

Beach Plan fix requires higher insurance rates on coast

"The state needs to do more to safeguard itself from hurricanes and make sure that all residents have access to affordable property insurance."

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WASHINGTON — Over the next few weeks, many coastal North Carolina residents will find an unwelcome surprise in their homeowner's insurance bill: higher premiums. While fast-rising property insurance bills in the midst of a recession aren't exactly welcome news, rate increases are absolutely necessary for the state to avoid a fiscal calamity that would lead to a mass exodus of private insurance companies.

Quite simply, Insurance Commissioner Wayne Goodwin inherited a mess in the form of the state's Beach Plan when he entered office at the beginning of the year. The Beach Plan was created as a "market of last resort" for people who couldn't find coverage at any price in the private sector. Relative to the state's population and hurricane risk, the Beach Plan's size has grown unwieldy. Only two vastly more hurricane-prone states, Florida and Louisiana, have similar programs proportionally as large as North Carolina's.

To shrink the Beach Plan's size, the rates need to go up. Just as people who receive a lot of speeding tickets pay higher insurance rates, people who live in hurricane-prone areas

should pay more for property insurance. It's only fair. And, by and large, people living on the coast can afford higher premiums. The truly poor, of course, rarely own homes, and, on balance, North Carolina's coastal counties have higher household incomes and less poverty than inland counties.

And, in any case, higher rates are necessary for the state as a whole. Currently, the Beach Plan could have to pay out more than \$70 billion all at once — something far beyond the state's capacity. In theory, this money would come from special taxes called assessments that insurers would pay and, ultimately, pass onto consumers. Under current rules, furthermore, insurers would probably have to pass the taxes onto people all over the state rather than just coastal dwellers.

Because of the lag time in passing on the taxes, the lack of certainty that the state would actually let it happen, and the chances that consumers might understandably object to massively higher rates, many insurers don't think the system is workable. For smaller companies, simply paying the assessment would likely result in the loss of the financial reserves they need to operate in any form. Larger insurers would see major hits to the profits and surpluses that stockholders and policyholders elsewhere in the country need to remain with the company. One large company, Farmers, already has announced plans to withdraw from North Carolina's homeowners' market rather than take on the risk of paying enormous

hurricane assessments.

Simply raising rates, however, isn't enough. As it continues to consider reforms, the state needs to do more to safeguard itself from hurricanes and make sure that all residents have access to affordable property insurance.

Two good models exist on either side of the state. Virginia, which has a larger population, more populated areas susceptible to hurricanes, and more total risk, has only about 1,000 coastal residents in its equivalent of the Beach Plan. Most people who buy coverage through Virginia's plan do so for only a year or two when they search for private coverage. If a massive Katrina-like storm hit the state, inland taxpayers wouldn't have any liability for coastal homes. Likewise, South Carolina runs an innovative program which offers tax credits to help homeowners of modest means buy property insurance and reinforce their homes against storms.

The North Carolina legislature, in short, needs to fix this state's broken wind insurance system and should work to do so quickly. Commissioner Goodwin knows the problems and seems committed to fixing them and helping residents who aren't well off. This week's rate increase, while painful, is necessary. To address the whole problem, the state must do more to fix the Beach Plan and encourage coastal residents to strengthen their homes against nature's worst.

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