.

"We must also remember that Red Cross helps only in disasters. Insurance protection is needed for flood damage that does not attract national attention. Two or three inches of water over the first floor of a home does hundreds of dollars of damage; yet would not call for Red Cross help. This has happened in this area many times.

"Flood insurance is seriously needed in Simsbury."

FROM HAROLD SENIOR

Harold Senior, assistant to the president of the Connecticut Industrial Union Council (who is widely known as a competent newspaperman in his State), telephoned to me from his office in Waterbury several illustrative bits of information which I submit to this committee.

NEW LONDON, CONN.

Fred Searle, of local 465 of the United Paper Workers of America in New London, Conn., tells of cases of families living near the Farmington River whose homes were not only completely destroyed but who cannot rebuild because the sites on which these houses stood have been condemned. It is, of course, impossible to obtain loans to rebuild or repair on a condemned site. The only thing for these families to do is to have cash to buy new sites. Such money they don't have and can't get. Moreover, some of these people are still required to pay on unretired mortgages on ruined houses—in one instance, the debt is close to \$4,000 on a hulk that is completely unsalvageable. According to Fred Searle, there is an added cruel twist to this story. It appears that certain of the people he is reporting on were temporarily rehoused in public housing units nearby. However, under the law, these public housing units must be vacated by April 1 because the flood victims are not technically eligible as tenants. This does not alter the fact, however, that people have nowhere to go and are almost desperate over their peculiar and baffling plight.

Senior reports on a conversation with George Froehlich at Naugatuck, Conn. (Local No. 45, United Public Workers of America, AFL-CIO). Froehlich is chairman of the largest rubber workers local union in Connecticut. Both the plant (U. S. Rubber Products Co.) and the workers in this town were very seriously hit by last autumn's disaster.

Froehlich gives facts which are similar to those detailed by others in Connecticut and requests that his membership collectively and individually be placed on record as vigorously affirming the need for flood-insurance legislation that will enable and encourage mass participation by all types and conditions of citizens.

Also from Connecticut, let me cite several typical examples of "minor" flood damage suffered in August and October of last year by four neighboring families living on Richmondville Avenue near Main Street in Westport. My daughter, Mrs. Joseph Carter, sent me these notes.

These houses are in an area where the buildings were not washed away nor so badly ruined that they could not be rehabilitated. The damage, however, was considerable in terms of dollars and cents. A good deal of the furnishings and other belongings that were ruined were heirlooms or antiques on which no definite value could be placed. Over and above physical damage, there was, even in an area like this considerable privation and inconvenience. There are young children in my daughter's house. Yet she was without heat for at least 3 weeks and had to carry every bit of washing to the laundromat in the center of town for over a month. I am not attempting to suggest that such difficulties could or should be substantially compensable. I merely make this point to emphasize that even if major monetary damage could be covered by insurance, the individuals would still have more than enough to contend with in attempting to look after young children or older people, to say nothing of the sick or the handicapped when catastrophes of this sort occur.

I reproduce herewith the notes from Westport, Conn.:

WESTPORT, CONN.

Home of Mr. Joseph Carter, 315 Main Street

Water in basement 3 feet caused damage to furnace, Bendix, and walls of cellar:

Furnace repair, \$18.74; lack of heat and hot water for 3 weeks.

Bendix repair, \$60 (\$20 for transportation to factory and \$40 for labor costs; \$137 of parts were provided free by Bendix as a flood-relief gesture).

Pumping out cellar, \$20 (although major pumping out was done by neighbors and fire department).

Installation and purchase of sump pump, \$220 (cost of pump is \$80; plumber costs, \$70; mason costs, \$70). Estimated cost of having cellar waterproofed \$1,500; purchase of pump is a stopgap measure.

Car flooded by water up to headlights; repair costs, \$26.95.

Total costs, over \$1,800.

Home of Mr. Stanley Jabieski, Richmondville Avenue

Thirty-four inches of water in entire house, loss of practically all furniture including stove, icebox and washing machine. Estimated cost, \$2,000.

Furnace repaired by neighbors.

Entire house had to be redecorated and floors repaired. Estimated cost, \$1,200.

Truck and station wagon flooded over motors. Approximate cost of repair, \$60.

Loss of building materials and tools. Estimated cost, \$100.

Three weeks' loss of time from work, approximately \$375.

Lloyd Fangel, 325 Main Street, Westport, Conn.

Below are listed the closest possible estimates (or actual costs already paid) of the damages done during the recent months' flooding:

New furnace.....	\$914
Parts and service for previous furnace that finally had to be replaced.....	150
Curtain and other material soaked in cellar.....	15
Trunks and other luggage soaked and ruined.....	150
Clothes soaked and ruined.....	200
Books soaked and ruined.....	100
Fine guns soaked and ruined.....	500
Magazines, pamphlets, etc.....	100
Photographic material from dark-room.....	50
Pump, rental, installation, etc., to get water out of cellar.....	120
Ruined furniture in cellar.....	80
Ruined tools in cellar.....	30
Hardware ruined in cellar.....	25
Pipes to drain water out of cellar pump vent.....	6

Ruined lamps (including sun lamp) in cellar.....	\$85
Water damage to original paints and frames (at least: firm estimates still to come).....	600
Flood damage to wallpaper and window shades stored in cellar.....	35
Stamp collection soaked and ruined.....	500
Ruined skis.....	75
Total.....	3,735

Home of Mrs. N. Garlick, Richmondville Avenue, Westport, Conn.

On the evening of October 15 the water was seeping into our cellar not at an alarming rate. We left things to the ever-diligent sump pump and did not worry too much. However, when, at about 11:15, the power went off and the pump stopped, we discovered that the water was rising with a vengeance. With some difficulty we removed as much equipment from the cellar as we had time for. By this time the water was pouring in the cellar door and down the cellar stairs in a veritable waterfall. It rose a foot in the half-hour it took us to rescue our furnace and other motors we had in the cellar. By the time we had packed a few clothes and prepared to leave the house the water was up to the muffler on the car. Our street was completely flooded and the current was so strong that it required a great deal of dexterity to drive out. Fortunately, we made it and went to stay with friends who live on high ground.

Returning to the house the next morning, we found that the water had completely filled the cellar, coming within inches of the first floor. Our fuel tank, but recently filled with 300 gallons of oil, had tipped over on its side and the oil was seeping out to make room for the water that was seeping in. Our second car, which was in the backyard under repair, was completely ruined. The radio gear kept in the cellar and used as a partial hobby and source of extra income was also ruined. The foundation of the house will never be the same again even with the repairs that are immediately necessary. The greatest loss perhaps is the drop in the salability of our property. We have had it on the market but now have no hope of being able to sell.

MASSACHUSETTS

My final witness by mail is Joseph Cass of Massachusetts, who was active in flood relief work on behalf of the State Industrial Union Council. Cass writes:

"I have talked to John Coleman, of Worcester, who was AFL-CIO's representative with the Red Cross in the Worcester County area during the recent disaster. There are bills sometimes quite sizable to be paid after the Red Cross and everybody else gets through. These are bills for household equipment which are not what the Red Cross considers bills for definite essentials. By that I mean the Red Cross does not buy rugs for the floor. They do not buy curtains for the windows or drapes for the windows. But they do repair or replace furnaces, and refrigerators which are considered necessary. In the case of tools and valuables, the Red Cross will replace tools if they are essential for the employment of the owner. Other valuables they will not replace."

Based on our continuing contacts with families and individuals, both in disaster areas or areas where there was even slight damage or places to which victims were evacuated, we say definitely that there is still a keen apprehension and no complacency about a recurrence of floods, hurricanes or tidal inundations, etc.

The trade unionists in Massachusetts, as in the other States in the region, believe that an educational campaign would be needed to see to it that the few laggards or habitual procrastinators would put their money on the line for insurance policies. The bulk of the people, however, would be ready and anxious to sign up for flood or disaster insurance if the costs were anywhere near those mentioned by Dr. Seymour Harris as being feasible. In this connection, it is suggested that local governing bodies feel the impact of disasters so acutely that they would willingly and effectively carry on selling campaigns for a sound insurance program.

Mr. Cass requests that I mention to the members of the Senate Banking and Currency Committee that at least two substantial and well-known corporations in Massachusetts have stated very forcefully that unless the State and Federal Governments offer better protection against floods and flood losses they will, within the next few years, either curtail at their present sites or move to what they believe is a safer location. One of these corporations is American Optical Co. at Southbridge, Mass., which now employs over 1,000 persons.

LAND WASHED AWAY AND SITES CONDEMNED

In the course of my correspondence and telephone conversations with a number of local people in the flood areas, one special problem came up over and over again. That is: What happens to the family whose house was badly damaged or rendered utterly unfit for use but was located on land which was either washed away or condemned by the local authorities? As a matter of fact, there has been considerable criticism that more such locations should have been condemned. The local authorities, in our view, were, for the most part, far too lax and not too severe in this respect. As a general rule, the Red Cross would not provide funds to enable a family to move from a previous lowland location to higher ground unless the original site was legally condemned. But the problem of cost arose. The Red Cross in many cases could not under its rules make the arrangements necessary for the families to get clear away from those sites that inevitably are flooded, or are peculiarly risky.

In Plainville, Conn., where the land on which 20 families lived was completely washed away, as I got the story, a complete impasse occurred. The town could offer no other land on which these families could build. None of the families had the money to buy new land, and for some reason, which was not clear to me, the Red Cross found its hands tied in this situation.

Here, it would appear to us, is an added argument for proper insurance coverage that would afford such families at least enough cash to make the necessary new start in life.

Another angle of this problem which I ran into was this: In quite a few of the factory towns in New England, thrifty families have to put their savings into the purchase of 2-family houses or small tenements housing 3 or 4 families. A significant proportion of the older people, especially textile workers who have been forced out of work, depend on their rentals in order to live or to supplement inadequate incomes. I was told of several cases where these multifamily houses disappeared or were ruined; that not only were people rendered homeless, but they became public charges because their means of livelihood went down the river, as it were.

A United Automobile Workers officer in Torrington, Conn., mentioned the case of a widower with 5 daughters, all unmarried, living in a 2-family house that became uninhabitable after being flooded twice. The house had been debt free and, indeed, brought in sufficient rent from the upstairs apartment to assure the father that he would not be an economic burden on his girls. In addition to losing a source of income when the family had to buy land and build a new house, four of the daughters had to make themselves responsible for the mortgage on the new home. One can readily see that these girls will probably have to postpone their marriages and will have to drastically cut down on the size and quality of their hope chests.

THE TESTIMONY OF DR. SEYMOUR E. HARRIS

May I point out in my testimony here today that the people in New England who are necessarily in close touch with the work of Dr. Seymour E. Harris of Harvard University, in his capacity as chairman of the New England Governors Textile Commission, are surprised that there has been no serious discussion, at least in public, of the estimated costs of a Federal system of flood insurance which Dr. Harris has given this committee.

The fact should be emphasized here that Dr. Harris was not merely testifying as an expert or as an interested private citizen. His views are endorsed and supported by the tripartite commission appointed by the governors of the six States.

FLOOD CONTROL IS THE REAL ANSWER

In conclusion, I must emphasize that both my own union and the New England and other regional groups for which I speak are most vehement on the point that while flood insurance is urgently and imperatively needed, the real answer to the whole dilemma is a broad, large-scale, and continuing program of flood control and resource conservation and development. In no sense can flood insurance ever be a substitute for flood control, any more than fire insurance lessens the need for fire protection.

The most recent resolution on regional development adopted by the Connecticut State Industrial Union Convention in January 1956 spells out a program and a policy in this regard. And we pledge to this committee and the Congress that we shall work even harder for a sound flood-control program than we will work for the more limited flood insurance program.

(The resolution submitted by Mr. Edelman follows:)

RESOLUTION ON THE REDEVELOPMENT OF THE NEW ENGLAND ECONOMY

Adopted by the Connecticut Industrial Council in convention assembled, Hartford, Conn., January 1956.

We did not share the belief expressed by the pessimists that New England faces a gloomy future. But at the same time it is becoming increasingly clear that this region is not sharing equally in national economic growth and that a bold, imaginative program of action must be undertaken immediately to prevent New England's falling behind to such a drastic extent that it may never be able to redeem itself.

The economic facts about New England's present situation are not encouraging. The region's new industries have not balanced the loss of jobs brought about by the shifting of industries—particularly textiles—to other areas. Our new industries are not numerous enough to provide jobs for the region's growing population.

Whereas nonagricultural employment increased nationally from 47.3 million in 1951 to 49.8 million in August 1955—an increase of 5.1 percent—New England's employed remained constant during this period at 3.5 million.

In the same period, employment nationally in the manufacturing industries increased from 16.1 million to 16.8 million, a rise of 4 percent. In New England, employment in the manufacturing industries decreased from 1.54 million to 1.46 million.

New England wage levels are below those throughout the country as a whole. In only one State—Connecticut—have New England wages kept pace with the national rise in manufacturing industries; in the region's five other States wages have fallen behind in this important field.

No New England State has overall average hourly earnings equal to the national average.

Confronted with these statistics and the grim problems they reflect, the present administration in Washington advises only that the solution is to be found, somehow, in "local efforts."

To judge by its actions, the Eisenhower administration holds the defeatist attitude that our region's economic problems are chronic. If this defeatist attitude is becoming in the Nation's Capital—and we do not believe that it is—it most certainly is not an acceptable one for us here in the threatened region, where we have established our homes, reared our families, and made our livelihoods.

We condemn the defeatist view that our region's problem must be endured as we condemn the narrow bigot's view that our problems are local ones with which the Federal Government should not concern itself.

New England's problems can be solved, but not on a piecemeal, town-by-town, city-by-city, or State-by-State basis. The attack must be mounted on a regional basis, and it must have the wholehearted, unstinting support of a Federal Government conducted by an administration whose concern is not limited to the big business interests who have as their No. 1 aim the preservation of the economic status quo.

New England must have new jobs. New jobs will be created only through the establishment of new industries.

In order to obtain job-producing industries, New England must be made more attractive to industrialists through the reduction of power rates which are now the highest in the United States; through the reduction of transportation costs which are so high as to prohibit effective New England competition for national markets; through enactment of a Federal disaster insurance program which will assure prospective industrial residents of protection against heavy financial losses from floods, hurricanes, and other disasters; through rapid expansion of the region's natural resources; through bold multipurpose development of its river systems to provide for flood control, production of low-cost hydroelectric power, control over pollution, and expanded recreational facilities.

Undoubtedly the greatest single deterrent to industrial expansion in the region is the exorbitant cost of power. This is the more regrettable in view of the fact that it probably is the problem which, given an honest appraisal and a realistic, unselfish approach, best lends itself to practical solution.

This solution lies in two fields which the powerful New England private utilities have chosen, for reasons of their own, to ignore. One of these fields is the

production of more power at lower cost through the utilization of water resources; the other field is production of electric power from atomic energy.

The shortsightedness of the utility giants is staggering. Their deliberate action in denying New England the advantages of low-cost hydroelectric and atomic power sources can be explained in only one way. They obviously consider themselves better off as monopolists in a waning New England economy than as sharers in a vital, expanding regional economy. Little comfort is afforded by the realization that, in the long run, the utility interests are harming themselves at the same time they are handicapping the rest of us.

Atomic energy represents a potential source of power which could prove the golden key to New England's resurgence as a thriving economic entity.

The United States Government has invested well over \$14 billion in atomic energy, of which more than \$8 billion has gone into the development of non-military atomic energy installations and projects. The tragic fact is that New England has been prevented from sharing in this rapidly expanding industry.

In the atomic field, New England has been led down a blind alley. The Yankee Atomic Power Co. was formed in September 1954 by the private utilities which produce approximately 90 per cent of New England's electric power supply.

The form of ownership proposed for Yankee Atomic was barred by the Security and Exchange Commission as a violation of the Holding Company Act. Its backers have to date done nothing to put Yankee Atomic back into existence, except to make a crass attempt to repeal the Holding Company Act as it relates to atomic energy.

Whether by accident or by design, the collapse of Yankee Atomic has prevented any other effort to bring part of the atomic energy industry into New England.

To the end, therefore, that the state of economic stagnation now threatening New England may be checked, and in order that the region may be restored to the position of economic leadership it once enjoyed, this convention

Resolves, That a forceful, farseeing, and imaginative program for the economic revival of New England be undertaken immediately through—

(1) Reactivation of a regional planning and development committee along the lines followed in formation of the committee of New England of the National Planning Association in 1949.

The proposed planning and development committee must include representatives of all interests, so that it will not fall victim to the heavy hand of the same financial interests which destroyed the energy and the creative urge which characterized formation of its successor committee.

(2) Forging of a unity of spirit and purpose between the planning and development committee and the New England congressional delegation so that the region will have a strong, united voice in making known its aspirations and its needs in the Nation's Capital.

(3) Seizure of the opportunity presented—ironically, by the worst natural disasters in New England's modern history—for construction of a system of multipurpose dams which will protect life and property and, at the same time, produce hydroelectric power.

It will not be feasible, of course, to erect multipurpose dams at all sites where barriers must be built to prevent floods; many of the dams will of necessity be of the so-called dry type which will perform only one service, that of preventing floods. But the construction of the maximum feasible number of multipurpose dams must be undertaken, for revenues provided by the dual-purpose dams probably will be essential to erection and maintenance of the dam system this region must have to guard against further destruction by floods.

(4) Construction by the Federal Government of a joint publicly owned atomic reactor for the New England States. This atomic plant would be operated in conjunction with hydroelectric power stations constructed as part of the flood-control program.

(5) Education of the private utility interests on the fundamental economic point that, while exploitation undoubtedly is financially rewarding on a short-term basis, their own basic, long-term security is inextricably linked with that of the region they share with their customers.

Driven home with sufficient force and clarity, this point could do much to enhance New England's chances for economic redevelopment by bringing about the elimination of the private-utility-erected roadblocks to production of electric power through water resources and atomic energy.

(6) Revision of State tax structures so that they will raise the bulk of their revenue from graduated income taxes, which place the heaviest burden on those best able to pay. As a corollary, sales taxes in all forms should be drastically

reduced or eliminated altogether, since they place the heaviest burden on those least able to pay.

(7) Provision at the earliest possible date of low-cost insurance against losses from disasters, both natural and manmade. New England's flood-vulnerable areas cannot be made attractive to new industries until and unless such an insurance program is established as a vitally important supplement to a comprehensive flood-control program.

(8) Improvement of the lagging wage structure in New England by obtaining legislation to raise the Federal minimum wage, now \$1 an hour, to at least \$1.25, followed by enactment of legislation in the several New England States to make the States' minimum wages equal to the Federal standard; and be it further

Resolved; That this convention goes on record as dedicating the Connecticut Industrial Union Council's skills, energies, and resources to an untiring, unceasing drive for regional betterment so that all New Englanders may once again be able to pride themselves on being part of a regional community which offers forward-looking leadership in all fields—a community which offers ever-increasing opportunities for economic security and a better way of life which can be realized only through a buoyant, vital, expanding economy.

Senator LEHMAN. I have a statement from Congressman Bennett, a letter and a telegram for the record.

(The material referred to follows:)

STATEMENT OF CHARLES E. BENNETT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. Chairman, I appreciate this opportunity to testify on bills to establish national-disaster insurance which are now pending before your committee. I am particularly interested in these proposals from the standpoint of Florida's peculiar problems. S. 2768 which is now before this committee is fair and equitable in covering our Florida problems. Unfortunately, S. 2862 is not sufficiently broad to cover our peculiar problems in Florida due, I am sure, to no intent upon the parts of its sponsors to discriminate against the State which I represent.

As stated above, S. 2768, in providing national-disaster insurance, defines disasters broadly enough to cover property damage or loss resulting from beach and shore erosion due to hurricanes, storms, and the like, disasters to which Florida, with its long coastline, is vulnerable. If a feasible bill for national-disaster insurance can be worked out, and I think and hope it can, then I hope that it will include broad language as S. 2768, covering Florida's problems.

S. 2862 would provide for disaster insurance on a much more limited basis and would definitely exclude the possibility of obtaining insurance against loss or damage to property resulting from beach erosion. I hope that if this bill is reported favorably, it may be first amended to remove the discrimination against the State of which I am one of the Representatives.

For some time I have been cooperating with a large number of my colleagues in the House in an effort to obtain a liberalization of beach erosion legislation to make possible more and better preventive measures against beach floods. I have been cooperating in particular with my distinguished colleague from New Jersey, Mr. Auchincloss, on his bill, H. R. 4470, which is now pending before the House Public Works Committee. Enactment of that bill would help considerably in preventing ocean floods along the shores of the United States. However, even if that bill is enacted, it will be some time before the necessary beach erosion construction can be completed. In the meantime, there will be a continuing danger from floods caused by occasional abnormal conditions of winds, waves, and tides along the seacoast of the United States. The beaches of Duval County, which is in the district which I represent, have recently been through two emergencies arising out of heavy windstorms and the onslaught of resulting waves against the high ground and seawalls. On these occasions, there was considerable economic loss. It is not certain that it would be possible to avert greater loss in the future.

I believe the authors of S. 2862 were so concerned over protecting against fresh-water floods that they forgot to include beach floods in their bill. I do not think this exclusion was intentional. However, I submit that salt-water floods can damage just as much as fresh-water floods, and that there is no reason for excluding the victims of salt-water floods from the protection which is contemplated for fresh-water flood victims.

Since these bills propose an insurance system, it is my understanding that the more types of disasters which can be covered, the wider the risk will be spread, and the less chance there will be of loss to the Government due to unexpected disasters of a particular kind. For this reason, it is my understanding that enacting legislation broad enough to cover these peculiar Florida problems will increase the stability and safety of the insurance given.

Thank you, Mr. Chairman, for permitting me to appear here today to testify on these proposals.

SPRINGFIELD, MASS., *February 24, 1956.*

CHAIRMAN, SENATE SUBCOMMITTEE ON BANKING,

*Senate Office Building,
Washington, D. C.*

Urge comprehensive flood-protection measures which should include power generation and navigation where feasible. Federal flood insurance will ultimately exceed cost of building adequate flood projects and offers no remedy from future damage or protection of life. Recommend Federal grant or Federal contributions to communities, firms, or individuals for purpose of rehabilitating property damaged by floods.

JULIUS MELTZGER,

*Chairman, Connecticut Valley Development Association,
Third National Bank*

GREATER NEW LONDON CHAMBER OF COMMERCE,

New London, Conn., February 17, 1956.

HON. WILLIAM A. PURTELL,

*Senate Office Building,
Washington, D. C.*

DEAR SENATOR PURTELL: After careful study and consideration of various proposals to provide insurance for persons to reimburse them for damage to a loss of property as a result of floods, the board of directors of the Greater New London Chamber of Commerce has reached the following opinions which they are sure reflect the opinion of the entire business community.

We are certain no form or plan of Federal insurance or reinsurance attacks the real problem of recurring flood damage and could very well be the beginning of a new, costly bureau of the Federal Government and lull persons in areas subject to floods into a state of complacency and inaction on the cure for this problem—flood control.

We believe the paramount responsibility of the Federal Government is to assist States and areas in planning and constructing adequate flood-control projects and thereby eliminate flood damage or at least minimize this damage and obviate any need for federally subsidized insurance or reinsurance programs.

If some form of Federal indemnity is adopted, we suggest there be incorporated in the legislation means of encouraging or compelling adequate flood-control measures by all States participating before Federal subsidy be granted.

Sincerely,

CARL C. GRAVES, *President.*

Senator LEHMAN. We have no other witnesses for today, so far as I know. I am going to tentatively set a hearing for Monday afternoon at 2:30, but I do want to make it clear that it is tentative.

(Whereupon, at 3:50 p. m., the subcommittee was recessed, to reconvene at 2:30 p. m. Monday, February 27, 1956.)

FEDERAL DISASTER INSURANCE

MONDAY, FEBRUARY 27, 1956

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
SUBCOMMITTEE ON SECURITIES,
Washington, D. C.

The subcommittee met, pursuant to call, in room 301, Senate Office Building, at 2:45 p. m., Senator Herbert H. Lehman, chairman of the subcommittee, presiding.

Present: Senators Lehman and Bush.

Senator LEHMAN. The hearing will come to order.

I have a statement from Senator Neuberger for the record.

(The statement referred to follows:)

STATEMENT OF RICHARD L. NEUBERGER A UNITED STATES SENATOR FROM THE STATE OF OREGON

Mr. Chairman and members of the committee, I greatly appreciate the opportunity to comment on the proposed legislation to provide a measure of protection against the material losses caused by floods and other natural disasters. This is a matter of keen concern to me because twice within the last 3 months, areas of my home State of Oregon have been stricken by disastrous storms which brought floods, landslides, and other havoc wrought by natural disasters.

My interest in this legislation would be none the less if there were assurance that the worst was over. But that is not the case. Reports of governmental agencies such as the United States Weather Bureau and the Geological Survey indicate that a continuing threat hovers over much of the Columbia River Basin, portions of which are only now digging out from the floods of the recent past. Reports that the water content of our region's snow-covered ranges is about 150 percent of average adds to the urgent need for action on this bill. I do not mean to pose as a weather prophet or a forecaster of doom, but the recognizable elements of potential flood conditions are apparent in many parts of the Northwest. And these threats will continue to grow as the makeup of our watersheds is changed by more intensive logging, and as inaction reigns as the administration's chief contribution to new flood-control undertakings.

Although S. 3137 is referred to as a flood-insurance program, I am pleased that the definition is broad enough to cover abnormally high tidal waves, hurricanes, rainstorms, and deluges, and landslides caused by excessive moisture. As members of the committee are aware, much of the flood area in Oregon is surrounded by precipitous hills and mountains. Landslides from water-logged soil are often as much threat to lives and property as the rise of swirling flood waters in the lower elevations.

The Christmas holiday season was late in coming to many parts of southeastern Oregon. For some, it did not come at all. From the 22d of December until after New Year's Day, rainstorms, floods, and slides created widespread damage in the basins of the Willamette, Rogue, Umpqua, and Coquille Rivers and other areas. Several lives were lost and the damage to both public and private property was heavy. Total valuation of the loss even yet has not been determined, although unofficial estimates have ranged up to \$14 million.

Statistics are useful in demonstrating the justification for needed flood-control measures and in assessing the economics of a program of disaster indemnity. Yet such statistics mean little to the individual family who has lost to the flood its home and personal belongings which might represent the material wealth it can show for a lifetime of hard work. Their loss is as tragic and, under present conditions, as final whether the total losses run into the thousands or into the

millions of dollars. The proposed insurance program is aimed at alleviating these tragedies.

I have received scores of letters from constituents who suffered loss in the recent floods. It is a tribute to their courage and patience that the tone of their letters is not a despairing one. They reflect a desire to work and rebuild and replace the losses, but surely their painstaking efforts and desire to advance their lot should not continue to be clouded by the specter of irrecoverable losses in the future. I urge the favorable consideration of S. 3137 as a means of providing a necessary disaster insurance program this year.

I would like to append to my remarks a consolidated flood and storm report for December 1955 and January 1956, which was prepared by the Oregon State Civil Defense Agency. This report details the dollar losses involved in the year-end floods in Oregon, but does not cover the most recent damage. The Corps of Engineers also is preparing a report on flood damage in the various areas, along with recommendations for remedial works to control the waters. It is apparent that the Corps' report will require action by other congressional committees, not only to repair the damage to flood prevention works already in existence but to provide additional control facilities.

**CONSOLIDATED FLOOD AND STORM REPORT FOR DECEMBER 1955 AND JANUARY 1956
PREPARED BY OREGON STATE CIVIL DEFENSE AGENCY, SALEM, OREG.**

This report is a consolidation of flood and storm damage reports received from cities and counties included in the disaster area by Presidential proclamation of December 29, 1955. The counties with totals are as follows:

Disaster Counties

Benton.....	\$36,030.00
Clackamas.....	347,013.39
Clatsop.....	106,000.00
Columbia.....	204,100.00
Coos.....	1,601,138.25
Curry.....	40,000.00
Douglas.....	444,186.50
Jackson.....	934,270.00
Josephine.....	781,765.00
Lane.....	290,500.00
Lincoln.....	80,050.00
Linn.....	64,695.00
Marion.....	44,990.00
Multnomah.....	185,000.00
Polk.....	857,650.05
Portland.....	476,568.00
Washington.....	563,255.00

Grand Total..... 7,057,211.19

An estimated damage, just reported, of \$48,400 to roads in Yamhill County is not included in the above totals.

Flood and storm damage

	Private schools		Churches		Motels		County
	Number	Amount	Number	Amount	Number	Amount	
Number destroyed and estimated amount of damage.	1	\$1,700	-----	0	-----	0	Douglas.
Number with major damage and estimated amount of damage.	-----	0	-----	0	3	\$70,000	Jackson.
Number with minor damage and estimated amount of damage.	-----	0	1	\$1,200	1	2,830	Douglas.
	-----	0	-----	0	36	90,000	Jackson.
	-----	0	-----	0	12	4,300	Coos.
	-----	0	-----	0	4	2,000	Douglas.
	-----	0	-----	0	19	10,000	Jackson.
	-----	0	-----	0	25	15,000	Josephine.
	-----	0	-----	0	1	1,800	Polk.
Total damage	-----	1,700	-----	1,200	-----	195,930	

Flood and storm damage—Continued

	Private homes		Buildings at home site		Public schools		Public buildings (city and county)		County
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	
Number destroyed and estimated amount of damage.	18	\$192,000	11	\$14,000	-----	0	-----	0	Coos.
	1	6,000	-----	0	-----	0	-----	0	Douglas.
	20	80,000	-----	0	-----	0	-----	0	Jackson.
	15	90,000	-----	0	-----	0	-----	0	Josephine.
	2	15,500	-----	0	-----	0	-----	0	Portland.
	-----	0	5	8,000	1	3,000	-----	0	Polk.
	3	10,000	-----	0	-----	0	-----	0	Multnomah.
	5	30,000	-----	0	-----	0	-----	0	Clatsop.
Total damage...	-----	423,500	-----	22,000	-----	3,000	-----	0	
Number with major damage and estimated amount of damage.	11	126,000	71	11,500	2	10,000	-----	0	Coos.
	9	28,800	-----	0	-----	0	-----	0	Clackamas.
	25	6,250	-----	0	-----	0	-----	0	Douglas.
	81	20,000	-----	0	-----	0	-----	0	Jackson.
	60	348,000	-----	0	-----	0	-----	0	Josephine.
	17	52,650	-----	0	-----	0	-----	0	Portland.
	10	50,000	-----	0	-----	0	-----	0	Clatsop.
	20	60,000	-----	0	-----	0	-----	0	Multnomah.
Total damage...	-----	691,700	-----	11,500	-----	10,000	-----	0	
Number with minor damage and estimated amount of damage.	1,112	149,100	6	750	1	100	5	3,450	Coos.
	128	41,075	12	1,325	1	200	-----	0	Douglas.
	83	64,600	39	28,000	-----	0	-----	0	Clackamas.
	118	17,000	30	9,000	1	500	-----	0	Jackson.
	65	130,000	-----	0	-----	0	1	2,500	Josephine.
	23	47,000	-----	0	-----	0	-----	0	Lane.
	90	1,250	-----	0	-----	0	-----	0	Marion.
	135	13,500	-----	0	-----	0	-----	0	Portland.
	27	7,420	62	11,200	-----	0	-----	0	Polk.
Total damage...	-----	470,945	-----	50,275	-----	800	-----	5,950	
Value of household and personal effects lost or damaged.	-----	8,000	-----	-----	-----	-----	-----	-----	Coos.
	-----	2,082	-----	-----	-----	-----	-----	-----	Douglas.
	-----	40,500	-----	-----	-----	-----	-----	-----	Jackson.
	-----	3,000	-----	-----	-----	-----	-----	-----	Marion.
	-----	20,000	-----	-----	-----	-----	-----	-----	Multnomah.
Total damage...	-----	73,582	-----	-----	-----	-----	-----	-----	

Flood and storm damage—Continued

	Private utilities		Industrial facilities		Small businesses		County
	Number	Amount	Number	Amount	Number	Amount	
Number destroyed and estimated amount of damage.	1	\$300		0	1	\$800	Douglas.
		0		0	2	42,500	Josephine.
Total damage....		300		0		43,300	
Number with major damage and estimated amount of damage.		0		0	3	22,000	Coos.
	1	0	1	\$8,000.00	1	2,800	Clackamas.
	2	38,600		0		0	Douglas.
	2	25,580	1	35,000.00		0	Jackson.
	2	32,500	3	63,194.62		0	Portland.
Total damage....		97,280		106,194.62		24,800	Polk.
Number with minor damage and estimated amount of damage.		0		0	8	5,725	Coos.
	2	7,000	2	2,500.00	11	16,000	Clackamas.
	5	5,000		0	31	21,175	Douglas.
	2	2,000		0		0	Jackson.
	1	10,055		0		0	Washington.
		0		0	1	5,000	Josephine.
	1	363	6	49,000.00		0	Portland.
		0		0	17	4,450	Polk.
Total damage....		24,418		51,500.00		52,350	
Personnel normally employed.	420		282		0		Portland.
			400		36		Clackamas.
					5		Josephine.
					152		Coos.
					108		Douglas.
			540		30		Polk.
Value of equipment damaged.		2,575		51,000.00		0	Portland.
		0		6,000.00		\$2,000	Clackamas.
		0		1,200.00		0	Douglas.
		0		0		260,500	Coos.
		0		0		2,000	Josephine.
		0		7,319.00		100	Polk.
Total damage....		2,575		65,519.00		264,600	
Value of merchandise lost or damaged.		0		4,500.00		1,200	Clackamas.
		0		0		2,400	Coos.
		0		0		2,600	Douglas.
		0		0		3,000	Josephine.
		0		32,000.00		0	Portland.
		0		9,128.00		850	Polk.
Total damage....		0		45,628.00		10,050	

Flood and storm damage—Continued

	Temporary repair to roads, culverts, streets, etc.	Bridges	Clearing slides	Public utilities	Involved in saving life and property	County
Labor cost for regular em- ployees.	\$6,852.00 1,026.39 1,000.00 39,180.00 28,400.00 10,000.00 34,559.00 75,000.00 12,000.00 100,000.00 31,050.00 1,410.00 30,000.00 50,000.00 10,000.00 5,200.00	\$2,282.00 326.15 5,000.00 11,508.00 8,500.00 5,000.00 5,000.00 25,000.00 0 30,000.00 7,000.00 3,600.00 10,000.00 15,000.00 0 6,900.00	\$10,475.00 4,082.25 10,000.00 4,100.00 35,779.75 5,000.00 40,000.00 0 0 0 1,800.00 5,000.00 4,465.00 18,500.00 12,100.00	0 0 0 0 \$2,952.00 0 2,200.00 12,700.00 600.00 0 0 0 0 13,600.00 77,500.00 1,500.00	0 \$159.40 0 0 100.00 0 100.00 0 0 0 1,140.00 0 0 3,000.00 0	Benton, Clackamas, Clatsop, Columbia, Coos, Curry, Douglas, Jackson, Josephine, Lane, Lincoln, Marion, Multnomah, Polk, Portland, Washington,
Total damage.....	435,677.39	135,116.15	151,302.00	111,052.00	4,499.49	
Labor cost for other than regular employees.	0 5,854.00 317.00 400.00 1,675.00 0	26,852.00 0 1,350.00 0 0 0	0 6,500.00 500.00 0 500.00	0 874.00 2,800.00 400.00 600.00 0	0 150.00 600.00 0 0 0	Columbia, Coos, Douglas, Jackson, Josephine, Marion,
Total damage.....	8,246.00	28,202.00	7,500.00	4,674.00	770.00	
Cost of materials used or to be used.	12,033.00 6,025.50 5,000.00 58,770.00 27,671.20 10,000.00 10,554.00 25,000.00 0 68,500.00 5,140.00 20,000.00 76,000.00 7,000.00 0	4,178.00 5,808.15 5,000.00 57,540.00 5,000.00 10,000.00 4,800.00 25,000.00 0 4,000.00 20,000.00 28,161.00 0 0	200.00 8,657.76 0 6,150.00 8,500.00 0 177.00 0 15,000.00 0 0 0 3,000.00 0	0 0 0 0 2,920.80 0 2,720.00 500.00 100.00 0 0 0 20,000.00 17,200.00 2,500.00	0 0 0 0 0 0 125.00 0 0 1,100.00 0 0 0 0 0	Benton, Clackamas, Clatsop, Columbia, Coos, Curry, Douglas, Jackson, Josephine, Lane, Marion, Multnomah, Polk, Portland, Washington,
Total damage.....	341,662.70	177,577.15	41,884.76	46,546.80	1,285.00	
Cost of equipment rented or to be rented.	7,519.70 20,957.50 11,900.00 500.00 500.00 22,000.00 650.00 5,000.00	0 2,500 0 0 0 0 0 0	0 20,000 20,100 0 0 500 2,500 0	0 2,200 1,250 0 0 0 0 0	0 0 750 0 0 0 0 0	Clackamas, Coos, Douglas, Jackson, Josephine, Marion, Multnomah, Polk, Portland,
Total.....	74,557.20	2,500	22,600	24,500	1,285	
Cost of equipment damaged	2,000.00 0 0 0	0 0 0 0	0 0 0 0	0 0 0 0	0 0 0 0	Coos, Josephine, Josephine, Washington,
Total.....	2,000.00	0	0	0	0	
Cost of equipment to be replaced.	0 0	0 0	0 0	0 0	0 0	Coos, Josephine,
Total.....	0	0	0	0	0	

FARMS

County	Value of livestock lost	Value of equipment destroyed	Value of equipment damaged	Value of damage to fences	Value of damage to crops
Coos.....	\$30,000	0	\$40,000	0	\$210,000
Clackamas.....	0	\$2,000	1,500	0	40,000
Douglas.....	1,265	2,018	4,700	\$18,152	11,540
Jackson.....	5,000	40,000	0	70,400	41,000
Josephine.....	2,000	4,000	1,000	1,000	25,000
Linn.....	45	0	0	250	0
Washington.....	0	2,500	8,000	22,500	130,000
Marion.....	0	0	2,000	0	0
Lincoln.....	0	0	0	0	6,000
Polk.....	450	1,210.11	7,800	5,800	12,000
Total.....	38,760	51,728.11	65,000	117,302	475,540

County	Dollar value due to erosion	Dollar value to farm roads	Dollar value of damage to homes	Dollar value to farm buildings other than homes	Dollar value to irrigation
Coos.....	\$50,000.00	0	\$20,000	\$250,000	0
Clackamas.....	12,000.00	\$18,000	28,000	18,000	\$22,000
Douglas.....	62,246.50	26,725	40,400	17,400	19,930
Jackson.....	139,130.00	36,000	0	0	49,865
Josephine.....	25,000.00	60,000	5,000	5,000	0
Lane.....	30,000.00	0	0	0	0
Lincoln.....	1,000.00	0	0	0	2,000
Linn.....	14,400.00	50,000	0	0	0
Washington.....	100,000.00	0	136,000	110,000	15,000
Marion.....	10,000.00	0	3,500	5,000	0
Polk.....	375,000.00	33,000	18,500	44,000	6,000
Total.....	818,776.50	223,725	251,400	449,400	114,795

PEOPLE

County	Individuals	Families	Injured	Hospitalized	Dead	Evacuated	In shelters	With friends	Food cost	Transportation cost
Josephine.....	650	165	0	0	0	420	0	0	0	0
Lane.....	2,750	583	0	0	2	410	185	220	0	0
Clackamas.....	212	68	0	0	0	212	64	138	\$400	\$18
Jackson.....	1,853	524	10	1	0	(1)	(1)	(1)	375	0
Washington.....	12,000	4,000	0	0	0	300	(1)	300	0	0
Marion.....	0	0	0	0	0	11	9	2	140.00	0
Benton.....	15	3	0	0	0	15	4	11	10.00	0
Douglas.....	3,539	268	2	2	5	229	22	507	55.00	451
Coos.....	2,322	504	0	2	7	349	90	257	740.00	100
Portland.....	10	3	0	0	0	3	0	3	200.00	300
Polk.....	140	35	0	2	0	35	8	27	502.32	0
Total.....	23,491	6,153	12	7	14	1,984	382	1,465	2,422.32	869

¹ Unknown.

NOTE.—The State of Oregon highway system suffered an estimated \$685,400 damage to Federal aid supported highways.

Senator LEHMAN. We are hearing this afternoon the commissioner of insurance of the State of North Carolina, the superintendent of insurance of the State of New York, and the director of State administration, State of Rhode Island. I know all of you gentlemen have engagements, with close schedules to leave for home.

I understand Mr. Owen, however, has the closest schedule. I am not sure whether that is correct or not, but I have been so informed. Therefore I am going to ask Mr. Owen to testify first.

**STATEMENT OF GOV. DENNIS J. ROBERTS, STATE OF RHODE ISLAND,
PRESENTED BY H. CLINTON OWEN, JR., DIRECTOR OF STATE
ADMINISTRATION**

Mr. OWEN. Senator, as you know, I am reading this into the record for the Governor, who was out of the State, but it was prepared for his delivery.

Senator LEHMAN. You have a prepared statement on behalf of the Governor?

Mr. OWEN. Yes.

I am H. Clinton Owen, Jr., director of State administration of the State of Rhode Island, reading the statement of Gov. Dennis J. Roberts into the record as follows:

Since my appearance before the Senate Committee on Banking and Currency in Providence last November 10 (see p. 584, pt. 1), this committee has done much good work in reexamining and rethinking the problems involved in a program of Federal flood and disaster insurance. I can assure you that these efforts have not been wasted, for the threat of floods and similar natural disasters is real, and the need for adequate, practical answers to the appalling devastation so caused is urgent. This is true not only for Rhode Island and New England, but for the rest of the Nation as well—a fact which has been driven home by the recent destructive floods on the west coast.

In particular, the redraft of Senator Herbert H. Lehman's bill, S. 3137, endorsed by Senators Theodore Francis Green and John O. Pastore, of Rhode Island, shows the beginnings of a realistic and practical approach. There are three points about this bill which deserve special commendation.

First, there is the provision creating a Federal Flood Insurance Administration, with a Commissioner who would have the authority to establish general operating policies. This would permit prompt and effective action in an area where prompt and effective action is needed.

The second point is that State participation is not required. Federal responsibility for flood control has long since been acknowledged. To compel the States to share equally with the Federal Government the costs of flood insurance would penalize the States for the failure of the Federal Government to meet its existing responsibilities for preventive flood control. In fact, one of the reasons why flood and disaster insurance is so urgently needed now is to bridge the time lapse until adequate Federal flood-control measures can be put into effect. Moreover, substantial State participation over and above established premiums for State-insured property would tend to defeat the purpose of flood insurance, since it would have the effect of reimposing on the hardest hit areas an additional portion of a burden which is already too heavy. Where floods cause major devastation only the Federal Government is in a position to spread the burden to a degree which will be readily supportable, and the nature and national scope of the problem clearly dictates Federal responsibility.

The third commendable feature of the revised Lehman bill is that it does not allow the technical aspects of ratemaking to obstruct accomplishment of its purpose. The primary consideration is to provide

insurance for those who need it at rates they can afford. In this respect S. 3137 is properly designed to meet the genuine human needs resulting from catastrophic losses. On the other hand, I cannot support provisions which would establish relatively high rates, and permit the Administrator to decline risks at his discretion, such as are contained in S. 2862, the administration bill. The effect of these provisions would guarantee that many of those who need protection most would be denied it in practice. In fact, the administration program, with its limiting features, appears to be an evasion of any real and present answer to a very real and present need.

For an effective disaster-insurance program, it appears to me that the arbitrary dollar limits to liability provided in all the proposed bills are open to question.

The particular limits set for liability in individual cases are, perhaps, reasonable enough on the average, but some degree of flexibility might be considered according to the number of people directly affected. In the case of residential property, there could be somewhat higher limits where more than one family is involved. For commercial and industrial property, the number of employees could be a factor in determining the upper limit. As I said in my statement in November, when a major industry is devastated, it is not merely a question of the owner's loss. The jobs and livelihood of hundreds or even thousands of workers are at stake. Adequate compensation would assure more rapid and complete rehabilitation.

Low limits to the total Federal liability appear even more undesirable. I do not pretend to know how many individuals and business firms would choose to take advantage of an established program. However, it is self-evident that if flood insurance is to do its job, the broader the coverage the better. The broader the coverage, the more complete will be the effective protection from flood damage. It also appears obvious that, for any given rate schedule, the broader the coverage the more revenue will be available to meet losses as they occur. The reason for limits to total Federal liability are clear enough. They are designed to protect the Federal Government from sudden heavy drains on its resources. However, in the case of floods or other major natural disasters, we are confronted with the loss as a fact—the only question remaining is who shall bear the burden. Is it reasonable to expect devastated communities, States, or even regions to support a loss so large that the Government of the United States cannot afford to underwrite it? It should be remembered that a substantial fraction of any indemnities paid under a flood-insurance program—up to roughly 50 percent in the case of major corporations—would be recovered by the Federal Government in the form of income taxes.

In determining the guiding principles for a system of Federal disaster or flood insurance, we must keep our eyes firmly on our objective. That objective must be to make available adequate compensation at reasonable costs or premium rates to all those subject to the risks of flood or other major natural disasters, and to do it as soon as possible.

I wish to thank this committee for the opportunity to state my views. I wish, also, on behalf of the people of Rhode Island, to express deep appreciation to Senator Lehman and each member of this committee for the thorough and painstaking study which you have made

of this vital question. If a Federal flood and disaster insurance program is adopted, it will be largely due to the splendid work of the committee.

Thank you very much.

Senator LEHMAN. I understand that what you have read is the Governor's statement. Is that right?

Mr. OWEN. It is, sir.

Senator LEHMAN. I do not know whether you want us to ask you questions.

Mr. OWEN. I would rather you did not, sir. He asked me to come and put this in the record for him, and I would rather leave it that way.

Senator LEHMAN. But I will ask you one question, because I know you have had a lot of experience in State government. Do you think all of the States would come in on a plan that required them to pay part of the cost of the insurance? In other words, in the first place it would entail a considerable statewide obligation. In the second place, would it not in your opinion require considerable changes to conform our law to the constitutions of the 48 States, or for the 48 States to conform their constitutions to our law?

Mr. OWEN. I am afraid it would be difficult, but I think many States would find it difficult to share in such a program. I know the State of Rhode Island in particular has budgetary problems such that it would be very difficult for it to share.

Senator LEHMAN. Senator Bush, Mr. Owen is the director of State administration for the State of Rhode Island. He read a statement of the Governor of Rhode Island. I have not asked him any questions except that one because he is not speaking for himself, but merely reading a statement for the Governor. I do not know whether you wish to ask him any questions.

Senator BUSH. No, sir; I have no questions.

Senator LEHMAN. Thank you very much, Mr. Owen.

Which one of you two gentlemen is in the greatest hurry? I will let you toss a coin, if you wish.

Mr. HOLZ. I understand Mr. Gold is going to spend a little time in Washington and I am going to catch a 5 o'clock plane back.

Senator LEHMAN. I will say, Mr. Gold, that I spent quite a little time in North Carolina. We are glad to hear you again, Mr. Holz.

STATEMENT OF GOV. W. AVERELL HARRIMAN, STATE OF NEW YORK, PRESENTED BY LEFFERT HOLZ, SUPERINTENDENT OF INSURANCE, STATE OF NEW YORK

Mr. HOLZ. Mr. Chairman and Senator Bush, the statement I am about to read is the statement of Governor Harriman, who, because of the pressure of State business, is compelled to remain in Albany.

Last November I had the honor to appear before your committee (see p. 260, pt. 1) to state the desperate need for a nationwide system to protect our citizens against the disastrous financial losses resulting from floods such as those which had recently inundated large areas of central and southeastern New York. I said then that a system of Federal insurance was the only practical solution and I am gratified that as a result of your investigations you, Senator John F. Kennedy,

Risk and storm damage—Continued

	Private utilities		Industrial facilities		Small businesses		County
	Number	Amount	Number	Amount	Number	Amount	
Is your or business's and individual's interest at damage?	1	\$500	0	0	1	\$500	Douglas, Josephine.
		0	0	0	2	42,300	
Total damage		500	0	0		42,300	
Property with major damage and estimated amount of damage.	0	0	0	0	3	22,000	Coos, Clackamas,
1	0	0	1	28,000.00	1	2,800	Douglas, Jackson,
2	28,000	0	0	0		0	Polk.
2	25,000	1	25,000.00	0		0	Portland.
2	22,000	2	63,194.62	0		0	Polk.
Total damage		50,000	106,194.62			24,800	
Property with minor damage and estimated amount of damage.	0	0	0	0	8	5,725	Coos, Clackamas,
2	7,000	2	2,500.00	11	16,000	16,000	Douglas, Jackson,
5	5,000	0	0	31	21,175	21,175	Washington,
2	2,000	0	0		0	0	Josephine,
1	10,055	0	0	1	5,000	5,000	Portland,
1	393	6	49,000.00	17	4,450	4,450	Polk.
	0	0	0				
Total damage		24,418	51,500.00			52,350	
Personnel normally employed.	420		282	0	0		Portland,
			400	36	36		Clackamas,
				5	5		Josephine,
				152	152		Coos,
				108	108		Douglas,
			540	50	50		Polk.
Value of equipment damaged	2,575		51,000.00	0	0		Portland,
0	0		6,000.00		\$2,000		Clackamas,
0	0		1,200.00		0		Douglas,
0	0		0		260,500		Coos,
0	0		7,319.00		2,000		Josephine,
					100		Polk.
Total damage	2,575		63,519.00		264,600		
Value of inventories lost or damaged	0		4,500.00		1,200		Clackamas,
0	0		0		2,400		Coos,
0	0		0		2,600		Douglas,
0	0		0		3,000		Josephine,
0	0		32,000.00		0		Portland,
0	0		8,128.00		850		Polk.
Total damage	0		43,628.00		10,050		

Flood and storm damage—Continued

[illegible]

and 10 other distinguished Senators have now submitted to Congress a specific proposal for the establishment of a Federal flood-insurance program.

I believe that your proposed Federal Flood Insurance Act is a soundly conceived program for dealing with a recurrent national catastrophe that has undermined the security and welfare of millions of our people. I regret that the pressure of legislative business here in Albany makes it impossible for me to appear before your committee a second time to urge its adoption in person.

The hurricane floods of August 1955 caused estimated direct damages of \$454 million in the Northeastern States alone. The United States Corps of Engineers has estimated the direct and indirect damages at \$1,600 million. Two months later the same area was struck again and suffered direct damages amounting to \$38,570,000. The disasters in my own and neighboring States were repeated in the South and Far West.

For practical purposes it can be said that not one single dollar of these damages was covered by insurance. The losses to businessmen, homeowners, farmers, and local communities were total losses. The testimony presented before your committee has made it clear that the nature of flood-damage risk makes it impossible for private insurance companies to issue flood insurance. Unless and until the Federal Government acts, nothing can or will be done.

If such disaster took place only in isolated areas and on rare occasions it would be feasible to do nothing. But this is not the case; floods of the kind that hit New York in October take place year after year, in one part of the United States or another. The Corps of Engineers has estimated the average flood damage in the United States over the past quarter century to be \$466 million per year. Indications are that this figure has been rising and will continue to rise as natural drainage areas are covered with roads and buildings, and as low-lying lands are used for industrial, commercial, and residential purposes. On the other hand, it can be reduced by vigorous flood-control measures. It is urgent that we have an immediate increase in the intensity and pace of our efforts at flood prevention. In our own State of New York it was striking to note that in the west-central area of the State where there have been many flood-control projects there were practically no floods, whereas in the southeastern section of the State, where there were many and devastating floods, there have been practically no flood-control projects.

On November 1, along with Chairman Jerry W. Black, of the New York State Flood Control Commission, I wrote to you, Senator Lehman, and to Senator Ives and Congressman Buckley, asking your intervention to bring about a review by the United States Corps of Engineers of previous findings concerning the feasibility of flood-control projects on certain sections of the Hudson, Delaware, and Ramapo River watersheds and on certain streams in Westchester County, in light of the disastrous floods of August and October. I am indeed grateful to you for having made this possible. Public hearings are now being held by the New York district engineer—I was able to attend one in Albany on February 24—and I confidently expect that a number of new flood-control projects will be recommended in light of the changed conditions which these hearings have revealed.

However, no amount of flood-control projects will completely eliminate floods such as those brought on by Hurricane Diana, and there will always be areas for which flood-control projects are not economically feasible, but in which individual businessmen, farmers, homeowners, and local communities suffer serious damage. For this reason there can be no question about the need of some form of flood insurance which will be available to businesses, homeowners, and local government.

In my testimony last November I stated that I would favor any reasonable steps, including tax concessions, which the Federal Government might take to make it feasible for private insurance companies to provide adequate flood insurance at reasonable rates. But inasmuch as private insurance companies have not been able to do this in the past and are not likely to be able to do it in the future, I urged that we proceed directly with a Federal program.

I further stated that in our view any system of national flood insurance should be based on five principles:

First, it must as nearly as possible be nationwide;

Second, rates must be varied so as to discourage construction in exposed areas;

Third, rates must be low enough to make insurance available to small property owners who need it most;

Fourth, the experience and facilities of private insurance companies should be enlisted as much as possible; and

Fifth, the Federal Government should not offer any type of insurance which is already available from private companies and should be always ready to withdraw from the flood-insurance field if private companies find it possible to enter it on practical terms.

I am gratified that each of these five principles has been incorporated in the bill introduced by yourself, Senator Kennedy, et al. I was particularly pleased by the statement that the premium rates established for Federal flood insurance "shall be consistent with the aim of offering insurance and reinsurance at rates reasonable enough to make available to those who need it, at rates they can afford, the protection intended to be provided * * *."

It is of equal importance to my mind that you have proposed a truly national program to meet a truly national emergency. It is essential to the success of such a program that its coverage extend to as many areas as possible and that it be available to any individual homeowner or businessman who needs and wants it. This is the essence of the insurance principle: the risk of loss must be spread over as wide an area and among as many people as possible. Any program which would extend coverage only to property located in States which first negotiated an agreement with the Federal Government would in fact withhold coverage from citizens of those States which have not negotiated such an agreement. This could not but impair the effectiveness of the program; it is possible that it would destroy it.

Putting flood insurance on a national basis will put it on a practicable basis. It is this principle which has been the basis of vast and successful Federal insurance programs in such fields as mortgage insurance, bank deposit insurance, and old-age and survivors' insurance.

The whole need for a nationwide Federal program derives from the fact that actuarial rates for a limited private program so far have proved prohibitive. But by setting premium rates below what would be the actuarial rates for a limited program, it is possible for the Federal Government to bring enough persons into a national program to narrow or even close the gap between the two rates.

I wish to congratulate you and your distinguished colleagues on having come forth with a challenging proposal to achieve this most important aim.

Senator LEHMAN. Thank you very much indeed, Mr. Holz. Senator Bush, any question?

Senator BUSH. No questions.

Senator LEHMAN. I want to express my appreciation and the appreciation of the members of the committee for your coming down here and testifying again on this very important matter. Give my compliments to Governor Harriman.

Mr. Holz. I shall be very happy to do so and I am happy to have the privilege of appearing before you.

Senator LEHMAN. My attention has been drawn to the fact that we have received a letter from Mr. George A. Bisson, chairman of the flood and hurricane committee of the NAIC which explains why it has not been possible as yet to make a report to the committee.

(The letter referred to follows:)

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS,
DEPARTMENT OF BUSINESS REGULATION,
INSURANCE SECTION,
Providence, February 24, 1956.

HON. HERBERT H. LEHMAN,
Chairman, Subcommittee on Securities, United States Senate,
Committee on Banking and Currency,
Washington, D. C.

DEAR SENATOR LEHMAN: This will acknowledge your letter of February 18, which I received on February 23.

On February 16 Mr. Ambrose B. Kelly, general counsel for the Factory Mutual Insurance Group, sent me a statement of the Factory Mutual position that he intended to present to the Senate Banking and Currency Committee on February 17. Mr. Kelly advised me that their engineering and technical committees are still studying the problem and also that they probably would have a definite conclusion to report to us at our March meeting with reference to the practicability of insuring against flood loss. On the same day, I talked with Mr. Newell R. Johnson, general manager of the American Mutual Alliance, who advised me that a meeting of his group would be held the first week in March, at which time he believes a report in finalized form would be voted upon by the entire membership and then made available to me forthwith.

Therefore, I have issued a call for the Flood and Hurricane Committee of the National Association of Insurance Commissioners to meet at the National Board of Fire Underwriters room, 85 John Street, New York City, at 10 o'clock on Tuesday morning, March 13, 1956. At that time it is our intention to exchange views on this subject with all segments of the industry that have been studying this problem and then give to your committee the results of our findings.

I am sure I speak for all members of the committee when I express disappointment at not being able to submit our report at an earlier date.

Sincerely yours,

GEORGE A. BISSON,
Chairman, Flood and Hurricane Committee, NAIC.

Mr. HOLZ. Yes, sir.

Senator LEHMAN. Could you tell me what the situation is now?

Mr. HOLZ. We are having a committee meeting on March 13 in New York City. I know of no reason why we should not conclude our de-

liberations prior to or at that meeting, and I have every confidence we will have a report within a very short time afterward. The time will depend merely on the physical transcription of the report. It seems to me we ought to have all of our conclusions by that time.

I want to apologize on behalf of the committee for our inability to get the report here. You may recall when I testified before the committee in Goshen I had every hope and confidence we could have our report in so that the Congress would have the benefit of whatever resolutions we had adopted prior to this period. We really tried to get it out but were unable to do so. I think I can guarantee now we will have it by the end of March or at the latest the early part of April.

Senator LEHMAN. Thank you very much indeed. We are going to count on that because time is of the essence.

Mr. HOLZ. I realize that and I want to say further——

Senator LEHMAN. We want to get the bill out of committee and then will have to have it debated on the floor. I understand the statement that you made is the statement of the Governor.

Mr. HOLZ. Yes, sir. Of Governor Harriman.

Senator LEHMAN. Have you had a chance of studying the two bills?

Mr. HOLZ. Yes, sir; I have. But I should not like to make any public announcement, since I think it would be indelicate, being vice chairman of the NAIC, to express an opinion before we come to any conclusion. But I might say, speaking as an individual, many of the objections I had to the original bill as proposed seem to have been met by this new bill. I believe and feel confident it certainly lays the basis for legislation which should be adopted. But I am speaking solely as an individual and not in any capacity as vice chairman of the committee.

Senator LEHMAN. I can understand that. When you refer to the bill, I assume you refer to S. 3137?

Mr. HOLZ. Yes, sir, Senator. That is the bill I am referring to.

Senator BUSH. Did you study the bill S. 2862?

Mr. HOLZ. Is that the bill I referred to as the Bush bill?

Senator BUSH. Yes.

Mr. HOLZ. Yes. I studied that.

Senator BUSH. Did you have any comment about that?

Mr. HOLZ. Again I am making these comments as an individual and not as a member of the committee. My chief objection to that bill lies in two factors. One, I think the provision covering State participation, is one that would deprive a good many persons who are really in need of insurance, from obtaining it. I think it places an obligation on the States which might act as a detriment to the individual residents of the State. Another provision of the bill that I seem to think requires some further study and possible revision is the requirement that the premiums be based upon the actuarial figures. I do not think you can make any flood insurance attractive if the premiums are going to be based on actual experience. I think it would be prohibitive.

Under your bill, Senator, it seems to me a provision is contained in the bill which would make it mandatory to have the premiums predicated on the actual need for paying the losses.

Senator BUSH. Of course, both bills contemplate an appraisal of the insurance based on an actuarial basis.

Mr. HOLZ. That is true, but the bill to which I referred first does not make it mandatory that the premiums be predicated on the actual losses. Some discretion is vested in the Commissioner to charge pre-

miums which would be attractive even though they be less than the amount required to pay the losses. I think it is an essential ingredient in any bill.

Senator BUSH. Of course, under S. 2862 about half the expense of the premium is borne by the Government. It is subsidized to that extent.

Mr. HOLZ. Even so. Even so the premium might be too high. We have found from our experience in studying this subject that no company, no matter how anxious they have been to develop flood insurance, has been able to write it on a premium basis which would begin to cover the loss. That is due to the fact that the losses are catastrophic. We never have a loss in flood insurance confined to a particular area. It covers a very large area, and every loss is a catastrophe. There is no way you can include in a premium a loading for catastrophic occurrences because, as I say, every flood is a catastrophe.

In view of that situation I think the necessity of finding rates adequate to pay for losses would be an impediment which might defeat the whole program.

It is very true all of this is in the nature of an experiment, I do not know what a year or two from now would develop, should any legislation be enacted. It is possible within a year or two a modification of any plan would be required, and I am sure it would, but it seems to me at the very outset there should be a very liberal attitude toward permitting this insurance to be created in order that those who require it may obtain it. Then after a year or two, if revisions are necessary, obviously the *modus operandi* is always available for that purpose.

Senator BUSH. I think you are right about that. Both bills suggest a very liberal approach to the matter. I do not think there is any question about the difference of philosophy, as far as that is concerned. But what disturbs me about Senator Lehman's bill is the difficulty in finding out what this language means, when they say:

* * * With the aim of offering insurance and reinsurance at rates reasonable enough to make available to those who need it, at rates they can afford, the protection intended to be provided by this Act.

That is the stumbling block in this. I do not know how to interpret it.

Mr. HOLZ. I do not think it was my pleasure to have you present at the time I testified at Goshen, Senator Bush, but I said then and I will say again: Nothing I know of is quite as difficult to determine as ratemaking. I have characterized ratemaking for insurance as the greatest legal bookmaking I know. It does not make any difference to me what the nature of the risk is. There is an element of speculation in it that you cannot avoid.

I am sure what you say is correct, but to that extent some risk must be taken by the agencies that the Government is going to create, and if it is staffed properly, as I am sure it will be, there is no doubt in my mind the Commissioner will probably determine a rate which would represent his best judgment, and probably a sound judgment, at which to start.

I might also point out in the bill which you referred to as Senator Lehman's bill, there is provision for an advisory group of insurance men to consult with the Commissioner. It seems to me, working in concert, they ought to come out with some sort of a rate which would be sufficient for the original purposes and yet be attractive enough to permit those who need insurance to get it.

Senator LEHMAN. I think you did not understand my explanation, Senator, in view of the fact that you picture the rate to be made as one that would be made to the individual. There was discussion removing that problem, I thought.

Senator BUSH. I simply observed, Senator, that the bill is wide open to that interpretation the way it is written.

Senator LEHMAN. I told you that I have no objection to clarifying the language so that there will be no doubt as to my opinion of the purposes of the bill.

Again I want to thank you very much, Mr. Holz.

Mr. HOLZ. Thank you for taking me out of order. I appreciate it very much.

Senator LEHMAN. Now, Mr. Gold, we will be very glad to hear you testify here, as I was in Raleigh.

STATEMENT OF GOV. LUTHER H. HODGES, OF THE STATE OF NORTH CAROLINA; AND CHARLES F. GOLD, COMMISSIONER OF INSURANCE OF THE STATE OF NORTH CAROLINA

Mr. GOLD. Mr. Chairman and members of the committee, first I would like to express the regrets of Governor Hodges that he could not be here at your hearing today. We are glad to appear again. (See pp. 319 and 331, pt. 1.) We have a statement in which both of us concur, and with your permission I shall read it.

The undersigned, speaking officially, as the Governor and Commissioner of Insurance of North Carolina, take this opportunity to express themselves in support of the principle of Federal disaster insurance if the private insurance industry is unable promptly to provide adequate coverage. The undersigned also go on record as against any attempt to allocate to the individual States the burden of sharing in premium costs.

In support of these positions, we point out that North Carolina, during 1954 and 1955, suffered losses from hurricanes amounting to over \$300 million, \$269 million of which was loss to private property. Most of these losses resulted from high tides and inundation by water.

Of the total loss, less than 10 percent was covered by insurance, and this was mainly for wind damage. Water damage was not covered. Since this period of storms, some insurance companies operating in North Carolina have canceled or failed to renew policies containing windstorm coverage. The people of North Carolina are thus left without any opportunity or means of protecting themselves because the companies are not making available complete natural disaster coverage.

In some fashion or another the people of the States containing areas subject to natural disasters must receive protection. It is imperative that they do if the economy of these areas is to survive.

In support of our position against States sharing in premium costs, we would like to point out that the Federal Government receives approximately 75 percent of the total tax dollar in the United States. In North Carolina, because of the concentrated manufacture of cigarettes in this State, the Federal Government takes approximately 80 percent of the total tax dollar. It should be pointed out that individual States are in no position to raise their taxes to meet disaster losses because the result would be that such States would be placed

in an unfavorable competitive position with other States which did not do so. This would in turn mean that the economy of the States in which taxes were raised would further suffer because of this unfavorable competitive position and thus their people would be even less able to absorb losses resulting from disasters.

Natural disasters do not follow State lines. Where insurance coverage would not be available through participation of States, the Federal Government would, in all likelihood, give disaster aid. Indirectly this would penalize those States that participated in the program. It would be far better to treat all the citizens of the United States alike.

In short, we believe that natural disasters are a national problem and that they can be properly dealt with only through a policy which results in uniformity to all citizens of all States.

Senator LEHMAN. Thank you very much, Mr. Commissioner. Do you not think, in addition to the arguments you have advanced against the provision in the bill that requires the States sharing in the premium cost—and these arguments you have advanced are very convincing to me and parallel to a very great extent my own thinking—but in addition to that is it not a fact that in States that did not or were not willing to join in participating in the sharing of the premium costs, that the citizens of that State or those States would be prevented from taking out any insurance whatsoever?

Mr. GOLD. Yes, sir. I think it would restrict the market. I might say this too: The definitions of flood—I think I am correct in this—in all of the bills that have been introduced include all natural disasters such as the term “inundation by water.” It includes not only floods, in other words, but water damage and also includes landslides and I believe snowstorms, air pollution and other things. Maybe I am mistaken in that but I believe Senator Lehman’s bill covered air pollution.

Senator LEHMAN. We cover it to this extent. We cover immediate flood damage from flood waters. We do, however, direct the Administrator who will administer this act to make a study and report back with regard to the practicability or advisability of including additional natural disasters. It is not mandatory in this bill but it certainly is a declaration that we wish further studies to be made in the expectation that it may very well be that others will be included under this coverage.

Mr. GOLD. Then if they were included it would provide a greater market and you would get an insurance spread as they call it.

Senator LEHMAN. It would, but some of those natural disasters, of course, are covered by the insurance. Senator Bush, have you any questions?

Senator BUSH. No. I think the Senator is right. It covers most any kind of water damage that can be caused by flood but not wind damage.

Mr. GOLD. Of course, insurance against wind damage is provided by the private insurance industry.

Senator BUSH. Yes.

Mr. GOLD. As I understand it, and fortunately from my own standpoint, I do not think anyone wants the Federal Government to offer insurance that private industry is making available.

Senator BUSH. That is right.

Senator LEHMAN. The unfortunate thing is that insurance companies are unwilling or unable to write this insurance. I am sure they are acting in what they consider to be the sound interests of the policyholders whom they represent. But the fact remains that the poor fellow who has a home, or factory, cannot possibly get any insurance under present circumstances.

Mr. GOLD. That is true, sir.

Senator LEHMAN. He cannot get it even if he pays a prohibitive price for it. The only company that I know of that has been writing any amount of it has been Lloyd's of London and their premiums are way up in the sky. It voids the possibility of it being taken out.

Are there any further questions?

Senator BUSH. No, sir.

Senator LEHMAN. Thank you very much, Mr. Commissioner, and please give my compliments to the Governor.

Mr. GOLD. Thank you.

Senator LEHMAN. Thank you for coming.

Mr. EDELSTEIN. There is a telegram here from Governor Ribicoff.

Senator LEHMAN. I have a telegram here from the Governor of Connecticut which I will read into the record.

HON. HERBERT H. LEHMAN,
United States Senate, Washington, D. C.:

My schedule is so overcommitted that it is impossible for me to come to Washington. I thought I made my position very clear before your committee when it was in Hartford. It is my hope that flood insurance will become a reality during this session of Congress. Because of the nationwide nature of disaster, this should be a Federal matter and the States should not be required to make a contribution.

ABE RIBICOFF,
Governor of Connecticut.

I also have a letter dated February 20, 1956, from the National Association of Insurance Agents. I will put the whole letter in the record at this point, without objection.

(The letter referred to follows:)

NATIONAL ASSOCIATION OF INSURANCE AGENTS,
Arkansas City, Kans., February 20, 1956.

Senator HERBERT LEHMAN,
*Chairman, Subcommittee on Security, Banking and Currency Committee,
United States Senate, Washington, D. C.*

DEAR MR. CHAIRMAN: This statement is presented on behalf of the National Association of Insurance Agents, a voluntary, nonprofit organization of over 32,000 member agencies, engaged in the production and servicing of property and casualty insurance in every section of the United States and its Territories. This association is composed of affiliated associations in the 48 States, Hawaii, Puerto Rico, Alaska, and the District of Columbia, and approximately 1,200 local associations of insurance agents throughout the country.

The members and officers of this association, because of their operations at the local community level, are acutely aware of the suffering and misery caused by the recent floods throughout the various sections of the United States.

From time immemorial this association has resisted the entrance of Government into fields which impinge on the rightful activities of private business.

While we would like at this time to reiterate our historic position in this regard, we nevertheless realize that you are attempting to solve a problem of unusual perplexity, difficulty, and urgency.

Our underwriters, the private insurance companies, after lengthy study have concluded that the writing of specific flood insurance is not commercially feasible. Largely because of this, the Congress is considering certain plans and proposals to establish a plan of indemnity to provide the citizens of the United States with some relief in the event they suffer damage from catastrophic floods.

While this association of producers regrets the apparent need for the Government to consider entering this field, we wish to state that in the event Congress adopts a program of flood indemnification, we will be pledged to full cooperation, as we did in the war damage insurance program.

Sincerely,

KENNETH ROSS,
President.

Senator LEHMAN. I will just read the last paragraph now:

While this association of producers regrets the apparent need for the Government to consider entering this field, we wish to state that in the event Congress adopts a program of flood indemnification, we will be pledged to full cooperation, as we did in the war damage insurance program.

I have a letter here addressed to Senator Kuchel from Mr. Ken G. Whitaker of the Tennessee Valley Public Power Association. Senator Kuchel asked us to place this in the record. Without objection it will be made a part of the record at this point.

(The letter referred to follows:)

TENNESSEE VALLEY PUBLIC POWER ASSOCIATION,
Chattanooga, Tenn., January 25, 1956.

HON. THOMAS H. KUCHEL,
*United States Senator,
Senate Office Building,
Washington, D. C.*

DEAR SENATOR KUCHEL: Due to an enforced absence from the office, I have just seen your speech in the Congressional Record of Thursday, January 5, concerning flood disasters in California and in New England.

I just wanted you to know that I am in complete and wholehearted sympathy with the recommendations you made in your speech to the Senate. The problem of flood control should not be allowed to become involved in a dispute between public and private power. Tragic consequences of a major flood make it seem almost callous to hold up on the building of proper flood control facilities until we determine just how the energy is going to be disposed of.

I had not previously heard of the suggestion about the disaster insurance. This sounds like a very worthwhile idea. The Tennessee Valley Public Power Association will be more than glad to help in obtaining these worthy objectives.

Sincerely yours,

KEN G. WHITAKER,
Information Committee.

Senator LEHMAN. I have a statement from Governor Meyner, of New Jersey, which I will ask Mr. McKenna to read into the record.

Mr. MCKENNA. The statement reads as follows:

STATEMENT OF ROBERT B. MEYNER, GOVERNOR OF NEW JERSEY

As Governor of the State of New Jersey, I wish to express to the Senate Committee on Banking and Currency the interest of the State of New Jersey in Federal flood-insurance legislation.

I have stressed the urgent need for providing flood insurance at reasonable premiums. The floods of last year have again highlighted this serious hiatus in the insurance picture. Thousands of people have suffered tragic losses of property for which there has been no possibility of recovery. In many cases, homes were lost upon which mortgages must still be paid. Private insurance companies apparently cannot work out a plan to indemnify citizens against flood losses. I believe that it is imperative that the Federal Government devise appropriate means to do so.

It is a mark of our social development that we have devised means of indemnifying the individual against most losses that he may incur

in his lifetime. Losses sustained by floodwater remain one of the few major risks for which insurance is unavailable. The fact that this is a unique form of risk does not mitigate the harshness of the problems facing the residents of our river valleys.

When the Delaware River and its tributaries overflowed their banks last August in the wake of Hurricane Diane, many homes in New Jersey were destroyed or substantially damaged and a large number of small businesses, which represented the life work and savings of the owners, were wiped out. Our neighboring States have suffered even greater losses as a result of that hurricane and to that extent New Jersey was fortunate as compared to other States such as Pennsylvania and Connecticut. Nonetheless, New Jersey has an important interest in having flood-disaster insurance made available.

Traditionally, private underwriters have been skeptical of flood insurance, pointing out that it could not be placed on a self-sustaining basis without charging prohibitive rates. This view was summed up in the following passage of a report sponsored by the Insurance Executives Association after the devastating flood of 1951 on the Kansas and Missouri Rivers:

"Because of the virtual certainty of loss, its catastrophic nature, and the impossibility of making this line of insurance self-supporting due to the refusal of the public to purchase such insurance at the rates which would have to be charged to pay annual losses, companies could not prudently engage in this field of underwriting."

In my comments on the issue, I have expressed the conviction that if private companies are unable to justify the writing of flood insurance as practicable from the standpoint of their own operations, the Federal Government has an obligation to fill this gap in our insurance system. According to all present indications, it is highly unlikely that private underwriters will be able to provide this form of indemnity in the foreseeable future. Thus, it appears to me that the case for Federal action becomes axiomatic.

I have read and studied S. 3137, H. R. 9074, and H. R. 7979. Although the bills may be subject to modifications, I strongly favor the general approach of these measures. One of the important merits of the proposed legislation is that it leaves the way open for private underwriters to participate in further insurance. The measures are designed to make certain that the availability of such coverage will not be taken as an invitation to build up exposed areas. The development of flood plains of rivers and streams must be discouraged if we are to prevent widespread flood damage, and it is of the highest importance that the administrator of any flood-insurance program be empowered to charge differential rates according to the location of the property.

As to the actuarial soundness of the proposals, I have no basis for any final conclusions with respect to the probable long-term results in making flood indemnities available at reasonable premiums. The provision that rates shall be based insofar as practicable upon the risks involved and administrative costs appears entirely sensible. Rates certainly should be high enough to avoid staggering losses for the Federal Treasury but, on the other hand, they should not be so high as to discourage the purchase of flood insurance and to deprive the plan of any real meaning for the average citizen who desires coverage.

The essential question is whether the Federal Government can permit the continuation of a situation wherein a large number of families have no way of safeguarding themselves against heavy financial losses, if not financial ruin. Losses sustained in such disasters must, in the final analysis, be borne by society at large through either charitable contributions or expenditures by governmental units at the municipal, county, State, and Federal levels. In addition, the community as a whole suffers the loss of facilities and employment opportunities which may not be replaced because of the cost involved.

It would be a mistake to regard flood insurance as an alternative to effective flood-control works. Recent experience has demonstrated the necessity for more vigorous measures to harness our rivers and streams. Flood insurance remains nonetheless essential, however, because as a practical matter, it is manifestly impossible to install flood-control works that would eliminate any possibility of damage.

Thus, on behalf of the people of New Jersey, I strongly and respectfully urge the Committee on Banking and Currency to recommend a Federal program of flood indemnities along the lines indicated. I also must express the hope that Congress will act on this matter as quickly as possible, making it possible for residents of our river valleys to insure their homes and other investments before the occurrence of another series of flood disasters.

(The staff was requested to obtain more information on personal property "floater" policies for inclusion in the record:)

INLAND MARINE UNDERWRITERS ASSOCIATION,
New York 33, N. Y., March 9, 1956.

MR. JOHN F. NEVILLE,

Associate Secretary, American Insurance Association,
New York 38, N. Y.

DEAR MR. NEVILLE: We appreciate your courtesy in sending us a copy of the letter addressed to you on March 8 by Mr. William F. McKenna, counsel, Committee on Banking and Currency of the United States Senate. We are pleased to give you the following information and views with respect to the several questions put by Mr. McKenna.

We believe it is reasonable to assume from the general context of Mr. McKenna's inquiry that it refers primarily to personal lines of insurance as distinguished from personal property insured for commercial enterprises. Our comments are predicated upon that assumption.

1. Is there any minimum amount of coverage which is required?

Generally speaking, no, unless one takes into consideration the fact that some of the policies are subject to minimum premiums which might be considered substantial. As an example, the minimum premium for the so-called personal property floater varies from \$30 for a \$25 or \$50 deductible policy to as much as \$120 for full coverage in four of the five counties of New York City. There are 1-year minimums and would be subject to the customary term rule for 3-year policies.

2. What deductible, if any, applies?

Various forms of floaters covering personal property are written with or without deductibles. Jewelry and furs, as an example, are seldom subject to a deductible although deductible coverage may be purchased at reduced rates. On the other hand, in 1954, the last year for which figures are available, out of just slightly over \$50 million in premiums for personal property floater policies per se \$43,700,000 applied to deductible policies and only \$6,300,000 to policies written without a deductible. The vast bulk of the deductible business was written subject to a deductible of \$25 per loss, although for that form \$15 and \$50 deductible policies are also written. It should be noted also that while the deductible would apply to flood losses, it would not necessarily apply to all other perils.

3. Are separate policies available for this type of coverage apart from riders to fire or other insurance policies?

If this question means to ask whether or not insurance may be purchased on personal property specifically covering the risk of flood, we believe the answer is no. On the other hand, inland marine policies including the risk of flood as one of the perils encompassed within their "all risk" provisions are of course written entirely separate and apart from fire insurance policies per se or other policies.

4. How selective do the companies tend to be in writing coverage of this risk, that is, would it be generally available to residents of known flood areas?

This question is in the realm of individual company underwriting policy. However, we know of no uniform or generally applicable rules.

5. What is the premium range for this type of coverage on a national basis?

Rates for inland marine floater policies covering on personal property of the kind in question vary widely depending upon both the nature of the coverage and the class of property insured. To illustrate, cameras are insured against "all risks" and without a deductible at rates of \$1.30 per \$100 for the first \$5,000 of insurance, \$1.10 per \$100 for the next \$10,000 and \$0.90 per \$100 on the excess of \$15,000. The premium for a personal property floater on the other hand in most cases would be calculated at the applicable fire rate applied to the entire amount of insurance plus a loading of \$1.20 per \$100 on the first \$5,000, \$0.65 on the next \$5,000, \$0.30 on the next \$10,000, and \$0.10 on amounts in excess of \$20,000. The rates vary by territory and, in some cases, a specific premium is added for windstorm and hail coverage.

6. Is information available as to the extent to which this insurance is purchased, such as, for instance, the amount of premiums collected per year?

The following premium figures are taken from the statistical report compiled by the Inland Marine Insurance Bureau for the year 1954 as the statistical agent of the several States:

Bicycle floater.....	\$69,499	Personal property floater:	
Cameras.....	2,300,473	Full coverage.....	\$6,377,167
Fine arts.....	1,824,692	Deductible coverage....	43,749,805
Golfers equipment floaters..	141,128	Miscellaneous scheduled	
Musical instruments.....	1,007,145	property.....	236,991
Personal effects.....	2,617,932	Silverware floaters.....	319,809
Personal furs.....	13,944,771	Stamp and coin collections..	265,105
Personal jewelry:		Tourist baggage floaters....	265,101
Full coverage.....	38,446,384	Wedding presents floaters..	173,022
\$50 deductible.....	553,967		

Perhaps the best sample of this type of all-risk coverage is the personal property floater. We enclose a specimen copy thereof.

If we can be of any further assistance to you, please let us know.

Yours very truly,

H. L. WAYNE,
General Manager.

INLAND MARINE

IM 2227b
(Ed. 11-53)

PPF 1248
PERSONAL PROPERTY FLOATER

Attached to and forming part of Policy Number

issued to

by

located (city and state)

Date

at its Agency

PROPERTY COVERED

1. Personal property owned, used or worn by the person in whose name this policy is issued and members of the Assured's family of the same household, while in all situations, except as hereinafter provided.

PERILS INSURED

2. All risks of loss of or damage to property covered except as hereinafter provided.

AMOUNTS OF INSURANCE

3. Insurance attaches only with respect to those items in this paragraph for which an amount is shown and only for such amount.

ITEM	AMOUNT	
(a) \$		On unscheduled personal property, except as hereinafter provided.
(b) \$		On personal jewelry, watches, furs, fine arts and other property as per schedules attached hereto. Each item considered separately insured.
(c) \$		On unscheduled personal jewelry, watches and furs, in addition to the amount of \$250.00 provided in paragraph 5 (b), against fire and lightning only.

TOTAL \$

(See other side for Paragraphs 4, 5 and 6)

DECLARATIONS OF THE ASSURED

7. The following are the approximate values of the unscheduled personal property, other than jewelry, watches and furs, as estimated by the Assured, at the time of issuance of this policy:

		(Of which the following amounts involve personal property ordinarily situated throughout the year at residences other than principal residences.)	
(a) Silverware and pewter			
(b) Linens (including dining room and bedroom)			
(c) Clothing (men's, women's, children's)			
(d) Rugs (including floor coverings and draperies)			
(e) Books			
(f) Musical instruments (including pianos)			
(g) Television sets, radios, record players and recorders			
(h) Paintings, etchings, pictures and other objects of art			
(i) China and glassware (including bric-a-brac)			
(j) Cameras and photographic equipment			
(k) Golf, hunting, fishing and other sports and hobby equipment			
(l) Refrigerators, washing machines, stoves, electrical appliances and other kitchen equipment			
(m) Bedding (including blankets, comforters, covers, pillows, mattresses, and springs)			
(n) Furniture (including tables, chairs, sofas, desks, beds, chests, lamps, mirrors, clocks)			
(o) All other personal property (including wines, liquors, foodstuff, garden and lawn tools and equipment, trunks, traveling bags, children's playthings, miscellaneous articles in basement and attic) and professional equipment, if any, covered under paragraph 6(b)			
TOTAL			

NOTE: If the total value ordinarily situated throughout the year at residences other than the principal residence exceeds ten per cent of the amount of the insurance granted under Item (a) Paragraph 3, such excess value is not insured hereunder unless specifically endorsed hereon.

THE PROVISIONS PRINTED ON THE BACK OF THIS FORM ARE HEREBY REFERRED TO AND MADE A PART HEREOF.



Agent.

EXTENSIONS

4. (a) Subject otherwise to all of the conditions of this policy, Item (a) Paragraph 3, includes, at the sole option of the Assured, personal property of others while on the premises of the residences of the Assured, and personal property of servants while they are actually engaged in the service of the Assured and while in the physical custody of such servants outside such residences;
 - (b) The Company will also pay:
 - (1) the actual loss of or damage (except by fire) to property of the Assured not specifically excluded by this policy caused by theft or attempt thereof; or by vandalism or malicious mischief to the interior of the residences of the Assured;
 - (2) actual loss of or damage to improvements, alterations or additions made by the Assured to buildings occupied as residences by but not owned by the Assured caused by fire, lightning, windstorm, cyclone, tornado, hail, explosion, riot, riot attending a strike, smoke, damage by vehicles or aircraft, but as respects such loss or damage the liability of the Company is limited to 10% of the amount of insurance under item (a) paragraph 3;
 - (c) **Automatic Reinstatement of Losses—Unscheduled Property.** Any loss payment hereunder shall not reduce the amount of insurance under items (a) and (c) of paragraph 3;
- but in no event shall the Company's combined liability for loss or damage covered under this paragraph 4 and for insurance attaching under Item (a) Paragraph 3, exceed the amount of insurance shown in Item (a) Paragraph 3.

LIMITATIONS

5. (a) As respects unscheduled personal property permanently situated throughout the year at residences other than the principal residence of the Assured, the Company shall not be liable in excess of ten per cent of the amount of insurance set forth in Item (a) Paragraph 3.
- (b) As respects any one loss of unscheduled jewelry, watches and furs, the Company shall not be liable for more than \$250.00 unless the loss is covered under Item (c) Paragraph 3, in which event the Company's liability for such loss is limited to the amount stated therein.
- (c) As respects any one loss of money including numismatic property, the Company shall not be liable for more than \$100.00. As respects any one loss of notes, securities, stamps including philatelic property, accounts, bills, deeds, evidences of debt, letters of credit, passports, documents and railroad and other tickets, the Company shall not be liable for more than \$500.00.

EXCLUSIONS

6. This policy does not insure
 - (a) animals; automobiles, motorcycles, aircraft, boats or other conveyances (except bicycles, tricycles, baby carriages, invalid chairs and similar conveniences), or their equipment or furnishings except when removed therefrom and actually on the premises of residences of the Assured, property of any government or subdivision thereof;
 - (b) unscheduled property pertaining to a business, profession or occupation of the persons whose property is insured hereunder, excepting professional books, instruments and other professional equipment owned by the Assured while actually within the residences of the Assured;
 - (c) against breakage of eye glasses, glassware, statuary, marbles, bric-a-brac, paintings and similar fragile articles (jewelry, watches, bronzes, cameras and photographic lenses excepted), unless occasioned by theft or attempt thereof, vandalism or malicious mischief, or by fire, lightning, windstorm, earthquake, flood, explosion, falling aircraft, rioters, strikers, collapse of building, accident to conveyance or other similar casualty, nor unless likewise occasioned, against marring or scratching of any property not specifically scheduled herein;
 - (d) against mechanical breakdown; against loss or damage to electrical apparatus caused by electricity other than lightning unless fire ensues and then only for loss or damage by such ensuing fire;
 - (e) against wear and tear; against loss or damage caused by dampness of atmosphere or extremes of temperature unless such loss or damage is directly caused by rain, snow, sleet, hail, bursting of pipes or apparatus, against deterioration, moth, vermin and inherent vice; against damage to property (watches, jewelry and furs excepted) occasioned by or actually resulting from any work thereon in the course of any refinishing, renovating or repairing process;
 - (f) property on exhibition at fairsgrounds or on the premises of any national or international exposition unless such premises are specifically herein described;
 - (g) against loss or damage caused by or resulting from: (1) hostile or warlike action in time of peace or war, including action in hindering, combating or defending against an actual, impending or expected attack, (a) by any government or sovereign power (de jure or de facto), or by any authority maintaining or using military, naval or air forces; or (b) by military, naval or air forces; or (c) by an agent of any such government, power, authority or forces; (2) any weapon of war employing atomic fission or radioactive force whether in time of peace or war; (3) insurrection, rebellion, revolution, civil war, usurped power, or action taken by governmental authority in hindering, combating or defending against such an occurrence, seizure or destruction under quarantine or customs regulations, confiscation by order of any government or public authority, or risks of contraband or illegal transportation or trade.

7. DECLARATIONS OF THE ASSURED (See Face)

8. Unless otherwise endorsed hereon, no other insurance against the risks hereby insured is permitted on the property covered hereunder except as to property described under Paragraphs 4(a) and (b), 5(b) and (c), 6(a) and (b). If at the time of loss or damage, there is any other valid and collectible insurance which would attach on the property described in Paragraphs 4(a) and (b), 5(b) and (c), 6(a) and (b) had this policy not been effected, then this insurance shall apply only as excess insurance over all such other insurance and in no event as contributing insurance.

PERSONAL PROPERTY FLOATER

Louisiana.—The Louisiana Insurance Commissioner has ruled that, effective December 31, 1955, Paragraph 5 (c) of the Personal Property Floater is not properly within the scope of the Personal Property Floater and therefore is not an Inland Marine coverage. Personal Property Floater Forms used in Louisiana must be amended accordingly. It is suggested that forms be overprinted to delete Paragraph 5 (c).

Missouri.—The TIRB does not operate in the State of Missouri. In order to write the Personal Property Floater in Missouri a special basic policy designated "Missouri Personal Property Floater Policy" and the Personal Property Floater Form must be filed independently by each company with the Insurance Department. Companies should refer to Missouri Departmental Orders Nos. 23 and 61 for detailed instructions concerning Missouri filings.

Wind and hail coverage on radio and TV antennae.—The PPF rules provide that wind and hail coverage on outdoor radio and television antennae is to be excluded on policies covering in states in which such property is excluded under Extended Coverage Endorsements, but such coverage may be granted at the wind and hail rates for antennae applying in the applicable state. In a few states antennae are considered to be a part of the dwelling structure and a deductible applies. Following is pertinent information for each state.

States in which radio and TV antennae are excluded in the E. C. endorsement

ANNUAL RATES PER \$100 TO INCLUDE ANTENNAE		ANNUAL RATES PER \$100 TO INCLUDE ANTENNAE	
Delaware:		Ohio	\$4.98
Wooden Towers	\$1.50	Oklahoma	5.78
Steel Towers50	Pennsylvania:	
Illinois	4.98	Wooden Towers	1.50
Indiana	5.02	Steel Towers50
Iowa	4.98	South Carolina:	
Kansas	5.92	Inland	1.00
Louisiana	4.02	Seacoast	3.20
Minnesota	5.02	South Dakota	4.98
New York:		Texas:	
Full Coverage	5.00	Inland	4.35
\$50 Deductible	3.00	Seacoast	5.31
Minimum Prem	7.50	Wisconsin	5.00

States in which antennae are considered to be personal property in the open or part of the dwelling and subject to deductible

Alabama	\$50 Deductible
Florida	100 Deductible
Georgia	50 Deductible

States in which radio and TV antennae are not excluded in the E. C. endorsement

Arizona	Michigan	Oregon
Arkansas	Mississippi	Rhode Island
California	Massachusetts	Tennessee
Colorado	Montana	Utah
Connecticut	Nebraska	Vermont
D. of C.	Nevada	Virginia
Idaho	New Hampshire	Washington
Kentucky	New Jersey	West Virginia
Maine	New Mexico	Wyoming
Maryland	North Carolina	
Massachusetts	North Dakota	

RATES

Unscheduled property.—The basic rate for the amounts of insurance as provided for under paragraph 3, item (a) of the form, is the annual fire rate which is legal for use by the insurer, i. e., the annual contents rate for the primary residence location, as promulgated by the fire insurance rating bureau of which the insurer is a member or subscriber, or as calculated according to the filed rates or schedules if the insurer makes its own fire rate filings.

In the event that flat rates are published without any allowance for coinsurance, such rates are to be used. Where the rates of the respective fire rating organization provide an 80 percent coinsurance rate, such 80 percent coinsurance rate shall be used. Where the rates provide for less than 80 percent coinsurance with no credit for higher coinsurance, such lower coinsurance rate shall be used.

In the event that fire rates are published subject to a "Three-fourths Value Clause," the basic fire rate to be used shall be the rate which would be applicable to a fire policy with the "Three-fourths Value Clause" waived.

To such basic fire rates are added territorial loadings in accordance with the schedules below:

Territorial classification

State	Area covered	Territory
Alabama	Jefferson County	VI
	Balance of State	VII
Alaska	Entire Territory	V
Arizona	Entire State	V
Arkansas	Entire State	V
California	Los Angeles County	II
	Balance of State	IV
Colorado	Denver County	III
	Balance of State	V
Connecticut	Entire State	V
Delaware	Entire State	V
District of Columbia	Entire District	IV
Florida	Broward, Hillsborough, Dade, Palm Beach, Duval, and Pinella Counties	VI
	Balance of State	VIII
Georgia	DeKalb and Fulton Counties	VI
	Balance of State	VIII
Hawaiian Islands	Entire	V
Idaho	Entire State	V
Illinois	Cook and Lake Counties	I
	Balance of State	V
Indiana	Lake and Marion Counties	III
	Balance of State	V
Iowa	Polk County	IV
	Balance of State	V
*Kansas	Entire State	V
Kentucky	Campbell and Kenton Counties	IV
	Jefferson County	III
	Balance of State	V
Louisiana	Jefferson, Orleans, and Plaquemines Parishes	VI
	Balance of State	VIII
Maine	Entire State	V
Maryland	Baltimore City and County	IV
	Balance of State	V
Massachusetts	Entire State	V
Michigan	Wayne County	III
	Balance of State	V
Minnesota	Entire State	V
Mississippi	Entire State	VIII
Missouri	T. I. R. B. does NOT operate in Missouri	
Montana	Entire State	V
Nebraska	Douglas County	II
	Balance of State	V
Nevada	Entire State	V
New Hampshire	Entire State	V
New Jersey	Entire State	V
New Mexico	Entire State	V
New York	Kings County	XXI
	Bronx County	XXII
	Queens County	XXIII
	New York County	XXIV
	Balance of State	V
North Carolina	Entire State	VIII
North Dakota	Entire State	V
Ohio	Cuyahoga, Mahoning, and Summit Counties	III
	Franklin, Hamilton, and Lucas Counties	IV
	Balance of State	V

Territorial classification—Continued

State	Area covered	Territory
Oklahoma.....	Entire State.....	IV
Oregon.....	Multnomah County.....	IV
	Balance of State.....	V
Pennsylvania.....	Entire State.....	V
Rhode Island.....	Entire State.....	V
South Carolina.....	Entire State.....	VIII
South Dakota.....	See page PPF-11.....	
Tennessee.....	See page PPF-11.....	
Texas.....	See special Texas Manual.....	
Utah.....	Salt Lake County.....	III
	Balance of State.....	V
Vermont.....	Entire State.....	V
Virginia.....	*Chesterfield, Henrico, Norfolk, Washington Counties, Norfolk City, Portsmouth City, and Richmond City.	IX
	Balance of State.....	VIII
Washington.....	King and Spokane Counties.....	IV
	Balance of State.....	V
West Virginia.....	Entire State.....	V
Wisconsin.....	See page PPF-11.....	
Wyoming.....	Entire State.....	V

Territorial loadings

Territory	1st \$5,000		Next \$5,000		Next \$10,000		Next \$30,000		Excess of \$50,000	
	1 year	3 years	1 year	3 years	1 year	3 years	1 year	3 years	1 year	3 years
I.....	1.45	3.625	0.85	2.125	0.45	1.125	0.15	0.375	0.10	0.25
II.....	1.40	3.50	.75	1.875	.30	.75	.10	.25	.10	.25
III.....	1.35	3.375	.70	1.75	.30	.75	.10	.25	.10	.25
IV.....	1.30	3.25	.70	1.75	.30	.75	.10	.25	.10	.25
V.....	1.20	3.00	.65	1.625	.25	.625	.10	.25	.10	.25
VI.....	1.35	3.375	.70	1.75	.30	.75	.10	.25	.10	.25
VII.....	1.25	3.125	.65	1.625	.30	.75	.10	.25	.10	.25
VIII.....	1.15	2.875	.60	1.50	.25	.625	.10	.25	.10	.25
IX.....	1.30	3.25	.65	1.625	.30	.75	.10	.25	.10	.25
X.....	1.40	3.50	.75	1.875	.45	1.125	.15	.375	.10	.25
XXI.....	1.85	4.625	1.10	2.75	.60	1.50	.25	.625	.18	.45
XXII.....	1.80	4.50	1.00	2.50	.45	1.125	.18	.45	.18	.45
XXIII.....	1.75	4.375	.95	2.375	.45	1.125	.18	.45	.18	.45
XXIV.....	1.70	4.25	.95	2.375	.45	1.125	.18	.45	.18	.45

NOTE.—Territories VI, VII, VIII, IX, and X are not loaded for windstorms and hail. Therefore, the premium is to include a charge for windstorm and hail at the contents Extended Coverage rate or at the contents 80 percent coinsurance Extended Coverage rate (if applicable) or at the contents 80 percent coinsurance Windstorm rate (if applicable), whichever is less, applied to the full policy amount applying to residences in such territory. Where the windstorm and hail tariff provides rates for risks written subject to a franchise or deductible and such rates are used, the Personal Property Floater policy must be made subject to such franchise or deductible with respect to the risks of windstorm and hail; otherwise rates for full coverage must be used.

MINIMUM PREMIUMS FOR UNSCHEDULED PORTION

(See special rules applicable in certain states)

The minimum premium for coverage under Item (a) Paragraph 3, on an annual and a three year policy shall be as follows:

	One Year	Three Years
Full Coverage.....	\$90.00	\$180.00
\$15 Deductible Form.....	45.00	112.50
\$25 Deductible Form.....	30.00	75.00
\$50 Deductible Form.....	20.00	50.00
\$25 Partial Limitation Form.....	50.00	125.00

The prescribed annual minimum shall be obtained for policies issued for a period of less than one year. The minimum premium shall not necessarily be exacted as an earned premium in the event of cancellation.

** Scheduled property*

Articles may be scheduled under the Personal Property Floater if such scheduling is permitted or required on specific policies under the jurisdiction of the TIRB. The rules and rates applying to such specific policies must be used. The specific forms for each class of scheduled property may be used, or the Personal Articles Schedule Endorsement which appears in the All Classes Section of this Manual may be used in scheduling articles. However, the minimum premiums for such specific policies shall NOT apply. Premiums for such scheduled property are to be added to the minimum premium for the unscheduled portion of the policy.

Extensions of coverage

(For endorsement forms see Standard Endorsement Section.)

Additional All Risks Coverage on Unscheduled Gems, Precious and Semiprecious Stones, Jewelry, Watches, and Furs.—Policies may be endorsed to provide additional all risks coverage on gems, precious and semiprecious stones, jewelry, watches, and furs in addition to the \$250 provided in Paragraph 3, Item (a) (I) of the form, but the additional coverage may not exceed \$750. Additional premium on the amount of additional coverage should be charged at the rate of \$2.50 per \$100 for one year or at the rate of \$6.25 per \$100 for three years. The premium for this extension of coverage shall be added to the minimum premium for the unscheduled portion of the policy.

Additional Burglary and Holdup Coverage on Unscheduled Gems, Precious and Semiprecious Stones, Jewelry, Watches, and Furs.—Policies may be endorsed to provide coverage on unscheduled gems, precious and semiprecious stones, jewelry, watches, and furs in addition to the \$250 provided in Paragraph 3, Item (a) (I) against the risks of holdup and burglary of residences of the Insured. Additional premium on the amount of additional coverage should be charged at the rate of 70¢ per \$100, for one year, or \$1.75 per \$100 for three years. The premium for this extension of coverage shall be added to the minimum premium for the unscheduled portion of the policy.

Additional Earthquake Coverage on Unscheduled Gems, Precious and Semiprecious Stones, Jewelry, Watches, and Furs.—(In the States of Washington, Oregon, California, Montana, Idaho, Nevada, and Arizona.) Policies may be endorsed to provide earthquake coverage on unscheduled gems, precious and semiprecious stones, jewelry, watches, and furs. Additional premium for such coverage shall be charged at the rate of 20 cents per \$100 for one year, or 40 cents per \$100 for three years. The premium for this extension of coverage shall be added to the minimum premium for the unscheduled portion of the policy.

Additional Money Coverage.—The policy may be extended to include money including numismatic property above the \$100 included in the basic form for an increased amount, but not exceeding \$400 additional at a rate of \$2.70 per \$100 for one year, or \$6.75 for three years. The premium for this extension of coverage shall be added to the minimum premium for the unscheduled portion of the policy.

Additional Coverage on Securities.—It shall be permissible to extend the policy to include securities, etc., for an increased amount, but not exceeding \$500, additional, subject to a rate of \$1.80 per \$100 for one year, or \$4.50 for three years, but the premium for this extension of coverage shall be added to the minimum premium for the unscheduled portion of the policy.

Additional Coverage at Secondary Location.—It shall be permissible to extend the policy to cover in excess of the 10 percent secondary location coverage. The additional coverage at secondary location shall be calculated by applying to the additional amount granted at each specific location the difference in the contents fire rate (and windstorm rate where required) applying to the principal residence and that applying to the specific secondary location(s). If, however, the fire contents rate (and windstorm rate where required) at the specific secondary location is lower than that applying to the principal residence, return premium shall be allowed at the difference in such rates applied to the additional amount of coverage granted at the specific secondary location.

Deductibles and partial limitation forms

(For endorsement forms see Standard Endorsement Section.)

The credit for the deductible and partial limitation clauses shall not be applied to additional premiums for extensions of Sections I, II, and III, of Item (a). Paragraph 3 of the basic Personal Property Floater form.

NOTE.—The \$50.00 Deductible Form is not filed in all states. See Variations by States.

\$15.00 deductible form

On policies issued subject to \$15.00 deductible clause applicable to unscheduled property a credit of 20 percent of the premium charged for the blanket portion, Item (a), Paragraph 3 of the policy (but not less than \$10.00 nor more than \$25.00 on annual policies and not less than \$30.00 nor more than \$75.00 on policies written for a period of three years) may be allowed.

\$25.00 deductible form

On policies issued subject to \$25.00 deductible clause applicable to unscheduled property a credit of 30 percent of the premium charged for the blanket portion, Item (a), Paragraph 3 of the policy (but not less than \$15.00 nor more than \$40.00 on annual policies, and not less than \$45.00 nor more than \$120.00 on policies written for a period of three years) may be allowed.

\$50.00 deductible form

On policies issued subject to \$50.00 deductible clause applicable to unscheduled property a credit of 45 percent of the premium charged for the blanket portion Item (a), Paragraph 3 of the policy (but not less than \$20.00 nor more than \$50.00 on annual policies, and not less than \$60.00 nor more than \$150.00 on policies written for a period of three years) may be allowed.

\$25.00 partial limitation clause

On policies issued subject to the \$25.00 partial limitation clause applicable to unscheduled property a credit of 15 percent of the premium charged for the blanket portion, Item (a), Paragraph 3 of the policy (but not less than \$7.50 nor more than \$20.00 on annual policies and not less than \$22.50 nor more than \$60.00 on policies written for a period of three years) may be allowed.

In arriving at the foregoing credits there shall first be deducted from the full premium charged for the blanket portion of the policy such credits for existing insurance as may be granted under these rules.

Credit for existing insurance

It is not necessary to cancel existing other insurance policies such as fire, windstorm, residence burglary, etc. By special endorsement they may be allowed to remain in force to expiration. Return premium for specific insurance shall be the unearned premium on such insurance calculated pro rata of the premium paid for such specific insurance to expiration of the Personal Property Floater policy or expiration of such existing specific insurance, whichever may first occur, but in no event shall credit for existing fire insurance (or in territories six to ten inclusive, for existing windstorm insurance) be permitted on the basis of a higher fire rate or higher windstorm rate than that used in calculating the premium for the Personal Property Floater Policy. As each policy expires, the coverage is picked up and assumed by the Personal Property Floater Policy. The premium for this policy shall not be less than the minimum premium heretofore stated, irrespective of any credits for other insurance.

Either the entire insurance must be carried on the Personal Property Floater or existing policies must be scheduled in the special endorsement. Other insurance is permitted only under these conditions.

It is permissible to write other specific insurance on the property on a continuous basis, provided Item (a) of Paragraph 3 of the Personal Property Floater covers to 80 percent of the total value of the property insured thereunder, and the other insurance is scheduled on the Personal Property Floater.

Inasmuch as the TIRB form gives fire and extended coverage on unscheduled gems, precious and semiprecious stones, jewelry, watches, and furs, while other Personal Property Floaters do not, it is important that no TIRB Personal Property Floater be written on property covered by any other Personal Property Floater.

*When credit has been given for the existence of other insurance either the Other Insurance Endorsement Form TIRB-OIa (10.53) or Form TIRB-OIb (10.53) appearing in the All Classes Section of this manual shall be used.

TERM RULE

Policies may be issued to cover for a period of three years. The premium for a term policy shall be the three-year term fire premium plus the three-year loading shown in the table of Territorial Loadings. In territories where the

loading does not include the tornado rate, the three-year tornado rate shall also be added. Scheduled jewelry, furs, fine arts, and such other scheduled items may be included for the three-year term at the rates applying to such specifically scheduled items if they were insured independently.

WIND AND HAIL COVERAGE ON OUTDOOR RADIO AND TELEVISION ANTENNAE

Wind and hail coverage on outdoor radio and television antennae is to be excluded on policies covering in states in which such property is excluded under Extended Coverage endorsements. Wind and hail coverage on outdoor radio and television antennae may be granted at the wind and hail rates for antennae coverage applying in the applicable state. When such coverage is excluded or granted, the Outdoor Radio and Television Antennae Endorsement, Form TIRB-RTA (6-54) appearing in the All Classes Section of this manual shall be used. (This rule does not apply in Alabama, Florida and Georgia. See paragraph below.)

Alabama, Florida and Georgia.—In these states wind and hail coverage on outdoor radio and television antennae is automatically provided under the Personal Property Floater Policy but the coverage is subject to the following deductibles:

Alabama-----	\$ 50.00 deductible.
Florida-----	100.00 deductible.
Georgia-----	50.00 deductible.

The Windstorm and Hail Deductible Clause (Antennae and Towers Only), Form TIRB-WHD (2-56) appearing in the All Classes Section of this manual should be attached to all Personal Property Floater policies applying in Alabama, Florida and Georgia.

UNDERWRITING RULES

1. *Form.*—The provisions of the basic Scheduled Property Floater policy are a part of this coverage.

2. *Personal property* as used in the policy is intended to include fixtures installed by the Insured for dwelling purposes in premises leased or occupied by the Insured which premises are not owned by any person or persons whose property is covered under the policy.

3. *Residence* is defined as the main residence and such outbuildings as are part and parcel of the activities of the main residence. Buildings which may be adjacent to the main residence, but which in themselves constitute a residence which may from time to time be occupied by other than the named Insured shall be construed to be separate residences.

4. *Other named insured.*—It is not permissible to issue a policy naming as the Insured, persons not related residing together.

5. *Members of insured's family residing together.*—It is permissible to exclude from coverage the property belonging to, or used, or worn by any named person other than the Insured, but no credit or reduction in rate may be given for such deletion or exclusions.

6. *Exclusion 6(a)*—may be deleted without credit or charge.

7. *Cancellation.*—When a Personal Property Floater is canceled at the request of the Insured, the earned premium shall be computed at the customary Short Rate, regardless of whether a fire, fire and extended coverage, or fire and burglary coverage are rewritten in the same company or an affiliated company.

8. *Fur depreciation endorsement.*—When this endorsement is used a reduction in premium must be allowed corresponding to the reduction in coverage. Where the percentage of depreciation is the same for both the second and third years, this may be done easily by reducing the premium by the percentage of depreciation. (See TIRB Form-050-5 (2-43) Standard Endorsement Section.)

9. *Furnished dwelling and apartment endorsement.*—Where the Insured is renting furniture or equipment as part of furnished living quarters, the Optional Furnished Dwelling and Apartment Endorsement (TIRB Form 050-28) may be used if desired.

10. *Rate verification slips.*—The use of rate verification slips is not required in any state. However, the responsibility for using the correct rate rests with the Insurer. Several insurance departments have expressed the opinion that use of rate verification slips is an excellent method of making certain of the correct rate.

*STANDARD ENDORSEMENT SECTIONDEDUCTIBLE CLAUSE

Attached to and forming part of Policy No. _____
 of the _____ (Insurance Company)
 issued to _____
 at its _____

Agency

Dated

19....

Each claim for loss or damage (separately occurring) to unscheduled property shall be adjusted separately and from the amount of each such adjusted claim or the applicable limit of liability, whichever is less, the sum of (insert \$15, \$25 or \$50) shall be deducted. Such deductible shall not apply, however, to loss or damage by fire, lightning, windstorm, cyclone, tornado, hail, explosion, riot, riot attending strikes, smoke, damage by vehicles or aircraft, burglary or holdup. All other terms and conditions remain unchanged.

Form TIRB-050-1 (3-45)

.....Agent

\$25.00 PARTIAL LIMITATION ENDORSEMENT

Attached to and forming part of Policy No.

(Insurance Company)

of the
issued to
at its

Agency

Dated

19....

In consideration of the reduced rate at which this policy is written, it is hereby understood and agreed that the company shall not be liable for any one loss caused by any of the hazards insured against unless, pursuant to the terms, conditions and limitations of the policy, it shall be found that such loss and damage exceeds the sum of Twenty-five (\$25.00) Dollars. Such limitation shall not apply, however, to loss or damage by fire, lightning, windstorm, cyclone, tornado, hail, explosion, riot, riot attending strike, smoke, damage by vehicles or aircraft, burglary or holdup. All other terms and conditions remain unchanged.

This endorsement shall not apply to scheduled jewelry, silverware, furs, or any other scheduled items.

Form TIRB-050-2 (2-43)

.....Agent

NOTE.—The following definition of Burglary may be added to either of the above clauses:

Burglary as used in this endorsement means the felonious abstraction of the insured property from within a building or room by any person or persons making felonious entry therein by actual force and violence of which there shall be visible marks made upon the exterior of such premises at the place of such entry by tools, explosives, electricity or chemicals.

When this clause is incorporated in either of these endorsements the forms shall be known as TIRB-050-1a and 2a (3-46).

VARIATIONS BY STATES

**Territories vi to x, inclusive. (Except Florida)*

Windstorm and Hail Deductible Endorsements—The following endorsements are required to be attached to policies which provide coverage at specified locations in Territories VI to X inclusive and when the windstorm and hail tariff rate subject to a deductible is used in calculation of the premium for the policy: (See Florida Special Rules for Endorsements to be used there.)

Where Secondary Locations in Territories VI to X are to be covered for more than the 10 percent automatic coverage provided under clause 4 (a) of the policy, the following clause shall be added to the secondary location endorsement:

Florida.—Exclusion of Windstorm, etc.: Members may eliminate windstorm, etc., coverage on unscheduled property in any principal or secondary residence located in Florida, and waive the prescribed Florida Windstorm rate charge applicable thereto, provided the following endorsement is attached to the policy:

"In consideration of the premium for which this policy is written, and notwithstanding anything contained herein to the contrary, it is agreed that this policy does not cover loss of or damage to unscheduled personal property covered hereunder, caused by or resulting from windstorm, cyclone, tornado, rain, high water or tidal wave, while such property is in any residence owned or furnished by the Insured in the State of Florida.

All other terms and conditions of the policy remain unchanged. **Form TIRB-050-29.**

No credit for any existing insurance covering on property in Florida may be allowed for any of the perils excluded by the foregoing endorsement.

Deductible of Windstorm, etc.: Where the tornado tariff provides rates for risks written subject to a franchise or deductible and such rates are used, the Personal Property Floater policy must be made subject to such franchise or deductible with respect to the risks of windstorm and tornado; otherwise rates for full coverage must be used. In Florida the windstorm endorsement deductibles are as follows:

(a) Where Principal Residence is in Florida:

"In consideration of the premium at which this policy is written, it is understood and agreed that each claim for loss or damage caused by windstorm, cyclone or tornado to unscheduled personal property covered hereunder while such property is in any residence(s) owned or furnished by the insured in the State of Florida, shall be adjusted separately and from the amount of each such adjusted claim or the applicable limit of liability, whichever is less, the sum of \$---- shall be deducted, but in no event shall this company be liable for a greater proportion of any such loss by windstorm, cyclone or tornado than the total amount of insurance under item 3 (a) bears to 80% of the value of unscheduled property covered hereunder. All other terms and conditions of the policy remain unchanged." **Form TIRB-050-20 (8-44).**

(b) Where Principal Residence is Outside Florida: Where secondary locations in Florida are to be covered for more than the 10% automatic coverage provided under Clause 4 of the policy, the following clause should be added to the secondary location endorsement shown on page PPF-7.

***ADDITIONAL ALL RISKS COVERAGE ON UNSCHEDULED GEMS, PRECIOUS
AND
SEMI-PRECIOUS STONES, JEWELRY, WATCHES AND FURS ENDORSEMENT**

Attached to and forming part of Policy No.

(Insurance Company)

of the
issued to
at its

Agency

Dated

19 .

In consideration of additional premium of \$ _____ Part (I) of Paragraph 3(a) of this policy is extended to cover for an additional amount of \$ _____ on unscheduled gems, precious and semi-precious stones, jewelry, watches and furs; it being agreed, however, that this extended coverage is included within the amount stated in Item (a) of Paragraph 3 of this policy and shall not increase the total amount insured on unscheduled personal property.

All other terms and conditions of the policy remain unchanged.

Form TIRB-050-22 (6.54)

.....Agent

***BURGLARY AND HOLDUP ENDORSEMENT**

(For extension of coverage on Unscheduled gems, precious and semi-precious stones, jewelry, watches and furs.)

Attached to and forming part of Policy No.

of the
issued to

(Insurance Company)

Agency

Dated

19

In consideration of an additional premium of \$_____ this policy is extended to cover, on unscheduled personal gems, precious and semi-precious stones, jewelry, watches and furs, against direct loss occasioned by holdup in or burglary of residence(s) of the Insured, for an amount not exceeding \$_____ in addition to the amount of \$250 provided in paragraph 3(a) (I).

"Burglary" as used in this endorsement means the felonious abstraction of the insured property from within the residence(s) referred to herein by any person or persons making felonious entry therein by actual force and violence of which there shall be visible marks made upon the exterior of the premises at the place of such entry by tools, explosives, electricity or chemicals.

All other terms and conditions of the policy remain unchanged.

Form TIRB-050-4 (6.54)

.....Agent

EARTHQUAKE ENDORSEMENT

Attached to and forming part of Policy No.

of the

issued to

at its

(Insurance Company)

Agency

Dated

19 .

In consideration of an additional premium of \$ _____ this policy is extended to cover on unscheduled personal gems, precious and semi-precious stones, jewelry, watches and furs for an amount not exceeding \$ _____, against direct loss or damage by earthquake.

EARTHQUAKE DEFINED AND LIMITED:

Each loss by earthquake shall constitute a single claim hereunder; provided, if more than one earthquake shock shall occur within any period of seventy-two hours during the term of this endorsement, such earthquake shock shall be deemed to be a single earthquake within the meaning hereof. This Company shall not be liable for any loss or damage caused by any earthquake shock occurring before the effective date and time of this endorsement, nor for any loss or damage occurring after the expiration date and time of this policy.

All other terms and conditions of the policy remain unchanged.

Form TIRB-050-15 (6.54)

.....Agent

#6.1.54

PPF-7

TIRB Inland Marine Manual

FUR DEPRECIATION ENDORSEMENT

Attached to and forming part of Policy No.

(Insurance Company)

of the
issued to
at its

Agency

Dated

19

In consideration of the rate (or rates) at which this policy is written, it is hereby understood and agreed that, from the first anniversary date, all FURS (or articles trimmed with fur) scheduled herein shall be insured for _____% less than initial amount insured. At the second anniversary date, a further deduction of _____% shall be made.

All other terms and conditions of the policy remain unchanged.

Form TIRB-050-5 (2-43)

.....Agent

OPTIONAL FURNISHED DWELLING AND APARTMENT ENDORSEMENT

Attached to and forming part of Policy No.

(Insurance Company)

of the
issued to
at its

Agency

Dated

19

In consideration of the amount of insurance for which this policy is written, it is hereby understood and agreed that this policy does not cover furniture, floor coverings, or other personal property rented to the Insured as part of the furnishings and equipment of any hotel room, furnished apartment or dwelling.

All other terms and conditions of the policy remain unchanged.

Form TIRB-050-28 (1-47)

.....Agent

*STANDARD ENDORSEMENT SECTION (Cont.)MONEY ENDORSEMENT

Attached to and forming part of Policy No.

(Insurance Company)

of the
issued to
at its

Agency

Dated

19....

In consideration of additional premium of \$ _____ Clause 3(a) (III) of this policy is extended to cover for an additional amount of \$ _____ on money including numismatic property; it being agreed, however, that this extended coverage is included within the amount stated in Item (a) of Paragraph 3 of this policy and shall not increase the total amount insured on unscheduled personal property.

All other terms and conditions of the policy remain unchanged.

Form TIRB-050-7 (3-45)

.....Agent

ADDITIONAL COVERAGE ON SECURITIES ENDORSEMENT

Attached to and forming part of Policy No. _____
 of the _____
 issued to _____
 at its _____

(Insurance Company)

Agency

Dated

19....

In consideration of additional premium of \$ _____ Clause 3 (a) (II) of this policy is extended to cover for an additional amount of \$ _____ on notes, securities, stamps, including philatelic property, accounts, bills, deeds, evidences of debt, letters of credit, passports, documents and railroad and other tickets; it being agreed, however, that this extended coverage is included within the amount stated in Item (a) of Paragraph 3 of this policy and shall not increase the total amount insured on unscheduled personal property.

All other terms and conditions of the policy remain unchanged.

Form FIB-050-16 (3-45)

.....Agent

SECONDARY LOCATION ADDITIONAL AMOUNT ENDORSEMENT

Attached to and forming part of Policy No. _____
 of the _____
 issued to _____
 at its _____

(Insurance Company)

Agency

Dated

19....

In consideration of additional premium of \$ _____ the 10% limitation under Paragraph 4 is hereby increased to an amount not exceeding \$ _____ at _____ it being agreed, however, that this extended coverage is included within the amount stated in Item (a) Paragraph 3 of this policy, and shall not increase the total amount insured on unscheduled personal property.

All other terms and conditions of the policy remain unchanged.

Form TIRB-050-9 (3-45)

.....Agent

*

7.1.53

TIRB Inland Marine Manual

PPP-8

WINDSTORM AND HAIL DEDUCTIBLE ENDORSEMENT
Principal Residence in Territories VI -X
 (Personal Property Floater)

Attached to and forming part of Policy No.

of the
 issued
 at its

(Insurance Company)

Agency. Dated

19

In consideration of the premium at which this policy is written it is understood and agreed that each claim for loss or damage caused by windstorm or hail to unscheduled property covered hereunder, while such property is in any residence owned or furnished by the Insured in the State of shall be adjusted separately and from the amount of each such adjusted claim or the applicable limit of liability, whichever is less, the sum of \$ shall be deduct-d.

All other terms and conditions of the policy remain unchanged.

Form TIRB-050-20A (1-51)

.....Agent

SECONDARY LOCATION ENDORSEMENT INCLUDING
WINDSTORM AND HAIL DEDUCTIBLE
Secondary Locations in Territories VI to X
(Personal Property Floater)

Attached to and forming part of Policy No. (Insurance Company)
of the
issued to
at its

Agency. Dated

19

In consideration of the premium at which this policy is written it is understood and agreed that each claim for loss or damage caused by windstorm or hail to unscheduled property covered hereunder ordinarily situated throughout the year in residences listed in this endorsement located in the State of shall be adjusted separately and from the amount of each adjusted claim or the applicable limit of liability, whichever is less, the sum of \$ shall be deducted.

All other terms and conditions of the policy remain unchanged.

Form TIRB-050-9A (1-51)

.....Agent

"In consideration of the premium at which this policy is written, it is understood and agreed that each claim for loss or damage caused by windstorm, cyclone or tornado, to unscheduled property covered hereunder ordinarily situated throughout the year in residences listed in this endorsement located in the State of Florida, shall be adjusted separately and from the amount of each such adjusted claim or the applicable limit of liability which ever is less, the sum of \$----- shall be deducted, but in no event shall the Company be liable for a greater proportion of any such loss by windstorm, cyclone or tornado than the total amount of insurance provided by this endorsement bears to 80% of the value of unscheduled property ordinarily situated throughout the year at the said residence. All other terms and conditions of the policy remain unchanged." Form TIRB-050-21 (3-45).

**Ohio.*—In the State of Ohio the following Annual Premium Payment Endorsement must be used in lieu of the one appearing in the All Classes Section of this manual:

In consideration of the rates at which this policy is written, it is understood and agreed that the premium is payable as follows:

\$----- at the inception of the policy;
 \$----- at the first anniversary;
 \$----- at the second anniversary.

The total premium under this policy includes \$----- premium for fire insurance, which amount shall be deemed paid by payment of the first installment as provided above. Form TIRB-050-13 (6-54).

Kansas.—Renewal Certificates may NOT be used in connection with the Personal Property Floater in Kansas. The Minimum Premiums as shown on page PPF-3 are not to be used in Kansas; the following are substituted therefor:

Kansas minimum premiums

	One year	Three years
Full Coverage.....	\$50. 00	\$125. 00
\$15.00 Deductible.....	35. 00	87. 50
\$25.00 Deductible.....	25. 00	62. 50
\$50.00 Deductible.....	20. 00	50. 00
\$25.00 Partial Limitation.....	40. 00	100. 00

New York City.—The minimum premiums as shown on page PPF-3 are not to be used in Queens, Bronx, Kings, and New York counties of New York State; the following are substituted therefor:

New York City minimum premiums

	One Year	Three Years
Full Coverage.....	\$120. 00	\$300. 00
\$15.00 Deductible.....	90. 00	225. 00
\$25.00 Deductible.....	75. 00	187. 50
\$50.00 Deductible.....	60. 00	125. 00
\$25.00 Partial Limitation.....	100. 00	250. 00

*6.1.54 TIRB Inland Marine Manual.

South Dakota.—The following rules and rates are effective in South Dakota :

Loadings—Unscheduled property—Entire State

	One Year	Three Years
First \$5,000.....	\$0.95	\$2.15
Next \$5,000.....	.65	1.45
Next \$10,000.....	.25	.56
Excess of \$20,000.....	.10	.23

MINIMUM PREMIUMS

Full Coverage.....	\$50.00	\$100.00
\$15.00 Deductible.....	35.00	70.00
\$25.00 Deductible.....	25.00	50.00
\$25.00 Partial Limitation.....	40.00	80.00

NOTE.—The \$50.00 Deductible form is NOT filed in South Dakota. For classification purposes, South Dakota may be considered Territory XI.

Tennessee.—The following rules and rates are effective in Tennessee :

Loadings—Unscheduled property—Entire State

	One Year	Three Years
First \$5,000.....	\$1.18	\$2.95
Next \$5,000.....	.70	1.75
Next \$10,000.....	.30	.75
Excess of \$20,000.....	.10	.25

MINIMUM PREMIUMS

Full Coverage.....	\$50.00	\$125.00
\$15.00 Deductible.....	35.00	87.50
\$25.00 Deductible.....	25.00	62.50
\$50 Deductible.....	20.00	50.00
\$25.00 Partial Limitation.....	40.00	100.00

NOTE.—For classification purposes, Tennessee may be considered Territory XVII.

Wisconsin.—The following rules and rates are effective in Wisconsin :

Loadings—Unscheduled property—Entire State

	One year	Three years
First \$5,000.....	\$0.95	\$2.15
Next \$5,000.....	.65	1.45
Next \$10,000.....	.25	.56
Excess of \$20,000.....	.10	.23

MINIMUM PREMIUMS

Full Coverage.....	\$50.00	\$100.00
\$15.00 Deductible.....	35.00	70.00
\$25.00 Deductible.....	25.00	50.00
\$25 Partial Limitation.....	40.00	80.00

NOTE.—For classification purposes, Wisconsin may be considered Territory XI. The \$50.00 Deductible form is NOT filed in Wisconsin.

*** PERSONAL PROPERTY FLOATER**

Attached to and forming part of Policy No.
of the
issued to
at its

Insurance Company
Agency. Dated

19

1. **PROPERTY COVERED**

Personal property owned, used or worn by the persons in whose name this policy is issued, hereinafter called the Insured, and members of the Insured's family of the same household, while in all situations, except as hereinafter provided.

2. **PERILS INSURED**

All risks of loss of or damage to property covered except as hereinafter provided.

3. **AMOUNTS OF INSURANCE**

Insurance attaches only with respect to those items in this paragraph for which an amount is shown and only for such amount in any one loss.

<i>Item</i>	<i>Amount</i>
(a) \$-----	On unscheduled personal property, except as hereinafter provided, including but not exceeding:
(I)	\$250 on gems, precious and semi-precious stones, jewelry, watches and furs; but with respect to such property of the Insured and members of the Insured's family of the same household this limitation shall not apply to loss or damage caused by fire, lightning, windstorm, cyclone, tornado, hail, explosion, riot, riot attending a strike, smoke or damage by vehicles or aircraft;
(II)	\$500 on notes, securities, stamps including philatelic property, accounts, bills, deeds, evidences of debt, letters of credit, passports, documents, railroad and other tickets;
(III)	\$100 on money including numismatic property.
(b) \$-----	On scheduled personal jewelry, watches, furs, fine arts and other property as per schedules attached hereto. Each item shall be considered separately insured and for not exceeding the amount shown on the schedule.

Total \$-----

4. With respect to unscheduled personal property ordinarily situated throughout the year at residences other than the principal residence of the Insured, the Company shall not be liable in excess of ten per cent of the amount of insurance set forth in Item (a) Paragraph 3.

5. **EXTENSIONS**

Subject otherwise to all of the conditions of this policy, Item (a) Paragraph 3 includes:

- (a) At the sole option of the Insured, personal property of others while on the premises of the residences of the Insured and personal property of servants while they are actually engaged in the service of the Insured and while in the physical custody of such servants outside such residences;
- (b) The actual loss of or damage (except by fire) to the residences owned and occupied by the Insured caused by theft or attempt thereof; or by vandalism or malicious mischief to the interior of the residences of the Insured.
- *(c) Actual loss of or damage to improvements, alterations or additions made by the Insured to buildings occupied as residences by but not owned by the Insured caused by fire, lightning, windstorm, cyclone, tornado, hail, explosion, riot, riot attending a strike, smoke, damage by vehicles or aircraft, but as respects such loss or damage the liability of the Company is limited to 10% of the amount of insurance under Item (a) Paragraph 3.

* In no event shall the Company's combined liability for loss or damage covered under this Paragraph 5 and for insurance attaching under Item (a) of Paragraph 3 exceed the amount of insurance shown in Item (a) of Paragraph 3.

a.**EXCLUSIONS**

This policy does not insure

- (a) **Unscheduled property ordinarily situated throughout the year in states where this form of policy is prohibited by law or by State Administrative regulation;**
- (b) **Animals; automobiles, trailers, motorcycles, aircraft, boats or other conveyances (except bicycles, tricycles, baby carriages, invalid chairs and similar conveniences) or their equipment or furnishings except when removed therefrom and actually on the premises of residences of the Insured.**
- (c) **Property of any Government or subdivision thereof;**
- (d) **Unscheduled property pertaining to a business, profession or occupation of the persons whose property is insured hereunder, excepting professional books, instruments and other professional equipment owned by the Insured while actually within the residences of the Insured;**
- (e) **Against breakage of eye glasses, glassware, statuary, marbles, bric-a-brac, porcelains and similar fragile articles (jewelry, watches, bronzes, cameras and photographic lenses excepted) unless occasioned by theft attempt thereat, vandalism or malicious mischief, or by fire, lightning, windstorm, earthquake, flood, explosion, aircraft, riot, strike, collapse of building, water damage and accident to conveyance, nor unless likewise occasioned, against marring or scratching of any unscheduled property;**
- (f) **Against mechanical breakdown; against loss or damage to electrical apparatus caused by electricity other than lightning unless fire ensues and then only for loss or damage by such ensuing fire;**
- (g) **Against wear and tear; against loss or damage caused by dampness of atmosphere or extremes of temperature unless such loss or damage is directly caused by rain, snow, sleet, hail, bursting of pipes or apparatus; against deterioration, moth, vermin and inherent vice; against damage to property (watches, jewelry and furs excepted) occasioned by or actually resulting from any work thereon in the course of any refinishing, renovating or repairing process;**
- (h) **Property on exhibition at Fairgrounds or on the premises of any National or International Exposition unless such premises are specifically described herein;**
- * (i) **Against loss or damage caused by or resulting from: (1) hostile or war-like action in time of peace or war, including action in hindering, combating or defending against an actual, impending or expected attack, (A) by any government or sovereign power (de jure or de facto), or by any authority maintaining or using military, naval or air forces; or (B) by military, naval or air forces; or (C) by an agent of any such government, power, authority or forces; (2) any weapon of war employing atomic fission or radioactive force whether in time of peace or war; (3) insurrection, rebellion, revolution, civil war, usurped power, or action taken by governmental authority in hindering, combating or defending against such an occurrence, seizure or destruction under quarantine or customs regulations, confiscation by order of any government or public authority, or risks of contraband or illegal transportation of trade.**

ALL OTHER TERMS AND CONDITIONS OF THE POLICY REMAIN UNCHANGED

TIRB-050 (6.54)

Agent

Senator LEHMAN. That, I think, concludes the hearing this afternoon. We have no further hearings scheduled at the moment. That does not mean, however, that we may not have further hearings if the necessity should arise in the opinion of the members of the committee.

Thank you very much.

(Whereupon, at 3:20 p. m., the subcommittee recessed subject to the call of the Chair.)

(The following were received for the record :)

BUCKSTONE FARM,
Washington Crossing, Pa., March 3, 1956.

HON. J. WILLIAM FULBRIGHT,
Senate Office Building,
Washington, D. C.

DEAR SENATOR: We here are hopeful that you, one of our most intelligent statesmen, will support the flood and disaster insurance bills.

Respectfully,

SOL FEINSTONE.

NEW YORK, N. Y., March 5, 1956.

Senator J. WILLIAM FULBRIGHT,
Chairman Senate Banking and Currency Committee,
Senate Office Building, Washington, D. C.:

Urge support of flood and disaster insurance bill. People cannot be expected to bear loss from storm and hurricane damage without Federal insurance coverage.

FIRE ISLAND, N. Y.

Mrs. S. SELSAM,
Ocean Bay Park Dune Committee.

ISLIP, March 1, 1956.

Senator J. WILLIAM FULBRIGHT,
Washington, D. C.

DEAR SIR: We wish to support the flood and disaster insurance bill for Fire Island, Long Island.

Consider this very necessary.

Yours truly,

HELEN O. DICKERSON,
ARTHUR DICKERSON,
ARTHUR G. DICKERSON,
PHYLLIS G. DICKERSON,
Property owners on Fair Harbor.

FIRE ISLAND, AND ISLIP, LONG ISLAND.

Kew Gardens, Long Island, N. Y.
March 4, 1956.

Senator J. WILLIAM FULBRIGHT,
Chairman, Senate Banking and Currency Committee,
Senate Office Building, Washington, D. C.

DEAR SIR: As a property owner on an ocean-front community on Fire Island, Long Island, and have been drastically affected by the recent erosion, I urgently request you to support the flood and disaster insurance bills.

Thank you for an effort you may expend in this direction.

Very truly yours,

(Signed) LOUISE B. POPPE.
(Typed) Mrs. JOHN W. POPPE.

HEMPSTEAD, N. Y., March 5, 1956

Senator J. WILLIAM FULBRIGHT,
Chairman, Senate Banking and Currency Committee
Senate Office Building, Washington, D. C.

DEAR SENATOR FULBRIGHT: As a homeowner on Fire Island, I would like to strongly urge your support of flood and disaster legislation in Congress.

Very truly yours,

ROBERT R. LEMKIN.

FAIR HARBOR PROPERTY OWNERS ASSOCIATION,
Fair Harbor, Fire Island, N. Y., March 4, 1956.

Senator J. WILLIAM FULBRIGHT,
Senate Building, Washington, D. C.

DEAR SENATOR FULBRIGHT: We are in great need of help in securing passage of flood and disaster legislation. Something must be done on a Federal basis to help us with our problem. It is growing more and more serious.

On behalf of our entire association membership, I urge you to actively support H. R. 4470.

Yours truly,

ALFRED C. HALL, *President.*

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