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New Orleans, Louisiana

INSURANCE WAKE UP CALL
FROM JAMES CARVILLE AND DONALD
POWELL

If Democratic strategist James Carville was asked to list what could be the defining issue for the Governor and her challengers in the coming gubernatorial campaign, no one should be surprised if he answers: "It's property insurance, Stupid!" And he would not be making a partisan argument. Donald Powell, the President's Katrina recovery czar, has said repeatedly that affordable property insurance is

the single biggest impediment standing in the way of recovery along the Gulf Coast.

One could argue that the governor also has to justify both her actions following Katrina's wave of damage, and the present slow process of the Road home recovery program. But mistakes made following Katrina fade from memory more as each month passes. And despite the controversy over how to get Road Home Recovery funds out more quickly, this too will pass in the next several months as dollars reach the homeowners who have applied. But insurance? This problem is just not going away.

The job of figuring out a way to get escalating property insurance rates under control has fallen right in the Governor's lap. She may not be happy about it, but she needs to take the lead in offering a comprehensive solution to this extremely difficult problem. The insurance department has become irrelevant in any effort to confect affordable solutions. And so far, few ideas are being put on the table by members of the legislature. There are some proposals coming out of the insurance industry, but most are self-serving. The bottom line is this. Like it or not, Governor Blanco's political future may well hinge on both the perception and the reality of what she is able to do in getting a handle on property insurance rates.

In her announcement of a coming special legislative session, the Governor has apparently decided to use some of the current surplus in state coffers to reimburse policyholders for the burdensome surcharge every property owner has been assessed due to the incompetent handling of the Louisiana Citizens Property fiasco. But simply throwing money at the problem will not come close to developing a comprehensive solution. It's going to take some major restructuring to stabilize

property insurance rates. And a master plan should be included in the Governor's call.

Unfortunately, it took the "Disraeli affect" to get the attention of most of the public officials involved in the process. (You know, "the people are moving in the streets and as their leader, I have to get out in front of them.") This problem should have been the front burner issue in the legislative session last spring. Any catching up now will require a wider band of solutions, and unfortunately, more money. So where should they begin?

First, a complete revamping of the state created Citizens, the company of last resort. It's been a disaster from day one. This column has written repeatedly how the legislature allowed this company to open its doors without one penny of capital surplus, minimal reinsurance, no master plan to follow, and no qualified insurance executives involved in the initial structuring. The governor may want to pick up the phone and call former Governor Mike Foster. He was heavily involved in creating the LWCC. (The Louisiana Worker's Compensation Corporation.)

Worker's Compensation insurance in 1990 faced just as much a crisis as property insurance does in Louisiana today. The same model could be used, allowing for the creation of a private company, with state backing. The Foster concept proved so successful, that the company was cut loose and is the leading writer of worker's compensation in the state today at quite reasonable rates. Use this concept as a model, scrap the present Citizens plan, and get some semblance of a beginning in trying to dig the state out of a huge mess.

(A side note. A tremendous resourch would have been Steve Cavanaugh, who was the driving force behind making the LWCC work from day one. He tragically passed away earlier this week at only 53. What a terrible loss.)

Citizens presently has to charge its policy holders 10% more than the average of private companies selling the same coverage. In today's climate, Why? Abolish this requirement, and let all companies, including Citizens compete on a level playing field. Why should 120,000 homes pay a higher rate, particularly when private companies are refusing to sell property insurance?

Then pass up the temptation to give policyholders a rebate through some type of massive check-writing bureaucracy. Simply have the legislature enact a statute in the coming 2007 Regular Session that would provide for either a tax credit or rebate that would remain in place as long as bonds are outstanding to pay off the Citizens incurred debt. If no tax was due to the policyholder, a simple form could be included in your property tax notice allowing for a refund. So everyone gets paid back, if they paid any assessment so far, and nothing would be assessed in the future. Look, it was the state that put a system in place causing these huge insurance increases post-Katrina. Therefore, the legislature should see that the funds are appropriated each year (approximately \$65 million) to pay off the Citizens' bonds.

Next, create by statute a Louisiana Catastrophic Insurance Fund with a small portion of every insurance policy going into that fund. The fund would be used to reimburse insurance companies who pay losses above a certain level. Right now, Florida has a ceiling of \$5.3 billion in claims. That's too high for Louisiana, and a ceiling of some \$3 billion makes more sense in this state. To get the fund started, the legislature should appropriate \$200 million.

Then, the legislature should create the authority for individual tax -- free catastrophe savings accounts to help homeowners save for items like deductibles and uninsured losses.

The Legislature also should 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.

Be creative with homeowners. Let subdivisions or other groupings of homes join together to also form joint underwriting associations. Members may be willing to self insure themselves as a group for the first \$100,000 of coverage, then buy re-insurance for the higher risks. That way, the group does not get lumped in to being rated with more high exposure neighborhoods.

Allow insurance companies to create tax -deferred capacity reserve funds. This will help limit their reliance on reinsurance.

The legislature should also create a comprehensive state program that provides grants for lower income families to hurricane-proof their homes. In addition, weather resistant construction should be a specific requirement to receive any grants from the Road Home Recovery program.

And create an agency that serves as the state's Insurance Consumer Advocate; or for that matter an office that looks out for the average citizen before any number of boards and commissions. When a rate increase is requested before the public service commission, high-priced lawyers for the energy companies are there. But no one is there to represent the general public. The same applies to insurance. When the Insurance Rating Commission considers these huge increases we have recently experienced, you can bet the insurance companies are there in mass. But no one is there representing the average policy holder.

That's not the case in most states. A number of other states have aggressive consumer protection offices that are at these meetings speaking up for the public, and serving as the devil's advocate in asking tough questions about why any rate increases are needed. Such an office used to exist during the Edwards administration. But lobbyists for a number of regulated companies were successful

in having the office abolished during the 90s. With all the rate increases being asked for by regulated companies today, there has never been a better time to revisit the creation of such an office.

The simple fact is, as we have learned from Katrina, that Louisiana needs to seize the initiative and get creative on our own terms. Hoping for a federal bailout through some type of National Catastrophic Fund in the immediate future looks like a pipe dream. The buck, whether they like it or not, falls right on the legislature and the Governor.

We have recently witnessed a number of public officials throwing their hands up and saying just give this insurance affordability problem some time and it will work itself out. Others say that more competition will lower rates. But just sitting back as has been done this past year and expect rates to level off is just wishful thinking and reflects a lack of public commitment. There is no "quick fix," and it's time for aggressive options to be considered and real leadership to step up and take charge. A number of political careers will rise or fall in the coming months based on how aggressive these same officials will or will not become in addressing these insurance problems both head-on and in a major comprehensive way area.

Whether it was said by Carville, Powell or whoever, the issue is insurance. And those who ignore it will earn the title "Stupid" for a long time to come.

"A word to the wise ain't necessary -- it's the stupid ones that need the advice."
Bill Cosby

Peace and Justice.

Jim Brown

Jim Brown's weekly column appears 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>.

Also, tune in Jim's radio show on thenew995fm.com from New Orleans. It is streamed live on the worldwide web at www.thenew995fm.com from 8:00 until 11:00 am, weekdays.