Commentary

Steve McMillan: Commentary

States gather to discuss how to deal with catastrophes

Recently, Alabama's insurance commissioner, Walter Bell, hosted a public hearing in Mobile. Commissioner Bell is the current president of the National Association of Insurance Commissioners. He was joined by his fellow commissioners from the Southeast zone with seven state commissioners in attendance. The hearing afforded the opportunity for states from Texas to Maine to discuss actions in their respective states as well as proposals from the federal government to assist in planning for and recovering from catastrophic loss from events, such as hurricanes, floods, tornadoes, or other natural disasters. Much of the discussion and testimony pertained to pending federal legislation and various proposals as to the extent of federal involvement in planning and recovery. The following are a few of the observations shared at the hearing:

All participants agreed that there is no simple solution to the complex issues involved. Solutions are not limited to insurance aspects of economic recovery. Consumer protection is a top priority—before, during, and after events. All coastal states are heavily dependent on the thriving economies of the coastal areas of their respective states. For example, the economic impact of tourism in our state is expected to reach $9 billion for last fiscal year which ended September 30. A large percentage of this is directly attributable to our two coastal counties.


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Commissioners in attendance all expressed frustration over the consumers' loss of coverage, increased premiums, and other issues typically beyond the commissioners' control. Insurance companies are frustrated by ratings issues (lack of uniformity), limited availability of surplus lines, and tax laws which provide disincentives to accumulate financial reserves. All agreed that the current public policy is not working and needs to be replaced by a coherent, comprehensive, coordinated approach which will necessitate joint efforts with local, state, and federal governments as well as public/private partnerships.

The traditional insurance model is not working. This is attributable to several things. Massive population shifts to coastal areas have increased financial risks/liabilities. This is evidenced by increases in size, value, and contents of improvements. Additionally, there are retirement security risks, an increased likelihood of event occurrences, and greater demands of reinsurers. Insurance companies are overexposed and, if unable to cover liabilities, have two basic choices—raise rates or cancel policies.

In general, the most frequently suggested solutions which appeared to have the most support were 1) a free market approach, 2)improved public awareness of everything from potential risks to insurance policy information, 3)modernize and enforce building codes, 4) establish state catastrophic funds, 5)create an all perils federal "backstop" for state funds, 6) uniform ratings, regulations, underwriting guidelines, and claim resolution for the insurance industry, and 7) major changes to the federal flood insurance program, including updated maps, improved efficiencies, and accountability. A good example of this is the disproportionate share of annual premiums paid by homeowners going to cover insurance operating costs for the administration of flood policies.