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Baton Rouge, Louisiana

### MORE LOUISIANA AND GULF COAST INSURANCE HIKES? GIVE US A BREAK!

The threat of Allstate Insurance Company leaving Louisiana put insurance issues on the front burner and on the front pages of the state's daily newspapers all this week. Would the state's second largest insurance company actually pick up and pull out? Yes says the current insurance commissioner (Jim Donelon). Nothing but a hoax says major challenger in this fall's election Sen. James David Cain.

Allstate now says "maybe not" but they want concessions-a state run money pool to limit how much all property insurers have to pay when a hurricane hits the state in the future. But here's the problem. Who pays for the pool? You guessed it. Every property owner in the state through a new assessment. So the rates continue to go through the roof with no relief in site.

Actually, the Allstate plan wasn't such a bad idea if you go back a few years. But the legislature and the insurance department mistakenly went a different direction creating this monster called the Coastal Property Insurance Company, and the state missed the chance to contain property rates and create a much healthier insurance climate.

Let's get one thing straight that we can all agree on, and makes it worth talking about. Property insurance is a necessary evil, and every property owner has to have it. And nobody's happy over the present way the system works.

Under the purposed Allstate plan, a new assessment would be put on every property insurance policy sold, with the money going into a state rainy day fund for when a major hurricane hits. Several formulas might be used, but the idea would be to limit how much any one insurance company would have to pay out. In return, property insurance rates would be less.

The same plan was suggested by the insurance department back in the 90s, and it made much better sense then. No one worried about the "big one" actually happening, and the legislature wasn't receptive to any kind of assessment. But in the past four years, new state proposals have been the prime cause of property rates going sky high.

First of all, the Louisiana Legislature gave the insurance industry the right to raise every rate 10% a year without any approval. And is it any surprise that company after company did just that, whether needed or not? All rates above 10% have to be

approved by political appointees of the Governor. Good people I'm sure who no doubt mean well, and have little knowledge of the intricacies of mathematically setting insurance rates. Louisiana is the only state in the country that has such a system.

Then the legislature really went off the cliff and created a state run company without any money injected into it. There should have been a minimum injection of well over \$50 million just to get this concept started. No significant re-insurance was required in the law creating the program, which was a huge mistake, and one that every property owner will be paying for over the next 20 years. And finally, you need insurance professionals to run such a state created company. Experienced professionals were woefully lacking in the make up of Citizens.

So with no reinsurance in place to cover the Katrina costs that now have exceeded one billion dollars, the state borrowed the money and you and I will pay this indebtedness off, year in and year out, for the next twenty years. This adds an additional 20% to the average insurance policy.

Now Allstate is saying just add a little more. But is such a plan, if the Governor and the Legislature decide to go along, going to literally price insurance beyond the reach of the average homeowner? It's getting close to that point. So what do you do? Four things.

- 1.) Completely restructure the Citizens state created company. Bring in professionals with strong insurance management backgrounds to run it professionally, with a requirement that there be no contributions to any politician involved. Louisiana followed in lock step with a similar Florida plan that is about to implode with similar problems.
- 2.) Abolish the Insurance Rating Commission. Get the political appointees out of the mix and put the buck of approving rates squarely on the Insurance Commissioner where it belongs.
- 3.) The Governor should bite the bullet, and recommend the injection of \$100 million in state funds to stabilize the Citizens concept. Florida has injected over \$700 million dollars. Mississippi has appropriated \$50 million to help their rates be less.. Louisiana has not appropriated one penny. Make reinsurance mandatory for up to 80% of any anticipated losses. If this had been done pre-Katrina, this present crisis would have been greatly reduced
- 3.) Give the Allstate suggestion a good review. It's not that bad of an idea, but the defect is that Louisiana is much too small to go it alone. The Governor should start immediate discussions with Texas, Mississippi and Alabama to form a joint pool. Leave out Florida for they have too much future risk. If a joint effort had been in place pre-Katrina, the present crisis would have been greatly reduced.

- 4.) But the most important idea is for the Louisiana congressional delegation to join the Governor in proposing what the country did after 9/11. Form a national catastrophic fund that allows any state that faces a national disaster to join in. Oklahoma for tornados, California for earthquakes, flooding protection in the Midwest, and of course hurricane protection for coastal states. If New York could demand it after 9/11, you would hope there would be substantial support for a national catastrophic plan following the gulf coast disaster.
- 5.) The Louisiana Legislature should meet in special session and immediately authorize the forming of a Joint Underwriting Association for Louisiana businesses. Any business could join and pay a monthly assessment that would be used to buy re-insurance for the Association. This is a short term fix, but would buy some time for many businesses who cannot find affordable insurance until the other proposals listed above take effect.

None of this is that original or rocket science. It's a matter of emphasis. And the Governor obviously has to become involved. In all but twelve states, the Insurance Commissioner is appointed. So congress will look to Governors to aggressively pursue these important concepts. There are ways to resolve this major insurance crisis. But it will take more focus and much stronger leadership. Isn't the time right?

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One of the tests of leadership is the ability to recognize a problem before it becomes an emergency.

**Arnold Glasgow**

**Peace and Justice.**

**Jim Brown**

Brown's weekly column appears each Thursday here at Politicsla.com, and in a number of newspapers throughout the State of Louisiana. You can read Jim's Blog, and take his weekly poll, plus read his columns going back to the fall of 2002 by going to his own website at <http://www.jimbrownla.com>.

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