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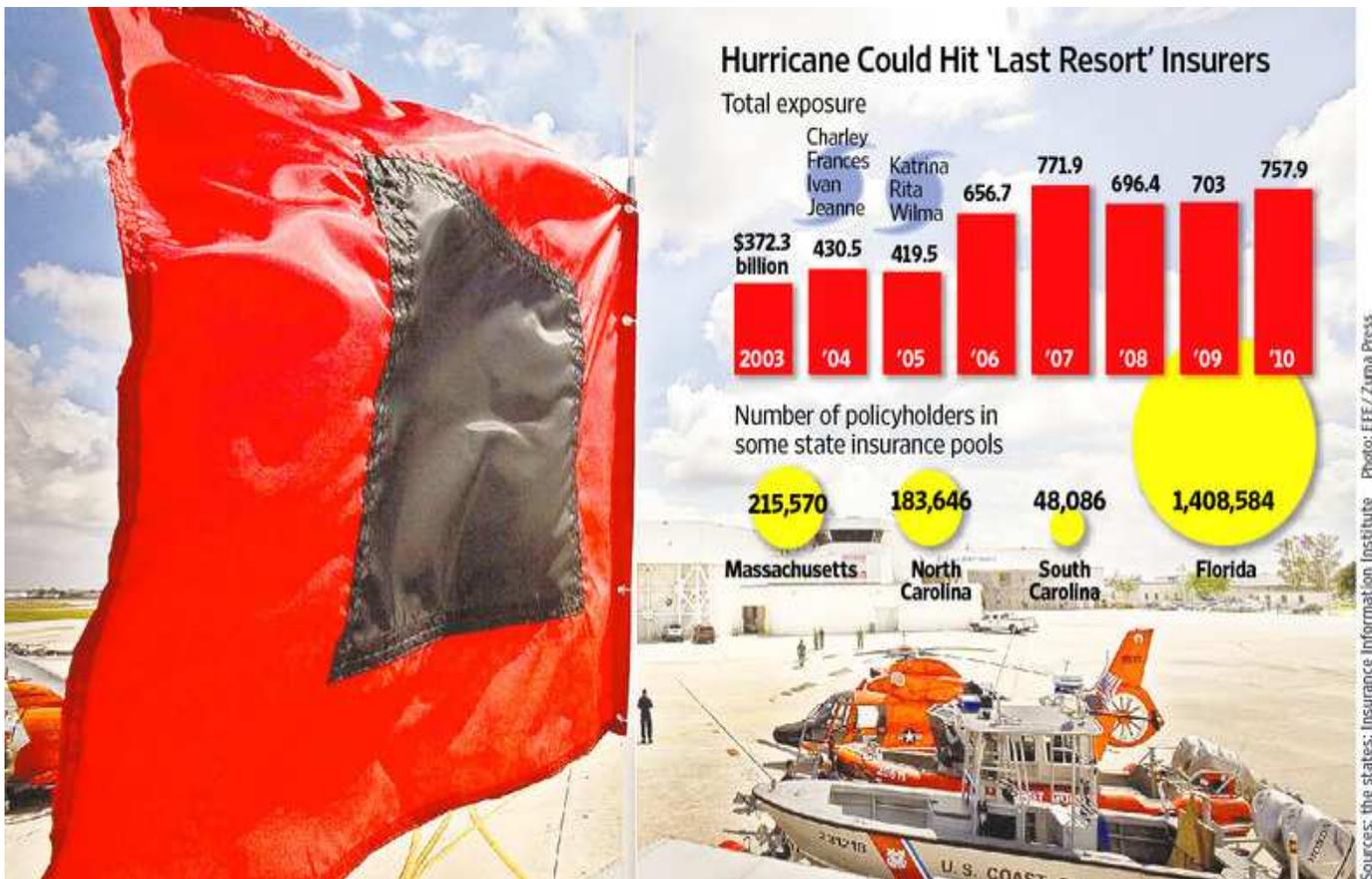
## Irene on Path to Test Coffers of State-Run Insurers

By ERIK HOLM and LESLIE SCISM

Hurricane Irene could be a major test of "insurers of last resort" created by U.S. states to protect homeowners marooned by private insurers.

Of the 14 U.S. states in Irene's projected path as of late Wednesday, at least 10 of them run insurance pools for homes in vulnerable areas. Those insurers, which have ballooned in size in recent years, now have about 677,000 policyholders and overall exposure of \$196.2 billion, according to the states.

But in many states, such pools rely on homeowners far from the coast to pay for any funding shortfalls if a mega-storm drains the pool's capital. In Florida, for example, people insuring their cars, boats and small businesses can also get hit with surcharges to help pay for the state pool's hurricane claims. (STORY CONTINUED BELOW)



Many private-sector carriers began shrinking their exposure to coastal areas in the 1990s, often after complaining that regulators and lawmakers wouldn't let them charge rates that reflect the risks of doing business in areas where hurricanes hit. As a result, total exposure of state-created pools in the U.S. is up 81% to \$757.9 billion of property from 2005, the last time a major hurricane hit the East Coast.

If Irene stays on course, it could reach Category 4 strength by Thursday, with winds of at least 131 miles an hour, and hit North Carolina's Outer Banks on Saturday, the National Hurricane Center said. Authorities began evacuating parts of the barrier islands Wednesday.

More than half of the total property-insurance exposure along the North Carolina coast belongs to the state's last-resort insurer, the Beach Plan, which was created in 1969 to cover barrier islands near the Atlantic Ocean. Lawmakers expanded its territory in 2003 to all 18 coastal counties.

North Carolina officials say the insurer would lean on its current surplus of about \$775 million to pay claims if Irene strikes. If the surplus is drained, as much as \$2.25 billion in losses would be covered by reinsurance and the Beach Plan also has the power to assess private-sector insurers. Beyond that, the Beach Plan would resort to emergency municipal-bond sales and surcharges on North Carolina homeowners with private-sector insurance. A Beach Plan representative declined to comment Wednesday.

Homeowners insured through companies other than the Beach Plan would have to bail out the Beach Plan only if a "one-in-134-year" storm hits, officials estimate.

Still, critics say the worst-case scenarios underscore deeper problems with insurers of last resort. Many of the pools are in the same uncomfortable spot as North Carolina, with capital cushions that could be wiped out by one mega-storm, or several midsize ones.

In addition, by trying to keep rates affordable for homeowners, the last-resort insurers help fuel coastal development that puts homeowners across the state at financial risk, some critics say.

"The people who live at the beach get to enjoy the benefits, but they don't bear all the risks, and those of us who don't live on the beach don't get the daily benefits but do bear some of the risks," says Thomas Birkland, a professor of public policy at North Carolina State University in Raleigh.

In recent years, homeowners in Louisiana and Florida have paid emergency assessments. The state of Texas has assessed private insurance companies to help cover shortfalls.

Overall, North Carolina's Beach Plan has \$69.3 billion in exposure out of the \$132.8 billion total along the state's coast, according to disaster-modeling firm AIR Worldwide. The number of policies issued by the pool is up 82% since 2005. Such jumps are "staggering," says [Robert Hartwig](#), president of the Insurance Information Institute.

Lawmakers and regulators in North Carolina have reinforced the Beach Plan's financial foundation by increasing rates and deductibles, slicing coverage limits and making other changes.

The last major hurricane to hit North Carolina was Floyd in 1999. Hurricane Hazel, a Category 4 storm in 1954, would result in \$1.34 billion in damage insured by the Beach Plan if it hit in the same location now, according to disaster models cited by state officials. The largest private-sector insurer in the state, State Farm Mutual Automobile Insurance Co., has about 20% of the market, according to SNL Financial. Much of State Farm's business is from insuring less-risky homes inland.

Regulators don't allow private-sector insurers to raise money after a disaster in order to pay claims. Instead, those insurers must hold sufficient capital to meet potential obligations. State Farm has \$61.2 billion in surplus backing policies across the U.S.

In Florida, state-run Citizens Property Insurance Corp. has been the largest home insurer since 2006 and is one of the nation's 10 largest insurers in premium volume. Citizens has potential exposure of \$406 billion and \$13 billion available to pay claims before it would have to levy assessments.

U.S. property and casualty insurers began the current hurricane season with one of their plumpest capital cushions ever, a surplus of \$565 billion. The pile is enormous despite tens of billions in reinsurance claims from earthquakes in Japan and New Zealand and flooding in Australia.

Reinsurers provide backup coverage to insurers, taking responsibility for some of their claims. Many reinsurers are based outside the U.S. and their capital is also considered ample by ratings firms.

A Category 5 storm, with winds of at least 156 mph, could result in about \$100 billion in insured damage if the hurricane made a direct hit on a major East Coast city, disaster modelers say. That would seriously weaken the U.S. property-and-casualty industry, analysts say.

Even if Irene loses its punch or veers away from the East Coast, researchers are predicting an unusually active storm season through the end of November. According to Colorado State University scientists, there are likely to be five major hurricanes, up from the historic average of 2.3.

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