

State and Federal Government Looking to Business to Subsidize Hurricane Risk

Recent action in Florida and pending legislation in the US Congress has the potential to impose significant taxes on businesses nationwide, to help subsidize the cost of property insurance in a limited number of high hazard areas. This flyer reviews a harmful Florida law and by way of contrast more positive laws in Louisiana and South Carolina. In addition US House Speaker Nancy Pelosi is supporting two bills in the US House that will create substantial new federal government liabilities and likely create additional pressure for businesses to subsidize home insurance costs. She has pledged to pass the bills through the House this year.

What Florida Did, You Don't Want to Do!

Florida Gov. Charlie Crist has signed into law a measure that expanded the Florida Hurricane Catastrophe Fund's coverage by up to \$22 billion and allowed its state controlled, undercapitalized insurer to directly compete with private insurers. The legislation would:

1. Expose the state's taxpayers to up to \$50 billion in bond debt if a major hurricane strikes Florida in 2007; expected losses are not pre-funded, but rather are paid for with post-event debt
2. These state issued bonds would be paid for by all Florida citizens via assessments on insurance for: cars, commercial property, general liability, professional liability and other lines of business except for workers compensation.

What's the impact of the Florida law? Two actuarial studies commissioned by business groups found the following:

1. Small business owners will receive no direct benefit from the legislation but will see assessments on insurance premiums of \$171 to \$402 per year if an average to large sized hurricane strikes Florida
2. Exposes individual households to \$1,700 to \$14,000 in assessments annually for 10-30 years depending on the size of a storm; while granting an average household merely \$265 in premium savings
3. The 30% of Florida's households which rent will see no premium reductions but will see increases in their car and renters insurance premiums in the event of a storm
4. Car owners will receive no benefit from the legislation but will see assessments of \$45 to \$185 per vehicle if a storm strikes
5. Dade and Broward Counties receive huge subsidies paid for by Floridians in Orlando, Tampa and Tallahassee; Tallahassee's costs are 100 times the savings; Orlando's 69 times the savings; Tampa's 23 times the savings.

The Rand Corporation in a recent study noted that the Florida law is subsidizing the cost of hurricane risk thus creating incentives for additional development in high hazard areas and eliminating incentives for property owners to "storm proof" their buildings. The affect of this is to compound future losses. This new law thus runs counter to existing Florida laws emphasizing important mitigation measures that are beneficial to consumers.

Louisiana and South Carolina Lead the Way With Market Oriented Laws

Insurance prices are the proverbial "canary in the coal mine" – alerting consumers to the risk involved in building properties in high hazard areas exposed to wind and flood damage from hurricanes. Whereas Florida has taken the approach of bureaucratically "over regulating" the insurance industry to try to force down rates, Louisiana and South Carolina have opened up insurance markets by avoiding price controls and encouraging insurers to compete. These states:

1. Allow insurers to charge rates commensurate with the risk (LA and SC)
2. Acted to keep state “markets of last resort” from competing directly with private insurers willing to assume the risk (LA and SC)
3. Enforced building codes and other storm proofing recommendations (LA)
4. Created incentives for property owners to “storm proof” buildings, including matching grants and additional funding for low income consumers (SC)
5. Created consumer “catastrophe savings accounts” to build up funds to pay for deductibles and encourage insurers to write in coastal areas (SC)
6. Provided grants to encourage new insurers to be created as long as they take on coastal insurance risk (LA).

Notably, Louisiana and South Carolina have NOT created government subsidized reinsurance funds that ala Florida would be dependent on bond debt and cross subsidies paid largely by business.

What’s Pending in Congress? Bills Would Create Additional Taxes on Business

Congress seems to be moving in the direction of “if you liked that government program, you will love this one!” The Democratic House seems to be moving to the largest expansion ever of the National Flood Insurance Program (NFIP) by adding wind coverage to what had been a “flood only” insurance program (HR 920).

1. The Flood program is notorious for subsidized rates that have encouraged development in high hazard low lying coastal areas and for paying “repeat claims” to rebuild homes that have been repeatedly flooded because of their location. The flood program currently is \$17.5 billion in debt, and the Congressional Budget Office estimates that the deficit will grow by \$900 million a year (even before wind coverage is added).
2. An analysis of the proposed expansion of the program by the Towers Perrin firm (on behalf of the American Insurance Association) found that the proposed expansion would expose the government to between \$100 Billion and \$200 billion in additional liability.
3. Observers believe that HR 920 will subsidize reckless development in risky and environmentally sensitive areas. For example, the National Wildlife Federation found that the number of properties subject to *repetitive losses* in the NFIP has grown from 74,500 to 135,000 in ten years. The cost to the NFIP for paying claims on these buildings has risen to \$8.5 billion. Accordingly this large environmental group has opposed HR 920.
4. The U.S. Treasury Department says that “Federal government interference in the wind insurance market will displace private markets, promote riskier behavior, be unfair to taxpayers, and be economically costly.”

Additional legislation introduced by the Florida congressional delegation (HR 3355) will provide low interest loans to Florida’s subsidy-dependent insurance and reinsurance funds. Other states could create qualifying state funds, but Florida alone has 60% of the catastrophe risk in the United States. Like the other government-run insurance programs described above, such legislation would interfere with private market solutions, put taxpayers on the hook for hundreds of billions, and encourage risky and environmentally unsound development. As Justin Pidot concluded in a research paper for the Georgetown Environmental Law and Policy Institute: “Some states, Florida in particular, have arguably made reckless financial commitments to provide a short-term solution to the perceived crisis in insurance affordability and availability; many of the proposals before Congress would simply compound the problem by shifting responsibility for paying for these bad policy decisions to the federal taxpayer.”

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