WNC shouldn't pay insurance bill for coastal mansions

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A hurricane that makes landfall along the North Carolina coast could trigger a 10 percent — or greater — surcharge called a "catastrophic assessment recoupment" on homeowner insurance policies in Western North Carolina. A bill currently in the N.C. House would cap the financial risk from catastrophic loss to property owners along the coast, allowing insurance companies to pass along rebuilding costs to all N.C. policyholders.

House Bill 1305 is an effort by the General Assembly to fix the North Carolina Beach Plan, a little-known program established in 1969 to make affordable, state-subsidized property insurance available to a limited number of people on North Carolina's barrier islands who could not afford to buy it through the standard insurance markets.

Special interests

Like many government efforts with good intentions, the Beach Plan has been manipulated by special interests. What was once an insurer of last resort is now the de facto first choice for property insurance, available to anyone regardless of need in 18 coastal counties. Today, the plan insures nearly 176,000 coastal properties valued at $73.6 billion.

Because premiums are kept artificially low, the Beach Plan doesn't have enough money to cover potential damages. In fact, the plan has only enough money in reserve to pay a fraction (3-4 percent) of the $74 billion it insures should a major hurricane — or series of storms — hit the coast.

For comparison, the state's entire budget averages around $21 billion per annum. One storm could bankrupt the Beach Plan, and even the state.

The Beach Plan requires more than a fix. It needs a major rethinking.

This kind of government interference in the free market is almost always a bad idea. By tinkering with market-driven property insurance rates, the state has elected to subsidize the development of vulnerable coastal areas, exposing all North Carolinians to the risks of hurricane impacts.

Some insurance companies have already stopped writing policies in North Carolina because they were required to participate in the Beach Plan and faced open-ended liability.

To many, the idea of government-subsidized health care for all is a seen as a recipe for disaster. Yet, in North Carolina, there is no sense of irony that we have massive, government-sponsored private property insurance while many political leaders still ridicule the idea of socialized medicine. There is no doubt that sometime in the future, North Carolinians will find out why this gamble is fiscally irresponsible.

Not surprisingly, HB 1305 has the support of the property insurance lobby, coastal politicians, coastal property owners and even N.C. Insurance Commissioner Wayne Goodwin, who recently told legislators if they didn't act, many North Carolina consumers will not have insurance to rebuild after a Hurricane Hazel-type storm.

Of course, from a scientific perspective, it is clear that there are many areas of the coast that should not be rebuilt following the next hurricane — many areas that have suffered repeated losses. The state certainly should not be encouraging redevelopment in these areas by subsidizing the risk.

Many supporters of HB 1305 have an overly optimistic view of hurricane risk in North Carolina. John McMillan, lobbyist for the Insurance Federation of North Carolina believes the possibility of such a surcharge in WNC is "very, very remote." Tommy G. Thompson, president of N.C. 20, a nonprofit group that represents coastal counties, said his group supports the 10 percent surcharge "only because we don't think it will ever be enacted." This is wishful thinking. Hurricane Ike, a Category 2 storm at landfall, caused $2.7 billion in wind damage in Texas last year — more than enough to trigger a statewide insurance assessment.

We are not unsympathetic to those living and working in North Carolina's coastal counties. We all certainly have an interest in allowing folks to continue to do things such as farming and fishing on

the coastal plain. We are less sympathetic to providing state-subsidized insurance of up to $1.5 million per home for investment property and vacation homes on or near the oceanfront.

Reform the costs

The Beach Plan should be fixed by deeply reforming the program rather than simply trying to spread the costs to those who have no vested interest in coastal property. The single most important change is to make Beach Plan policy premiums actuarially correct, as they are in Raleigh, Greensboro, Charlotte, Asheville and anywhere subsidized property insurance is not available.

This would certainly raise the cost of a policy, but higher rates could be used to subsidize insurance for those who really need it. Owners of investment property or multimillion-dollar vacation homes would need to find creative ways of pooling risk.

Additionally, $1.5 million is a very high maximum payout. The National Flood Insurance Program has an upper limit of $250,000 per structure. A ceiling of $250,000, or somewhere thereabouts, should cover most inland residents of coastal counties. Others could be offered an opportunity to purchase supplemental insurance at market rates.

Whatever the outcome, reforms should seriously acknowledge the risk associated with living in vulnerable areas. State policies should discourage investment in areas we know will be affected by storms while providing the bare minimum insurance needed to allow working families to lead productive lives in our coastal counties.

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