Insurers hit the road to limit climate risk
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An insurance company is visiting storm-raked states to build support behind a major reshaping of the industry to avert escalating losses from the swift rise of natural disasters like hurricanes.

The Travelers Institute, a policy group created by Travelers Insurance Co., launched a series of symposiums with state regulators and other participants to showcase the need for public policies that encourage homeowners to harden their houses, an effort that can reduce wind and rain damage by perhaps 70 percent.

The company, which has positioned itself as an industry leader on climate change, is also trying to build "momentum" behind another aspect of its "Coastal Wind Zone Plan," which has stirred controversy among critics since it was announced more than a year ago.

Travelers wants to make the federal government a reinsurer for the most violent storms, the type that might eclipse Hurricane Katrina in strength. The company is going to states that have the most to lose, as scientists warn of rising seas, higher storm surges and stronger hurricanes associated with a warming atmosphere.

"That's why we took this on the road. We said, 'Let's go to the states and have some discussion forums with those policymakers,'" Joan Woodward, Travelers' executive vice president for public policy, said in an interview. "We hope to kind of build momentum through these state meetings, and then come to Washington and have a federal symposium maybe next year."

But the company's effort to expand the government's role in disaster insurance steers it into a political storm that has raged for years. The top insurance regulator in South Carolina, the first stop in Travelers' swing through coastal states, told E&E that politicians have "messed up" public insurance programs, in part because they try to keep premiums low to benefit their constituents.

Everyone loves stronger buildings; that's where the agreement ends

The effort comes as seashore states struggle with potentially expanding risks from hurricanes, which have increased in number since the mid-1990s. Warmer ocean temperatures could also heighten the top wind speeds in the most ferocious storms as greenhouse gases accumulate in the atmosphere, scientists warn.

All of that is happening as seashore development continues, exposing states from Maine to Texas to potential insured losses of $9 trillion.

This year, however, the Atlantic storm season has taken a break as Pacific Ocean temperatures rise slightly from an El Niño effect. With less than a month until the hurricane period ends, only eight storms have been intense enough to earn a name, and just two hurricanes have formed. That's below the annual average of 10 named systems and eight hurricanes, two of them especially vicious with sustained winds of at least 111 miles per hour.

The United States might have escaped serious damage this year, but state insurance regulators from around the country acknowledged that it isn't ready for another cataclysm like Katrina. They voted last month on a controversial white paper that lays out different options to buttress the private insurance industry for the prospect of more mega-disasters.

Everyone agrees that new homes and businesses should be built stronger, and existing ones reinforced. The location of Travelers' symposium on Friday, Charleston, S.C., underscores that message. The state is considered a leader on averting, or "mitigating," damage by hardening homes. It has provided grants to homeowners totaling more than $4 million in the last three years to bolster roofs, which are vulnerable to hurricane-force winds and driving rain.

"We're making companies give mitigation credits, we're giving people tax credits for doing mitigation, [and] we've got a grant program that focuses on mitigation," South Carolina's insurance regulator, Scott Richardson, said in an interview. "So far, it's really done well for us."

'We're not looking for a bailout' in federal reinsurance

He noted that 15 new insurance companies have recently settled in the state. That's a bragging point in his region of the country, which has seen insurers abandon coastlines pummeled by hurricanes, saying regulators won't allow them to charge prices that match the risk.

Travelers' plan would divide the country's Atlantic and Gulf coastlines into zones, ending state-by-state regulation for hurricane insurance. Instead, the federal government would determine rates for each zone, apply catastrophe modeling and provide reinsurance to private insurers in the event of a "mega-cat."

That could reduce the cost of reinsurance for the industry, which would have to pass those savings along to customers. It would, Travelers believes, fix the lingering problem around insurance "affordability and availability" in hurricane stricken states.

"There would be no federal appropriation, if you will, or there's no federal entitlement associated with our plan," Woodward said. "So we are not proposing any federal spending. We're proposing, if you will, a market based pricing for reinsurance. It's just simply provided by the federal government. The carriers would pay the true value for that."

Government types 'messed it up'

There are concerns. Other public insurance programs, like federal flood insurance, have encouraged development in areas that flood by offering low-cost policies in high-risk areas, critics warn. State programs, like Florida's public hurricane insurance, have also contributed to the buildup of areas that could soften the blow of Mother Nature if they were left in their natural state, they add.

Travelers officials note that their plan is not subsidizing insurance. "We're not looking for a bailout," said Eric Nelson, the company's vice president of risk management.

The company is also open to new ideas, with officials emphasizing that they are willing to reshape their plan to find consensus among states before taking it to Congress.

But that could be a difficult challenge. South Carolina's insurance regulator said, "I'm not typically in favor of any government insurance program."

"If you look at the areas that are having trouble, it's typically the areas where the government's got in the middle of it and messed it up," Richardson said, noting that private insurers can't compete with the low rates offered by public programs.

"Politicians are very poor at pricing risk," he added. "I guess that's what I'd say. Look at any government entity that's actually tried to control the pricing on insurance, it ends up collapsing."