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CT INC: Coastal Insurance

The Hartford Offers Coastal Insurance Proposal

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As coastal homeowners struggle with onerous insurance rates and rules, The Hartford pitched a plan Wednesday that it thinks will keep coverage available and affordable — and protect the industry from getting blown away by humongous hurricanes.

With a personal rollout by CEO Ramani Ayer, The Hartford Financial Services Group Inc. is the latest voice in a deepening debate over how to solve insurance problems many people are facing in the post-Katrina era, from Maine to Florida and along the Gulf Coast.

The Hartford's "Coastal Catastrophe Partnership" proposal says homeowners, insurers and federal, state and local governments must address the issues together.

It suggests federal backing for monster storm claims and state subsidies to help some people afford insurance.

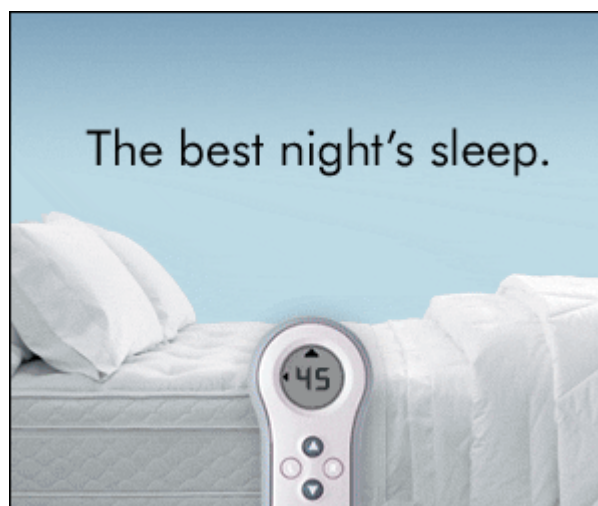
The plan aims to ensure insurers' ability to make a profit so they'll be ready and willing to take on shoreline risk.

The current system of state insurance regulation would continue under the proposal. But it would enlist the federal government in prodding states to allow rate increases that insurers claim reflect their true risk. Insurers say states such as Florida are artificially suppressing their rates.

The Travelers Cos. and Nationwide Mutual Insurance Co. jointly announced their own solution two weeks ago, and various ideas have been proposed in Congress such as adding windstorm coverage to the federal flood insurance program. Allstate has also floated its ideas.

Since the 2004 and 2005 hurricanes, insurers have dropped thousands of coastal customers, increased rates sharply along the shore, raised separate hurricane deductibles and required shutters, plywood or other damage-mitigation methods. Katrina alone cost them \$40.6 billion.

"The insurance industry today is pulling back in a lot of these states and there is an affordability and availability crisis," Ayer, The Hartford's chairman and chief executive, said in an interview Wednesday.



"My big worry is we've still not seen a big event."

The 1926 category 4 hurricane that hit Miami, for instance, could cost an estimated \$100 billion in claims today, The Hartford notes.

The Hartford's plan, pitched by Ayer to news media Wednesday, says:

- Coastal homeowners should be required to buy flood insurance. Insurers, which require that already in some places, are hoping to avoid more battles like the ones Katrina spawned over wind vs. water damage, and what a homeowner's policy is supposed to cover.
- IRA-style savings accounts could be created to help people afford insurance.
- States should consider subsidizing premiums for low- and moderate-income coastal homeowners.
- A federal reinsurance program should be established to protect insurers from a catastrophic storm. Insurers typically buy reinsurance in the private market to spread their risk of claims. The federal backstop might kick in for a storm that's expected to happen once in 100 years, such as a hurricane hitting Florida and producing \$60 billion or more in claims, Ayer said.
- States could create their own reinsurance funds, bound by federal guidelines. The state funds would only kick in for very large storms — a one-in-50-year hurricane, for instance.

Insurers would be charged by federal and state governments for the new reinsurance programs and would pass on the cost to consumers in premiums.

In order for insurers in a state to access the federal reinsurance, the state would need to follow guidelines set by the federal government for land-use planning, risk mitigation and disaster preparedness.

The federal government would also need to certify that a state is allowing insurers to charge rates that reflect their risk, Ayer said.

J. Robert Hunter, director of insurance for the Consumer Federation of America, says the plan is "poorly thought through" compared with a proposal by Travelers and is "really dangerous for consumers."

Hunter says it's unclear how the state and federal pieces of The Hartford's solution would fit together, and he questions how states will feel about funding premium subsidies. The subsidies, he said, would help insurers charge what they want.

Ayer said he has started talking with other companies about The Hartford's proposal and hopes to raise public awareness this year despite the nation's focus on elections.

"While it may be ambitious and politically challenging, we are convinced that it is the best path to a national solution — one that retains the critical role of private insurance, minimizes taxpayer cost and ensures quick recovery following a catastrophe," The Hartford's proposal says.

The Travelers-Nationwide proposal differs from The Hartford's by calling for creation of federally regulated coastal zones for windstorm insurance. An independent federal agency would regulate rates and set uniform rules from Texas to Maine for the wind coverage within a homeowner's policy. The states would continue to regulate the other portions of a homeowner's policy.

Connecticut's coastal availability problems haven't been as serious as in some other states. A new Coastal Market Assistance Plan was launched in Connecticut recently to help homeowners within 2,600 feet of shore find insurance, but it doesn't address affordability.

The Hartford's proposal can be viewed online at www.thehartford.com.

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