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Baton Rouge, Louisiana

PROPERTY INSURANCE – WHAT A BIG MESS

If there is going to be a defining issue in the fall race for Insurance Commissioner, it's going to be property insurance in Louisiana. Both pre-Katrina and post-Katrina, finding affordable property insurance for homes and businesses has become more and more difficult. The cost has skyrocketed, and many homeowners are dramatically underinsured. And unfortunately, under the present system, there is little hope that the system will change.

There is little sympathy outside of Louisiana. Most of the rest of the country lumps the Bayou State with luxury coastal living in Florida. The typical response is: "Those folks choose to live down along the water, and they should pay whatever the going cost is for insurance. That's just the price you pay by living along the Gulf.

Such an argument probably makes sense if you have a high rise condo or beach house along the Florida gulf coast. For most of these residents, it's a lifestyle choice.

But the situation is far different in south Louisiana. This part of the state continues to produce vast amounts of the nation's oil and gas, sulfur, seafood, and chemicals. These natural resources coming out of Louisiana feed and fuel a significant part of the United States. Without workers living where the products are produced, the rest of the country doesn't get the benefit. So there is a significant reason why affordable insurance is important not just to Louisiana residents, but to those who benefit all over America.

Before Katrina, affordable property insurance was hard to find. Hurricanes are a fact of life in this part of the country, and Hurricane Andrew in 1992 set the spiral on an upward spin.

And a side note here. The insurance industry doesn't always come across as the good guy when disasters roll around. I will share an anecdote with you from 1992. Andrew had just hit the Florida coast doing massive damage, and was back into the Gulf on a three-day track towards Louisiana. America's largest insurance company was A.I.G., based in New York and insuring numerous homes in Louisiana. The President of A.I.G. at the time was a fellow named Hank Greenberg, who has been in the news a lot recently over a major investigation by the Attorney General of New York. As Andrew approached Louisiana, Greenberg's son, Jeffrey, also working for A.I.G., sent out a press release to key insurance brokers throughout the country. He basically said that the climate was right to immediately go into various insurance departments throughout the Gulf Coast and ask for big rate increases. His timing was terrible, and the approach he took did a lot of damage to the company's image.

I was in my second year as Insurance Commissioner, and was working late one evening. My secretary buzzed and told me there was a Mr. Hank Greenberg on the telephone. It was 8 o'clock in Baton Rouge, which meant it was 9 o'clock in the evening at his office in New York.

When I picked up the phone, he came right to the point. "Commissioner, do you have any kids who really did some stupid things and stuck their foot in their mouth?"

"Yes, I have," I smiled and replied.

"That's exactly what my son did in putting out the dumb release about raising rates. With the storm approaching your shores, this is about the last thing we should have done. I am calling to apologize."

The senior Greenberg handled the issue with some taste and class, and I have always respected the way he handled this explosive situation.

Back to the future. What does the next Insurance Commissioner need to do to stabilize and, hopefully create a climate for affordable property rates in Louisiana? Here are some suggestions:

1. First, straighten out the mess that presently exists with the state sanctioned Louisiana Citizens Insurance Company. This legislatively created company was modeled after a similar concept out of Florida. The Florida Company is now under major scrutiny with allegations of bribes, kickbacks and insider dealing. Following Katrina, Citizens has been the subject of numerous complaints, with sensitive legislative hearings underway to try to find a solution to the huge problems facing the company. An analysis of this state run company will be the focus of a future column. For now, a major overhaul needs to take place, and should be a top priority of the next Insurance Commissioner. Louisiana legislators and insurance officials ballyhooed the Florida idea. But a state audit released just a few weeks ago in Florida blasted their Citizens fund "as being poorly managed and wholly unprepared to handle thousands of hurricane claims in the past two years." It went on to say that Florida Citizens was "a lax operational system ripe for exploitation by insiders." And this is the system Louisiana adopted?
2. **Creation Of A National Catastrophic Fund** – Katrina showed dramatically how Louisiana is just too small a state to go it alone when it comes to dealing with hurricane related insurance issues. The next Insurance Commissioner needs to take on a major lobbying effort in Washington to create a comprehensive national response mechanism for mega-catastrophes. There is ample evidence that such a program is both necessary and critical to any affordable insurance solution in Louisiana.

There are mega-catastrophes that can happen anywhere in the country. In Louisiana it's the threat of hurricanes. In other areas it is tornadoes or earthquakes.

In November of 1993, I testified in Washington for the Senate Commerce, Science and Transportation Committee for the necessity of such a national catastrophic fund. Congress talked about it then, but didn't feel the pressure to address this serious national issue. Former FEMA Director James Lee Witt recently called for creation of such a national fund. Florida has joined the effort as are other states at risk along the east coast. But Louisiana should take the lead. There is more at risk down here, and the post-Katrina damage shows ample evidence that such a fund is necessary. The next Insurance Commissioner should be in the forefront of speaking out and lobbying nationwide for the creation of such an important fund.

A similar fund was formed to create an umbrella of protection following the 9/11 catastrophe in New York. This is no federal bailout. A small portion of every policyholder's yearly premium should go into such a fund. Then, when a mega-catastrophe happens, insurance companies would be on the hook only up to a certain amount. Above that amount, the fund kicks in. The bottom line? More predictability for insurance companies, and more stable, reliable rates for homeowners and businesses. With the future threat of hurricanes hanging over this part of the country, such a fund should be a no-brainer.

3. **Abolish the Insurance Rating Commission** – Louisiana is the only state in America that allows the Governor to appoint a group of non-professionals to approve insurance rates. If you are going to elect an Insurance Commissioner, let the buck stop there. Don't bring politics into the mix. A rating commission is outmoded and a thing of the past. Just like levee boards. Let the buck stop in one place at the desk of the elected Insurance Commissioner. Abolishing the commission would speed up the whole review process, and give more stability to the rating system.

This is just a start. The bottom line is simply that Louisiana needs more than a passive regulator. This job touches every single citizen. Following the Katrina disaster, because thousands of people will lose their homes due to the uncertainties of their insurance, there is a need for an aggressive, well informed vocal advocate. Simply put, there is a call for a lightning rod of a commissioner. Bureaucrats need not apply.

Confucius Say:

Needing insurance is like needing a parachute. If it isn't there the first time, chances are you won't need it again.

Peace and Justice.

Jim Brown

Jim 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 ready his columns going back to the fall of 2002 by going to his own website at <http://www.jimbrownla.com>.

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