

A Healthy Economy – Insurance Subcommittee

“Through the recovery process, the Deepwater Horizon oil spill presents a unique opportunity to go further and make the Gulf healthier and more resilient than it was before the spill.”

-- Mabus Report, September 2010

What Role Does Insurance Have in Resiliency?

VULNERABILITY

- Without affordable and available insurance, families and businesses will struggle to survive along the coast.
- The economic health of coastal residents is vital to the region’s economic resiliency.
- A resilient economy is a diverse economy; a diverse economy depends in part on a sustainable insurance system.

The Problem

- Affordability
- Availability
- The uninsured and the underinsured

Principles of Sustainability

- Adaptation
- Awareness
- Market forces

ADAPTATION

-- Mitigation

- Mitigated homes and buildings lower the cost of insurance premiums for owners
- Mitigated homes encourage private insurers to write policies in the region
- Mitigated homes lower the number and size of claims
- Increasing the number of mitigated homes could reduce the number of people receiving insurance from the Alabama’s state-run wind pool

- Encourage fortification and retrofit of homes and buildings through incentives (i.e. mitigation grant program)
- Empower consumers with more information about a home's building standard and mitigation measures

-- Stronger Building Codes

- Encourage coastal jurisdictions to strengthen building codes
- Ensure enforcement of codes
- Develop a strong state code

-- Legislation

Legislation may be required to advance strategies in several areas, including mitigation, building codes, and transparency

AWARENESS

-- Education

- Develop a public education campaign to help citizens understand how the insurance system works and the things they can do to make coastal communities more resilient (i.e. mitigation)
- Work with various local stakeholders (engineers, architects, home builders, Realtors, bankers, code officials, etc.) in promoting ways to help consumers
- Inform the insurance industry (agents, companies, reinsurers, etc.) about Alabama's efforts to mitigate properties and strengthen building codes, encouraging them to invest in the market
- These educational efforts could be coordinated through a newly formed commission on insurance in Alabama

-- Transparency

Any educational effort needs quality information to share. The subcommittee has been discussing ways that the insurance industry and the state department of insurance can help people understand the cost of their premiums. Legislation may be needed.

MARKET FORCES

-- Increasing Competition

- Increasing competition ensures enough availability for consumers, so that the price of insurance accurately reflects the risk

- Stronger building codes and fortified homes brings more insurance availability to consumers because insurers want to insure better built and mitigated homes
- Reducing insurance subsidies encourages private insurers to enter or expand in a market; when subsidies are in place, insurers feel they can't compete with a subsidized insurance program (i.e. National Flood Insurance Program)
- Finding ways to lower the cost of capital for insurers would encourage insurers to write more policies, on the margin

-- Innovative Products

- New products may provide insurance options for consumers. One idea would create a captive insurance company. A captive would bring like-minded entities together -- such as homeowners, condominium associations, or businesses -- to form their own insurance company to insure their risks.
- Another private-market option for people seeking insurance, a captive requires an initial capitalization that could come from publicly-generated funds

-- Alabama Insurance Underwriting Association (AIUA)

The state's insurer of last resort insures about 17 percent of the market share in the four coastal zones where it offers wind coverage. The vast majority are residential policies. As private insurers have dropped wind coverage, the state-run wind pool has grown from about 3,500 policies before Hurricane Ivan to more than 17,000 today.

The wind pool does not try to compete with private insurers for consumers. In 2007, AIUA began reassessing rates for accuracy, and to achieve a actuarially sound rate that would allow it to purchase reinsurance for a 1 in 100-year event. As a result, rates have increased, most recently in July by an overall average of 14 percent.

Most wind pool consumers are choosing a 5 percent deductible to lower their premium price, rather than 2 percent. The average deductible is 4.5 percent, or \$8,000.