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Insurer wants to sell wind, flood coverage in 1 policy

By Michael Kunzelman, Associated Press Writer

NEW ORLEANS — One of the nation's largest insurance companies is lobbying Congress for permission to sell policies that cover damage from both wind and flood water, a plan billed as a way for insurers and homeowners to avoid costly litigation after disasters like Hurricane Katrina.

Nationwide Mutual Insurance (NFI) also says that expanding its homeowner policies to include flood coverage could save taxpayer money by reducing costs for the federally subsidized National Flood Insurance Program (NFIP).

Nationwide's plan, which would require congressional approval, calls for the company to sell flood insurance at the same price as NFIP policies. However, policyholders would have the option of buying flood coverage beyond the limits of the national program.

Also, unlike other homeowner rates, prices for Nationwide's expanded policies would be exempt from state regulation.

Officials from the insurer have briefed more than a dozen members of Congress on the plan but haven't yet drafted a formal proposal.

"This is without a precedent. There are no precursors to this," said Craig Zimpher, Nationwide's vice president for government relations.

Zimpher said the benefits of having one policy cover both wind and flood damage are illustrated by the recent flooding in the Midwest and by its wind-vs.-water disputes with policyholders on the Gulf Coast after Katrina.

In the aftermath of the August 2005 storm, thousands of property owners in Mississippi and Louisiana without flood insurance sued their insurers for refusing to cover damage from Katrina's wind-driven storm surge.

"We see this (plan) as a viable alternative to much of the litigation that occurred post-Katrina," Zimpher said. "No one, whether it's insurers or consumers, benefits from litigation."

Rep. Gene Taylor, D-Miss., a fierce critic of the insurance industry's handling of Katrina claims, is one of the lawmakers who has been briefed on Nationwide's plan. Brian Martin, Taylor's policy director, said the proposal could benefit consumers if other insurance companies follow Nationwide's lead and create a competitive market for flood coverage. Such coverage is a risk private insurance companies traditionally have not wanted to take on.

Martin said the plan should also include federal government regulation and oversight so that insurers don't "cherry pick" policyholders and exclude properties at the greatest risk of flood damage.

"The current system is leaving gaps in coverage," he said. "There will always be disputes as long as you have wind and flood in separate policies."

Taylor, whose home in Bay St. Louis, Miss., was destroyed by Katrina, sponsored legislation that called for expanding the NFIP to include optional wind coverage. The House adopted the proposal, but the Senate rejected it in May.

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Nationwide said its expanded homeowner coverage would be voluntary for its customers. The Treasury Department would regulate and "reinsure" Nationwide's flood coverage. The cost of reinsuring Nationwide's policies would be paid for in part by a percentage of the flood premiums collected by the company.

Reinsurers sell backup coverage to other insurers, spreading risk so the system can handle large or widespread losses.

While the price of Nationwide's flood coverage would mirror the cost of NFIP policies, prices for the wind, theft and fire portions of the expanded policies wouldn't be subject to government price controls, the company says.

"It would be market-based pricing, overseen by the Treasury Department," said Nationwide spokesman Joe Case.

Case said the plan isn't designed to avoid state regulation, but policyholder advocates said the proposal would undermine state officials' authority to review rates and approve the terms of insurance contracts.

"The current system of state-based regulation of the insurance industry is far more effective at protecting consumers than a new federal bureaucracy, subject to politics," said Amy Bach, executive director of the United Policyholders advocacy group.

Katrina inspired Nationwide's proposal, but the company says its expanded policies would benefit homeowners far from the Gulf Coast. Many of the homes damaged or destroyed this month by water from the swollen Mississippi River weren't covered by flood insurance.

Robert Hartwig, president of the Insurance Information Institute in New York, said the industry-funded group surveyed roughly 1,000 homeowners in the Midwest in May and found that only 17% had flood insurance.

"The proposal could be viewed as a win-win-win situation for consumers, for insurers and for the government," Hartwig said. "Katrina inspired a lot of innovative thinking by insurers and public policymakers, and this is one example of that."

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