

July 19, 2007

The Honorable Glenn Koepp
Secretary of the Senate
State Capitol
Baton Rouge, LA 70804

Re: Senate Bill No. 195 by Senator Cain
INSURERS: Provides for privatization of the Louisiana Citizens Property Insurance Corporation

Dear Mr. Koepp:

Senate Bill No. 195 by Senator Cain privatizes the Louisiana Citizens Property Insurance Corporation (Louisiana Citizens), a corporation created in 2003 to provide a residual market for property insurance coverage for those persons who are unable to procure insurance through the voluntary market.

The private insurance market is generally preferred to government solutions for most policyholders. Virtually every state has a quasi-public governmental entity which acts as the property insurance market of last resort for risks that insurers refuse to write. This is an appropriate function for state government because it provides a long-term solution that the private market will not provide. No other state in the United States with catastrophe exposure has been able to privatize their residual property market.

In an attempt to attract a private insurer to take over Louisiana Citizens book of business, Senate Bill No. 195 sets forth that the state of Louisiana will provide for the long term financial subsidy of a private, for-profit insurance company, but the bill does not set forth how the subsidy will be determined.

The current Louisiana Citizens model provides stability through the permanent operation of a legislatively created quasi-public corporation. Senate Bill No. 195 does not provide a long-term solution but instead, would attempt to transfer the entire residual market to a private insurer. This could result in the new private insurer reaping all of the financial benefits allowed under Senate Bill No. 195, then having the right to cancel all of the policies at any time.

Mr. Koepp
Page Two
July 19, 2007

The interests of Louisiana citizens would be best served by maintaining a stable Louisiana Citizens operation. Senate Bill No. 153 by Senator Dupre provides the better approach to depopulating Louisiana Citizens by selling large blocks of policies together. This approach leaves the residual market in place, while decreasing the state's overall risk exposure. Further, Senate Bill No. 153 does not preclude selling the entire book of business as contemplated by this bill and would in fact allow the entire book of business to be sold without requiring the state to provide a long-term financial subsidy to a private for-profit insurance company.

For these reasons, and at the request of Commissioner of Insurance James Donelon, I am vetoing Senate Bill No. 195 and returning it to the Senate.

Sincerely,

Kathleen Babineaux Blanco
Governor

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