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"Building a More Resilient Nation by Strengthening Private-Public Partnerships"

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on

"The Next Big Disaster: Is the Private Sector Prepared?"

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Chairman Pryor, Ranking Member Ensign, and distinguished Senators of the Ad Hoc Subcommittee on State, Local, and Private Sector Preparedness and Integration. I am honored to have this opportunity to testify before you on better integrating the private sector into government disaster preparedness efforts at all levels.

This subcommittee has jurisdiction over the nation's most important—and sadly most neglected—homeland security asset. If it was possible to take a satellite image of the United States that could highlight all the national capabilities to support the homeland security mission, we would see two things. First, there are a lot of potential assets. Second, the overwhelming majority of those capabilities are non-federal. When it comes to preventing, withstanding, rapidly recovering from, and adapting to man-made and natural disasters, it is individuals and families, communities, non-profit, faith-based, and volunteer organizations such as the Red Cross and United Way, and the private sector that are on the frontlines. There should be no higher priority than engaging and integrating these capabilities into our national effort to build a safer, more secure, and resilient America.

The simple fact is that there never will be enough professionals at the right place at the right time when terrorists or disasters strike. Intelligence and technologies are fallible and Mother Nature cannot be deterred. While many might wish it were otherwise, when it comes to detecting and intercepting terrorist activities or dealing with a catastrophic natural event, the first preventers and first responders will almost always be civilians who happen to be around when trouble is unfolding.

We need look no further than the tragic events of September 11, 2001 to discover where the frontlines in the war on terrorism often lie. One of the most overlooked lessons of that day is that the only counterterrorism action successfully taken against al Qaeda's attack was done not by the Department of Defense, FBI, CIA, or other U.S. government agencies, but by the passengers aboard United Airlines Flight 93. By charging the cockpit and preventing al Qaeda from striking the U.S. Capitol or the White House, everyday people ended up protecting the very officials who have the constitutional obligation "to provide for the common defense." In retrospect, it is outrageous that men and women flying aboard United 93 had to learn via their cell phones in calls to their friends and loved-ones the threat information that many inside the U.S. government knew but failed to share with each other—that al Qaeda was contemplating using airliners as cruise missiles. There is no way that we will ever know what the passengers aboard the first three planes that struck the twin towers and the Pentagon would have done if they had been provided that threat information. What we do know is that the unofficial protocol for airline passengers up until 9/11 was to stay quietly in their seats and wait until the plane had landed for the professionals to negotiate with the hijackers. In other words, the people aboard American Airlines Flight 11, United Airlines Flight 175, and American Airlines Flight 77 were all deprived of the opportunity to take the kinds of measures the people aboard United 93 took to protect both themselves and al Qaeda's intended targets—because the U.S. government never shared this threat information with the flying public.

Strengthening individual, community and private sector preparedness has not just practical value, but strategic value as well. America's current and future adversaries will find conducting terrorist attacks on U.S. soil to be attractive as long as they can be confident that these attacks will generate a big bang for their buck. However, if an adversary believes that Americans are well-prepared to prevent, withstand, and rapidly recover from acts of terrorism, the appeal of engaging in such acts would be diminished. In other words, there is deterrent value to ensuring that the United States cannot only deliver a punch, but that it can take a punch. A lack of resilience that results in unnecessary loss of life, destruction of property, and disruption of key networks and functions is reckless. It is also a strategic vulnerability in an era when our adversaries are far more likely to wage their battles in the civil and economic space, than the conventional military space.

Beyond its value in advancing the nation's homeland security and national security, boosting resilience also promises to provide a very positive return on investment. On a micro scale, it is far more cost effective to make an upfront investment in safeguards that mitigate risk and consequences, than to pay the price for response and recovery after a foreseeable hazard manifests itself. One need look no further than the recent devastation and tremendous loss of life wrought by the earthquake in Haiti and the comparatively much smaller toll experienced by Chile in the face of a far more powerful earthquake.

From a macro standpoint, a society's level of resilience will increasingly be a source of its global competitiveness. The one thing that we can predict with confidence is that the 21st Century will be marked by major disruptions arising from man-made and natural threats. In some cases these disruptions will be inflicted intentionally as with acts of terrorism. But in most instances the disruptions will arise from the natural world in the form of pandemics, powerful storms, and other disaster. In addition, as the world witnessed with the near meltdown of global financial markets in the fall of 2008, with increasingly complex and interdependent networks supporting modern global economic activity, problems in one part of the system can quickly have cascading consequences across the entire system. The countries, communities, and companies that are most able to manage these risks and bounce back quickly will be the places where people will want to live, work, and invest. Those that are so brittle that they break instead of bend in the face of familiar and emerging risks will become the national and global backwaters.

The twin realities that resilience can both provide a positive return on investment and be a source of competitiveness translates into a ripe opportunity for aligning the interests of the private sector with the public sector. What is required is a truly collaborative approach that taps extensive private sector capabilities and assets by encouraging the private sector to support local, state, and regional emergency preparedness initiatives.

One way to encourage greater levels of private sector engagement in preparedness to provide financial incentives in the form of tax breaks, subsidies, or regulatory relief for companies that agree up front to build and maintain capacities that the government could call upon during an emergency. A good candidate for this would be mobile satellite transmission trucks used in the media business. Most news organizations rely on independent camera crews who own vehicles with a full complement of audio-video and communications capabilities. These crews could enter into a contract where they agree to support emergency command posts in the aftermath of a disaster. A government contract would help to reduce their overhead cost which would be attractive to them. It would also reduce the need for smaller communities to purchase, maintain, and train people to operate these kinds of units.

Another innovative approach to partnership would be for local communities to enter into agreements with major retailers to serve as emergency shelters. Residents are very familiar with the locations of their local Wal-Mart, Target, Home Depot, or Loews. These stores have large parking-lots that can host many people in temporary outdoor shelters. They also maintain in stock many of the supplies in greatest demand during an emergency. The parent companies have sophisticated logistics systems that can quickly reroute additional supplies to stores within a disaster zone. The federal government could enter into a cost-sharing arrangements with state and local governments to subsidize large retailers to store an extra stock of items like generators, batteries, diapers, baby formula, first aid supplies, and bottled water. The retailers would be in a position to routinely rotate these items through their store's inventory before their expiration date. This would reduce the overhead cost making it a far less expensive approach than the traditional one where emergency agencies purchased these items outright and placed them into storage at conventional shelters like public schools. Such a program could be quickly deployed around the country if the federal government provided the funding and exercised the leadership.

There is a well-established model for this kind of initiative. The Department of Defense has long relied on commercial airliners to lend them their passenger and cargo planes when the military needs them. Under the Civil Reserve Air Fleet program, or "CRAF," U.S. airlines pledge some of their aircraft and flight crews to support the Pentagon when its airlift requirements outpace what its military aircraft can provide. This includes quickly converting civilian 767 into air ambulances by taking out the passenger seats and replacing them with litters. The airlines store conversion kits in their hangers so that their plane can to quickly retrofitted to help evacuate casualties from war zones. The way the military provides an incentive for airlines to make this commitment is they award them sizeable peacetime airlift contracts for routine flights for servicemen and military cargos.

Another potential way to encourage private investment in something that addresses a public vulnerability is for government to actively support "distributed energy." The idea is to encourage medical centers, factories, financial institutions, and other entities that provide critical services to purchase stationary or transportable "micropower" plants. These plants can independently support the facility's energy needs and can include solar and wind-generated power generation. Surplus electrical power could be sent back to the power grid, particularly at times of peak demand. Mobile micropower plants could be transported to disaster areas when the local power grid has experienced substantial damage. The electrical utility could pay for the surplus power generation when they need it and FEMA could lease mobile capability when it is needed. This would effectively subsidize the cost of companies owning and operating these mini- plants. Everyone wins: companies that own these mini-plants can be confident they will always have access to their own power source should the grid go down. At the same time, they provide extra capacity that helps to reduce the odds that a surge in demand for power will lead to a blackout. And in the case of mobile mini-plants, they can serve as a reserve capability that can be quickly transported to a region facing a disaster.

Still another way to provide incentives for private enterprises to invest in resiliency measures is by leveraging insurance. In much the same way as insurers provide a family a break on their premiums if they install a home alarm system, companies ideally could reduce their insurance bill if they adopted measures that lowered insurers' exposure in the event of a disaster. But making insurance an ally in dealing with the risk of catastrophic events is trickier business than it is for homeowners policies for three reasons. First, insurers tend to steer away from things that may involve ruinous losses and insolvency. Second, insurers want to have as broad a pool of policyholders as they can to diversify the risk. Therefore they need to be confident that enough people will elect to buy their insurance product. Third, private insurance companies need to be confident that the measures they would be subsidizing by way of reduced premiums do in fact mitigate risk and that their clients are actually adopting these measures.

The federal government can help lower or eliminate each of these barriers for insurers. For instance, the government can cap the risk that insurance companies face by effectively becoming a reinsurer. That is, the government can establish a ceiling on the amount of losses a private insurance company would have to pay, and agree to make up the difference to the policyholder if the losses exceed the cap. The government can also help assure an adequate pool of customers for the insurance by mandating it as a condition for receiving a permit or license or providing a tax break to the insurers who write new policies or to businesses that pay these premiums. Finally, the government can establish and reinforce the standards against which the insurance incentive is set.

An example of how the federal government can leverage the insurance industry to reduce the risk of disaster is provided by Congress's approach to preventing major oil spills by the shipping industry. After the 1989 grounding of the supertanker *Exxon Valdez* in Prince William Sound, Alaska, Congress pass the Oil Pollution Act of 1990 that requires all oil tankers to provide evidence that they carry a minimal level of insurance, based on their size, to cover the costs associated with an oil spill, should they have an accident. This evidence in the form of a certificate of financial responsibility (COFR) must be on file with the U.S. Coast Guard as a condition of gaining entry into U.S. waters.
The *Exxon Valdez* case highlighted that the damages associated with a major oil spill can run into billions of dollars. Since insurance companies are understandably reluctant to take on that kind of a risk, Congress created an Oil Spill Liability Trust Fund that covers

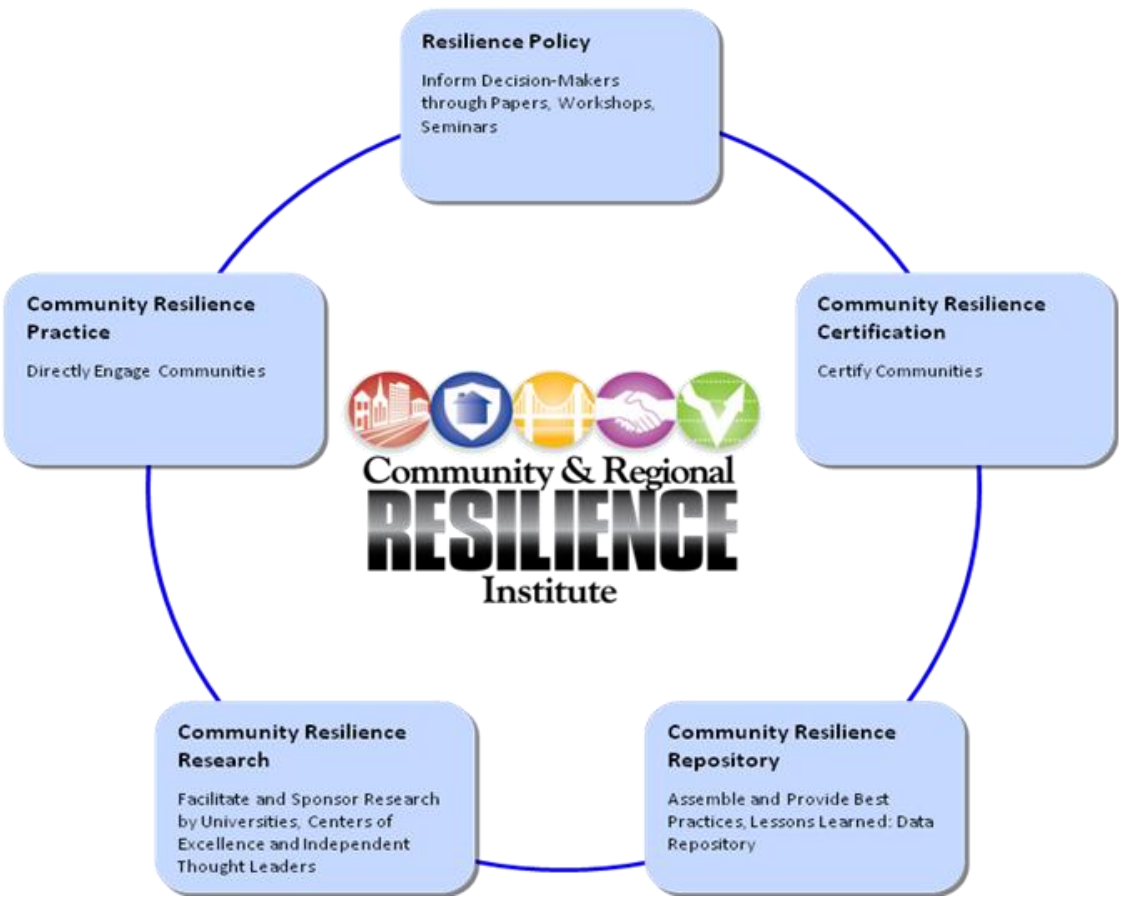
losses above an established cap. This one-billion-dollar fund was financed by imposing a fee of five cents per barrel on domestically produced and imported oil. Once the fund was financed to its authorized level, the fee was suspended. If the fund is drawn upon in the aftermath of a major oil spill, the fee could automatically be reactivated to replenish it. The fund, which grew with accumulated interest, can also be used by Congress to pay for various oil-safety and pollution-prevention initiatives.

Ideally, insurance companies are verifying that tankers are complying with the minimum safety standards before issuing a policy documented in the certificate of financial responsibility. To give them an extra incentive for doing so, the Oil Pollution Act includes a clause that removes the liability ceiling if there is evidence of gross negligence, willful misconduct, or violations of federal regulations. Since insurers are always interested in reducing their exposure to large claims, many carefully inspect vessels to ensure shipowners are abiding by the prescribed standards and deny insurance coverage if they are not up to par. The Coast Guard provides an added inducement for them to do so by periodically checking insured vessels to make sure they are in compliance with the established standards. If the vessel fails that inspection it is denied permission to offload its cargo in a U.S. port until the deficiencies are corrected. Further, every other vessel carrying a policy issued by the same insurer may be denied entry into a U.S. port until a Coast Guard boarding team confirms they are in compliance. These delays can cost shipping companies several hundreds of thousands of dollars each day, creating a powerful incentive to make sure that they buy insurance from a reputable company.

In short, when government and the insurance industry work together, they can create powerful inducements for markets to behave in ways that serve public interests. However, care must be exercised that insurance does not actually become a mechanism that rewards risk-taking behavior. Unfortunately, this has been largely the case with flood insurance whose premiums are set artificially low. This relatively low-price vis-à-vis the likely potential for catastrophic losses translates into the general taxpayer picking up the tab for individuals who build homes where they shouldn't.

A very promising model for deepening private-public cooperation and aligning financial incentives for building and maintaining resilience at the local level is the "Community Resilience System Initiative" that is being developed by the Community and Regional Resilience Institute at Oakridge National Laboratory. Drawing on prototype efforts undertaken in Charleston, SC; Gulfport, MS; and Memphis, TN, the initiative has two goals. First, is to identify the things that can increase the ability of communities to maintain normal functionality with little disruption or, when disrupted, to recover normal functioning rapidly and with little loss of economic and social value. Second, is to encourage communities to make sustainable investments in those things.

The initiative is designed to help community stakeholder: (1) understand what characterizes resilience; (2) how to assess resilience; (3) how to prioritize options for improving their resilience;(4) how to objectively measure the impact of the improvements; and (5) how they can be rewarded for their investments. At the national level, there should be a compelling case for encouraging the development of more resilient communities because these communities have a lower level of reliance on limited federal resources and a lower level of reliance on scarce private business sector and private non-governmental resources in the aftermath of a disruption. Because the Community Resilience System would provide objective measurements of risk and vulnerability management, communities should be in a position to accrue tangible economic benefits as well. These benefits might include the insurance and re-insurance industry favorably adjusting insurability and rates if a community is evaluated as having greater levels of resilience. The same common measurement might also boost the confidence of lenders and those assigning bond ratings which would lower the cost of loans for resilient communities. Finally, the system could be leveraged by a community to attract new businesses and current business expansions, thereby increasing the community's economic development potential. A model of this approach is below.



One final benefit of investing in resilience is that it both draws upon and strengthens the United States' greatest assets: its civil society and the private sector. As Alexis de Tocqueville observed in the first half of the 19th century, one of America's most distinctive qualities is its tradition of self-reliance and volunteerism. Clearly those attributes have atrophied in recent years in no small part because much of the responsibility for safety and security has been taken over by professionals. The national security apparatus constructed to deal with the Soviet threat during the Cold War was built around career soldiers and intelligence officials who inhabited a world largely cordoned off from the general public by the imperative of secrecy. At the same time, cities and suburbs are increasingly reliant on full-time emergency responders and sizeable police forces. This has led many people to see public safety as an entitlement instead of as a shared civic obligation. A renewed national emphasis on building individual and community resilience would help to strengthen our increasingly frayed social fabric since it requires everyone to play a role, not just the professionals.

Chairman Pryor and Ranking Member Ensign, I thank you for this opportunity to testify today and look forward to responding to any questions that you might have.

Stephen Flynn is the president of the Center for National Policy and the Chair of the Steering Committee for the Community Resilience System Initiative. He is also author of ***The Edge of Disaster: Rebuilding a Resilient Nation*** *(NY: Random House, 2007)*