

Improving Availability and Affordability of Coastal Wind Storm Insurance

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The Travelers Institute hosted a panel discussion entitled, “Improving Availability and Affordability of Coastal Wind Storm Insurance,” at the May 10, 2010, Regulatory Roundup, an annual conference of insurance industry professionals and regulators in Austin, Texas. The Travelers Institute panel presented strategies and solutions to protect and insure residential properties on the Gulf and Atlantic coasts. The panel discussion is the fourth in a series of events addressing life safety, community development and financial threats posed to coastal areas.

Moderated by Joan Woodward, Travelers Executive Vice President of Public Policy and head of the Travelers Institute, the panel included:

- Eleanor Kitzman, former Director of Insurance, South Carolina;
- Debra Ballen, General Counsel and Senior Vice President of Public Policy, Institute for Business and Home Safety (IBHS); and
- Eric M. Nelson, Vice President, Personal Insurance and Risk Management, Travelers.

Setting the context for the panel, Woodward stated, “The Travelers Institute is committed to participating in public dialogue with policymakers to contribute to solutions on matters of importance to our customers, our agents and brokers, and the communities we serve.” She continued, “The availability and affordability of named wind storm insurance is a challenge for many coastal residents, and we hope to encourage the public and private sectors to work together to create effective, sustainable solutions to this crisis.”



Eleanor Kitzman, Former South Carolina Director of Insurance



Joan Woodward, Travelers Institute; Eleanor Kitzman, former South Carolina Director of Insurance; Debra Ballen, IBHS; Eric Nelson, Travelers

In outlining South Carolina’s experiences in the residential coastal property insurance crisis, Eleanor Kitzman shared that while she was the Director of Insurance, the issue of coastal homeowners insurance consumed about 75 percent of her time. In 2007, the state adopted several positive reforms designed to create a consistent insurance market. Among the reforms were market-based regulatory approaches and establishment of SC Safe Home, a grant program for South Carolina coastal homeowners to enhance their property’s resistance to hurricane wind damage.

“There are few problems that can’t be solved with more capital. The need several years ago and still today is to attract new insurance carriers to the coast despite the risk of losses and volatile weather,” said Kitzman. She added, “While there is no silver bullet, educating consumers and legislators on the importance of mitigation and building code enforcement will move us closer to stabilizing the market.”

Debra Ballen addressed the efforts by IBHS to encourage homeowners to adopt mitigation techniques and to enhance building codes and strengthen their enforcement. She reviewed the IBHS “building performance chain,” a comprehensive approach which includes appropriate land use planning, modern building codes, retrofitting of older homes, and continued maintenance of homes, such as periodic inspections of the roof and windows.

She also offered a real-life example of the benefits of mitigation. In 2008, after Hurricane Ike hit the Bolivar Peninsula in Texas, the only buildings remaining were 10 homes built to the IBHS FORTIFIED for Safer Living® standard.



Debra Ballen, Institute for Business and Home Safety

“While we were thrilled to see the benefits of building more durable homes, the example of Bolivar Peninsula raises the larger issue – while 10 homes survived, the community did not,” said Ballen. “In order for communities to remain intact as a result of devastating storms, we need broad adoption of mitigation techniques and building codes to minimize these catastrophic losses.”

Additionally, Ballen gave the audience a preview of the IBHS research center being built in Chester County, S.C. The center, slated to open in October 2010, will simulate Category 3 hurricanes, as well as wind-borne hail, rain and wildfire, and will be used to identify and promote effective property loss reduction and prevention approaches. This research should provide valuable, objective information for development of meaningful public policy to reduce property losses.

Eric M. Nelson presented the Travelers Coastal Wind Zone Plan, the company’s comprehensive proposal to improve availability and affordability of coastal homeowners insurance.

The Travelers proposal includes four key principles:

- A stable and consistent regulatory environment, with a uniform set of rules applied to named wind storm coverage for coastal zones from Texas to Maine;
- Transparency in calculating insurance premiums;
- Federal reinsurance at cost for extreme events; and
- Stronger buildings through federal guidelines for appropriate building codes and land use planning.

Nelson placed particular emphasis on the need for stronger buildings to lower potential losses from hurricanes. He provided an example of the impact of mitigation techniques on reducing losses, reporting key findings from the Travelers Personal Insurance catastrophe research team. The research showed that during Hurricane Ike, older construction (pre-1995) suffered more than 70 percent of the losses; although houses from this era represented only about half of the buildings.

The panel presentations and discussion reinforced that the solution for protecting the Gulf and Atlantic coasts is dependent upon the maintenance of a strong private insurance market, greater focus on loss mitigation and risk management, improved land use planning and stronger and enforced building codes.



Joan Woodward, Travelers Institute