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A storm of trouble

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By Marilyn Adams, USA TODAY

MIAMI — As coastal residents nervously await the start of a new hurricane season in June, they're confronting another fright: the exorbitant price and short supply of insurance for wind damage.

Huge losses from Hurricane Katrina and other hurricanes in 2004 and 2005 have sent the homeowners insurance industry into a panicked retreat from the USA's coastline. In Florida, which was hit by eight major hurricanes in two years, insurers are refusing to renew hundreds of thousands of homeowners policies to reduce exposure to claims.

Residents, many of whom are still patching up last year's hurricane damage, now face breathtaking insurance rate increases.

In Key West, homeowner Teri Johnston's wind storm premium has more than doubled from last year. The cost this year to insure her 1,500-square-foot home against fire, wind and flood: \$14,742.

Ida Franklin, 89, has lived in her little North Miami house for 39 years. She's paying \$5,100 a year in premiums for homeowners insurance, up \$1,000 from last year. Her insurance company paid \$10,000 to settle a 2005 hurricane claim. But she had to spend \$10,000 of her own money to fix damage that her bare-bones policy didn't cover. Just as worrisome: a critical shortage of contractors and roofing materials. Seven months after Hurricane Wilma ripped off Franklin's roof shingles, work finally began this week.

Franklin, a widow, shares the house and expenses with her daughter and son-in-law, Ellen and Clifford Wurtz. "If my kids hadn't moved in with me, I couldn't afford to stay here," she says.

As rates go higher and coverage is terminated, homeowners with mortgages have no choice but to find coverage at whatever price. Lenders require it.

Several states along the East and Gulf coasts, including Florida, Texas, Louisiana and Massachusetts, offer state-run insurance programs for coastal homeowners who can't get private insurance. Florida's program has grown so big, it's poised to become the largest insurer of homes in the state. But public programs are no bargain; most offer bare-bones coverage at a high price.

Many coastal residents are trading higher deductibles for premiums slightly lower than they'd otherwise be. Homeowners who have paid for their homes don't have to carry wind storm insurance, and some owners are opting to take the risk and do without.

A coastal wave

The insurance upheaval is not limited to Florida or other Southeastern states typically rattled by hurricanes. Alarmed by forecasts of more major hurricanes in coming years, insurance companies are canceling policies and refusing to issue new ones as far north as

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New York and Massachusetts and as far west as Texas.

Edward Liddy, CEO of Allstate, the USA's second-largest property insurer, says the scope of losses from Hurricane Katrina and other hurricanes last year — nearly \$58 billion — surprised the insurance industry.

"That told the entire industry that we need to do something differently," he says. Allstate paid \$5 billion in claims for 2005 hurricane damage.

Liddy's company recently announced it won't write new policies in metropolitan New York City and won't renew nearly 30,000 policies in that region.

It has been nearly 70 years since a major hurricane struck the New York area. Today, the insured value of coastal real estate in that area is almost as high as that along the entire Florida coast. Allstate is most exposed among the insurers, with a 25% market share in the New York metropolitan area.

Retired New York City police officer Owen Reiter of Staten Island couldn't believe it when he recently got a letter from Allstate.

It said his homeowners policy, in force for 21 years, would not be renewed because of last year's hurricanes in the Southeast. In the letter, Allstate said it believes hurricanes "are possible all along the East Coast in coming years."

When Reiter called another insurance company, he was told his premium would be \$975 a year, 80% more than he was paying Allstate. He's still shopping for coverage. "It's unfair," he says.

What's alarming insurance companies such as Allstate is not just the record insurance claims paid, but also the prospect of more frequent and more violent storms. The steamy tropical air and ocean waters that breed hurricanes off the coast of Africa are more conducive to hurricane formation than usual, the National Hurricane Center says. Government hurricane scientists here Monday predicted 2006 will be a "very active" hurricane season, with eight to 10 hurricanes forming in the Atlantic.

The scientists also have said hurricanes could pound the Atlantic and Gulf coasts with more frequency and intensity for a decade or more to come.

Scientists say the water in areas of the Atlantic Ocean where hurricanes form is running 1 to 2 degrees Fahrenheit warmer than normal. Also, crisscrossing winds that normally help prevent tropical disturbances from organizing into spiraling hurricanes are absent.

Meanwhile, more Americans now live along the coast than ever before, and the value of their homes has skyrocketed.

Not-so-sunny outlook

No place has been hit harder by the insurance industry's retreat than Florida, which has 2,100 miles of coastline and nearly 18 million residents. This is not Florida's first homeowners insurance crisis. That came after Hurricane Andrew demolished or damaged more than 100,000 homes near Miami in August 1992. Eleven small insurers failed.

But, since 2004, insurers have paid \$30 billion in Florida hurricane claims, wiping out years of profits here.

State Farm, the state's largest private property insurer, has requested a 70% average rate increase statewide, and a 95% rate increase for mobile homes. It won't renew 39,000 wind storm insurance policies, and is canceling all its condominium building policies, about 1,500 statewide.

"We're taking these steps so we can stay in Florida," says State Farm spokesman Chris Neal.

Meanwhile, Allstate, in addition to the New York pullback, announced it will not renew 120,000 Florida policies when they come up for renewal later this year. That's on top of 95,000 Florida policies Allstate decided not to renew last year. In Louisiana, many insurers are declining to write new policies in coastal areas south of Interstate 10.

Robert Hunter, insurance director for the Consumer Federation of America and a former insurance regulator, calls the insurers' pullback in Florida and elsewhere "bizarre."

"Insurance companies are supposed to bring stability to a situation, not instability," he says.

He thinks Florida should join other hurricane-prone states such as Louisiana and Texas to form a regional wind storm insurance program to spread the risk.

The scramble by Allstate, State Farm, Nationwide and other companies doesn't mean big insurers are losing money. Despite hurricane-related losses in several states, the property-casualty insurance industry posted a record \$43 billion in profits in 2005. But the same year, homeowners insurers paid out \$7.3 billion more in claims than they collected in premiums, according to the Insurance Information Institute.

Liddy, of Allstate, says the pullback in homeowners coverage is justified.

"If you look at the East Coast from Maine to Florida, there's a lot of exposure there," he says.

Insurance companies' hurricane losses have reverberated through the reinsurance market, where insurance companies go to insure themselves against huge, unanticipated losses. If insurers can buy reinsurance now, it's at least twice as expensive as a year ago, the Insurance Information Institute says. That's helping drive homeowners' rate increases.

High, higher ...

After years of extraordinary insurance rate increases, Johnston, the Key West homeowner, can't bear the thought of another.

"People think we live in million-dollar mansions," says Johnston, president of a homeowners group pushing for lower rates. "I'm living in a little concrete block house."

Johnston, who still has a mortgage, says her wind policy alone costs \$11,856, more than double last year's premium. It's almost four times what she paid in 2004. Her deductible is \$18,000, meaning she couldn't file a claim unless wind damage were to exceed that. She has never filed a wind damage claim.

Her wind storm policy is issued by Citizens Property Insurance, Florida's state-run insurer of last resort and the only company writing wind insurance in the Florida Keys.

Because of the retreat by private companies, Citizens is about to become the largest property insurer statewide, surpassing State Farm. Citizens is on the verge of inheriting as many as 300,000 policies from Poe Financial, a Tampa insurer forced this month to liquidate under the weight of last year's claims. If all those go to Citizens, it will swell to 1.1 million policies.

"If Citizens did not exist, there would be chaos here," says its chairman, Bruce Douglas, a Jacksonville businessman.

Citizens has requested a 45% average statewide rate increase for wind storm policies in coastal areas. In some parts of South Florida near Miami and Fort Lauderdale, rates could jump more than 60%. Fearing an unraveling of homeowners' insurance safety net, Gov. Jeb Bush last week signed sweeping insurance reform legislation. The new law allocates \$1.2 billion for Citizens and for preparedness programs. Citizens was left with a \$1.7 billion deficit after last year's claims.

The new law sets up matching grants to help lure new insurers to Florida. It requires the entire state to meet stronger building codes.

It also provides funds to help homeowners harden their houses against hurricanes with metal shutters over windows, tie-downs for roofs, stronger garage doors and other defenses.

Florida Chief Financial Officer Tom Gallagher, the state's former insurance regulator, advocates a federal catastrophe insurance plan financed by homeowners insurance premiums everywhere.

It would establish a fund to help pay for losses resulting from natural disasters whose damage exceeds a state's financial ability to recover, such as hurricanes, earthquakes, blizzards and ice storms.

"This is a national problem," says Gallagher, a candidate for the Republican nomination for governor. "We need national answers."

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