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Insurance Coverage Cut After Disasters

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Natural disasters such as Hurricane Katrina are sending insurance premiums through whatever is left of the roof.

Insurance companies, faced with unprecedented payouts because of devastating back-to-back hurricane seasons, are restricting coverage in a growing number of areas, especially along the Gulf and Atlantic coasts from Texas to Maine.

In 2004 and 2005, $75 billion in insured losses was reported, including $45 billion from Hurricane Katrina, according to a study by Ceres, a national coalition of investors, environmental groups and public-interest organizations.

As a result, in Louisiana and Florida, more than 600,000 homeowners' property policies have been canceled or not renewed in the last year, the study says. In Massachusetts and New York, private insurers canceled coverage for more than 80,000 coastal homeowners in the past two years, even though it has been decades since the last major hurricane hit the region.

As more private insurers refuse to issue new policies or renew existing ones, mandated state-run insurance "pools" are forced to take on more customers and more financial exposure.

Florida's insurance pool has swelled to about 1.5 million policyholders, and it recently needed a $715 million bailout from the state legislature to cover its losses.

Mississippi's Wind Pool, which insures coastal property, suffered a $745 million loss from Hurricane Katrina, $100 million of which was paid back with a federal block grant.

Businesses are also feeling the impact of coverage restrictions. With $10 billion in insured losses -- including the destruction of 116 oil platforms and 56 more severely damaged by 2004-2005 hurricanes -- insurance premiums have risen as much as 500 percent for offshore oil producers in the Gulf of Mexico.

Some insurance companies are reconsidering how they do business, according to the Ceres study.

There are 190 new products and services, such as "green" building credits and incentives for investing in renewable energy, available or in the pipeline from dozens of insurance providers in 16 countries, according to the report. Among them:

· Firemen's Fund Insurance is launching a first-of-its-kind "green" coverage, including rate credits and other incentives for commercial building owners who rebuild damaged properties using green and LEED-certified (Leadership in Energy and Environmental Design) building practices. Firemen's Fund will begin seeking state regulatory approvals to offer the products this fall.

Marsh & McLennan Cos. and American International Group Inc. offer carbon-emissions credit guarantees and other renewable-energy-related insurance products that allow more companies to participate in carbon-offset projects and growing carbon-emissions trading markets. The carbon-trading market in the European Union alone is expected to hit $30 billion by the end of 2006.

Insurer-initiated hurricane-loss prevention methods used at nearly 500 commercial locations incurred one-eighth as much damage from Hurricane Katrina as properties that did not make the engineering improvements, avoiding $500 million in property damage. Factory Mutual Insurance Co. says the $500 million in savings came after customer investments of only $2.5 million, and helped make the company profitable in a year when few insurers were.

Evan Mills, the Ceres report's lead author and a scientist at the Department of Energy's Lawrence Berkeley National Laboratory, said the offerings are impressive.

"The insurance sector is poised to make a major contribution to long-term national and international efforts to curb the growth of greenhouse-gas emissions, while helping to fortify society against the near-term impacts of climate change," Mills said.

"Last year's hurricanes were a real wake-up call for the industry, and many U.S. insurers are creating programs to help businesses minimize future losses. Many of these strategies represent new profit centers for insurers, rather than simply symbolic and charitable activities."