

Thursday, July 27th, 2006
Baton Rouge, Louisiana

INSURANCE PROBLEMS ALLSTATE JUST THE BEGINNING!

Allstate Insurance Company stirred up a fire storm this week by announcing that they planned to drop hurricane coverage for some 30,000 of its Louisiana policy holders in 18 coastal parishes. But this could just be the tip of the iceberg as other companies selling property insurance along the gulf Coast consider the same option.

Allstate is the state's second largest property insurance company with some 140,000 customers in Louisiana. Their reported losses from Hurricanes Katrina and Rita now exceed \$1.7 million dollars, and they are crying for help. The problem is that Allstate brought his crisis on to itself. The company passed up their chance to buy re-insurance. Real big mistake.

You see, insurance companies generally buy protection from big losses by obtaining their own insurance. Like the bookie who lays off part of the bet so he won't have too much on the line. Giant internationals like Lloyds of London specialize in re-insurance for companies like Allstate. In the gulf south, you are playing a dangerous hand to go "bare" without adequate re-insurance.

And Allstate did cover their bet in a number of states. They bought re-insurance in surrounding states of Texas, Arkansas, and Mississippi. But for some unfathomable reason, they failed to do so in Louisiana. The storms hit, massive claims were made, and poor Allstate was out on the limb without any backup or adequate protection..

So yes, the state's second largest property company took quite a hit. But it was of their own making. So here's the question. Should Allstate policy holders suffer and loose coverage because their insurance company made a bad business decision?

And this mess gets murkier. Allstate is not the only company that failed to hedge its bets and buy adequate re-insurance. The state created La. Citizens Property Insurance Company make the same mistake. It was dramatically under insured. Claims by this legislatively created company are well over one billion dollars, yet there was a woeful lack of re-insurance to cover this amount. Some four times less than what was needed.

So what does this all mean to the average homeowner out there? Here's it in a nutshell. Allstate wants to dump all its hurricane exposure on to Citizens. But Citizens is broke, so they have to levy an assessment on **every property owner** in the state. A 20% "assessment" on your insurance policy if you have not received it already.

Citizens has its own morass of problems, again of its own making. And you can lay the blame directly at the feet of both the Louisiana Legislature and the Insurance Department. From the get go, this state created company has wallowed in organizational problems. The company was allowed to start selling insurance policies with not one dollar of capital. No other insurance company, under state law is allowed to go into business without putting up

adequate capital and surplus. But Citizens didn't have a penny when it began. A similar concept was authorized in Florida, but with a requirement that the legislature inject millions of dollars for the company to get started. Some 700 million dollars was just recently pumped into the Florida state run plan. In Louisiana, Citizens just continues to borrow. And guess who has to pay? Every property owner in the state.

So is that everything? Far from it. The insurance department allowed Louisiana's largest insurance company, Farm Bureau, to do **exactly** what Allstate is now proposing. Why? Farm Bureau says Katrina and Rita claims were so large that the company was in great financial difficulty. Remember now that Farm Bureau sells all types of insurance, and has been raising rates for "the big one" regularly just like every other property insurance company operating in Louisiana. Even with as much damage as these two storms caused, it's hard to believe their financial situation was so fragile.

So we now have a run of companies bailing, or planning to do so, on promises made to thousands of policy holders. And the alternative is to see dramatic increases in the cost of property insurance for every property owner in the state.

This crisis is going to grow in scope. And the buck stops with the Governor as much as with the Insurance Commissioner. Gov. Blanco appoints the Insurance Rating Commission that has great sway on any final decision made by the state. If she wants the chance to show some real leadership, now is her chance to step up to the plate. Go for it Governor. There is a lot at stake.

But if the while I think
on thee, dear friend,
All losses are restor'd and sorrows end.
Shakespeare, Sonnet 30

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 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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