REBUILDING THE GULF COAST

The high rates of property insurance in the post-Katrina era has made rebuilding difficult.

PHOTO: NOAA

BY GARRY BOULARD

When Brian Sanderson surveys the endless number of vacant lots along the Mississippi Gulf coast nearly two years after Hurricane Katrina, he is struck by how much remains to be done.

"Building is going on up and down the coast," says Sanderson, who is the president of the Gulf Coast Business Council in Gulfport, Miss. "But there could be so much more, both in commercial and residential, if we could just somehow get all of the other issues we are facing settled."

Issue No. 1, according to Sanderson and many of the state's homebuilders, is the prohibitive cost of trying to obtain property insurance in a state that suffered more than $125 billion in damages, with more than 30,000 homes significantly damaged or completely wiped out by Katrina.

"You have to have deep pockets to get a house built practically anywhere along the Gulf Coast," says Kim Ford, the program manager for litigation and disaster response with the National Association of Home Builders. "And the affordability and availability of insurance is the reason. Without insurance it's nearly impossible to get the support of a mortgage company or banker."

The insurance crisis isn't affecting only new homebuilding. It also hurts the rental market. Landlords who have been hit with higher premiums have had to raise rents significantly, Sanderson says. "This means many workers who are needed in our local shipyards and casinos cannot afford to rent along the coast. They either find apartments 60 or 100 miles away or they don't work around here at all.

"Either way," continues Sanderson, "it has a decidedly negative impact on our efforts to rebuild."

UNFRIENDLY MARKET

The problem has been made only worse, says Greg LaCost, by what insurers view as an unpromising and, to some degree, unfriendly market in the coastal states. "Even before Katrina, the Gulf Coast was not a great area for insurers because the risk was so high," says LaCost, who is the assistant vice-president and regional manager for the Property Casualty Insurers Association of America.

"There is a common perception that if the reward, in terms of higher premiums, is great enough, then most insurance companies will be happy to do business in practically any kind of environment," continues LaCost. "But that has not been true for the Gulf Coast for several years now. The risks are so high that companies actually lose money whenever any kind of a storm comes along. And that ultimately ends up being detrimental to the rest of their customers across the state or country."

Some insurers have withdrawn from the Gulf Coast, not only because of the high cost of risk but also because of litigation associated with Katrina.

REPRESENTATIVE
DAN MORRISH
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In February the State Farm Fire and Casualty Company, after agreeing to pay about $80 million to more than 600 policyholders who sued over Katrina damages, announced it would not renew coverage for some 2,500 customers along the Alabama Gulf Coast. Roughly 10 days after that, the company said it was also suspending sales of all new homeowner or commercial policies in Mississippi, also partly because of Katrina litigation.

"We're just not in a position to accept any additional risk in this homeowners' market," says Mike Fernandez, the vice-president of public affairs for State Farm. He calls Mississippi's legal and political environment "simply untenable."

State Farm is still doing business in Louisiana, but Representative Dan Morrish says companies have left the state before. "Given the environment, it is highly possible that others will leave in the future," he says. "That would be very bad news for homeowners." Morrish says he supports calling a special session just to deal with insurance issues.

AN HISTORICAL PROBLEM

"Keep in mind that we've been having insurance problems in Louisiana since before hurricanes Katrina and Rita," Morrish says. "The southwestern part of the state was particularly hard hit. All of the things that have happened since Katrina and Rita, with the many claims and litigation, have only made things more challenging."

Although insurance continues to be generally available to homeowners and homebuilders in Louisiana, says Representative John Alario Jr., the chairman of the House Budget Committee, that doesn't necessarily mean that recovery efforts in that state are doing any better than in Mississippi. "The reason is that the insurance costs have gotten to the point where, in many cases, people are deciding that they just can't afford to have a house. And it doesn't even matter if it is something that is folded into the mortgage, because that means that the house note might go up by as much as two to three hundred dollars per month, which is more than many people around here can afford."

In Alabama, lawmakers have also asked for a special session that would be designed to specifically address the issues of both the rising costs of insurance and insurance cancellations, primarily along the Alabama coast. Senate President Pro Tem Hinton Mitchem said in a letter to Governor Bob Riley that it is "too important to the economic and social well-being of our entire state to allow the unavailability or excessive cost of property insurance to depress the recovery of this vital area."

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FLORIDA TAKES ACTION

In calling for the special session, Mitchem said he was looking at what Florida lawmakers did in a special session in January. They passed a property insurance bill aimed at lowering premiums by allowing the state's insurer of last resorts, the Citizens Property Insurance Corporation, to offer both more competitive rates as well as do business in what is considered to be the more profitable areas of theft and fire.

Florida lawmakers said they were compelled to get involved with the property insurance issue after receiving a large number of complaints from angry constituents last year because their insurance rates had gone up despite the fact there were no major storms.

"If we had not acted, the ability to own a home would have begun to slip away in Florida," says Senator Mike Haridopolos, one of the proponents of the Florida insurance legislation. "What we did was to pass a bill that helps to keep homeownership here affordable.

"It is an aggressive plan, some people would even call it a risky plan," says Haridopolos. "But we felt that the situation had gotten so out of control with excessive rate hikes, that we really just had to do something."

The legislation will undoubtedly make the state-run insurance program, called Citizens, a more attractive alternative primarily because it will no longer be required by law to charge the highest rates. Proponents say this change could eventually reduce costs by some 20 percent. But opponents of the new law say it will artificially mandate low premiums in a manner that will put private insurers at a competitive disadvantage.

"I am a free market person," says Representative Dennis Ross, one of only two House members who voted against the legislation. "I believe that we need private capital insuring our risks and not the bonding capacity of the entire state of Florida, which is ultimately borne by the taxpayers."

And even proponents of the bill admit that if a storm of Katrina-like dimensions were to hit Florida in the near future, the state might be incapable of taking care of all of the claims.

"This is a major risk, I am the first to admit it," says Haridopolos. "If there is another major storm any time soon, taxpayers will be liable. Our hope is that if we can get through a couple of years with this plan, more private insurance companies will come into the state and we will be able to sell off blocks of businesses that are currently in the Citizens government model."

Industry response to the Florida legislation, meanwhile, has been mostly negative. "In the long run this kind of a law could actually make the situation worse because some companies may end up deciding that they no longer have any reason to do business in Florida," says LaCost of the Property Casu-

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MISSISSIPPI

alty Insurers Association of America. "When you add in the high risks that already exist there, it really becomes a prohibitive situation for insurers."

WIND COVERAGE

In Mississippi, lawmakers have approached the issue of insurance costs and availability by reconfiguring the state's Windstorm Underwriters Association, more commonly known as the insurance wind pool, which was created in the 1960s to provide wind coverage for the six counties that Katrina savaged.

The pool is designed to provide insurance for homeowners and businesses that are unable to secure policies through the private market, says Mississippi Representative Jessica Upshaw. "Basically, what we are trying to do is shore up the wind pool, because a lot of companies are no longer writing in the coastal counties."

Two separate bills in the Mississippi House and Senate call for greater regulation of premium increases while also mandating that such increases be spread out more evenly across the state. The two bills also feature recoupment provisions that would make it possible for insurance companies to recover their losses on a statewide basis in the event of future storms that might cause widespread damage.

"We tried to approach our insurance problem from two different angles," says Senator Dean Kirby, the chairman of the Mississippi Senate Insurance Committee. "We were naturally concerned about both the people who were unable to purchase any kind of insurance at all as well as those who could, but couldn't afford it."

But, he says, "we did not want this to be an anti-insurance industry move. That's why we emphasized recoupment."

Recoupment, adds Kirby, would give private insurers the right to attach a temporary charge onto premiums in order to recover the losses they may have experienced in the wake of a hurricane.

SENATOR

DEAN KIRBY

MISSISSIPPI

In return, the legislation also requires the insurance companies to continue to do business in Mississippi as well as to write policies for homeowners in the state's six coastal counties. "Ultimately what we are trying to do is not have an insurance market that is totally run by the state, but one that is stabilized partially through our efforts," explains Upshaw.

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"As it is, the insurance market in Mississippi has not been working," she adds. "But hopefully we will be able to make it so that the companies will not only continue to write here but will do so in the affected areas."

LOUISIANA TAKES A BROAD VIEW

Louisiana lawmakers, meanwhile, have vowed to address a wide variety of insurance issues that include taking a look at whether the state's Insurance Rating Commission should eventually be scrapped. "We are the last state in the country to have such a commission, which many regard as a rather bureaucratic way of doing business that discourages companies from coming into the state and writing policies," says Morrish.

Many Louisiana legislators, however, have been reluctant in the past to do away with the commission, which has the authority to approve or reject an insurer rate change of more than 10 percent. They fear that rates might dramatically increase without the commission.

"It's probably a very real fear," says Morrish. "But the thinking on the other side is that it would most likely be only a temporary increase followed by a more stabilized market."

Louisiana lawmakers are also considering an overhaul of the state-run Citizens Property Insurance Corporation, which recently was forced to sell more than $1 billion in bonds in order to pay off Katrina and Rita claims.

"The Citizens was designed to be the insurer of last resort for Louisiana," says Alario, "but it really has gotten to be the insurer of first resort, which is not what it was intended for." Created in 2003, Citizens witnessed a substantial increase in policyholders when insurers declined to write policies for Louisiana homeowners after Katrina and Rita. It's put the state-run insurer at risk of not being able to honor all of its obligations if there's another major storm.

Citizens officials have since asked the Louisiana Rating Commission for permission to increase homeowner rates across the state by 30 percent and nearly double it for those who live on the coast.

"All of these different issues are complicated and it's not very likely we'll find an easy answer," says Alario. "But everything about insurance has a direct impact on whether we are ever going to have a full economic recovery. It's essential that we tackle them all."

Representative Alario predicts the Legislature will be dealing with insurance problems for a long time to come. "It is just something we are going to have to do," he says.

That fact, says Mississippi's Kirby, is true for lawmakers throughout the Gulf region in the midst of these historically difficult times. "These are not the kind of issues that anyone would willingly want to get involved with. But considering all of the things that have happened in this part of the country, we have to take some kind of action to alleviate conditions.

"Ultimately, the only thing lawmakers in these matters can do is to listen to the viewpoint of all of the parties involved and then try to come up with solutions that will protect consumers as well as working with—and not against—the companies," Kirby says. "It may seem like an impossible challenge, because all of the issues are complicated and have a wide-ranging impact. But at the end of the day, we have to do something."