

Gustav, threat of other storms could stir lawmakers

Mon Sep 1, 2008 5:19 AM ET

By Lilla Zuill - Analysis

NEW YORK (Reuters) - Three years after Hurricane Katrina wreaked havoc along the Gulf Coast, U.S. lawmakers have yet to set a policy for how the cost of future catastrophes should be split between public and private sectors, if at all.

On Friday, Gulf Coast residents marked the three-year anniversary of Katrina, which left billions of dollars in damage, displaced a million people and was the cause of 1,200 reported deaths.

At the same time, the region is preparing for Tropical Storm Gustav, which killed at least 72 people in the Caribbean in mudslides and floods, and could strengthen into the most powerful hurricane to hit the U.S. Gulf Coast since 2005.

Gustav and forecasters' predictions of more intense catastrophe activity in years to come are putting pressure on Washington to devise a formal policy.

There have been at least half a dozen proposals made, but so far nothing has been signed into law. The issue is complicated by some regions being more prone to disaster than others, raising the question of who should foot any federal costs.

Insurers themselves are divided on what the federal government's role should be. So too are those in Washington, including presidential candidates Barack Obama and John McCain, with the former a supporter of greater federal involvement and the latter a more free-market approach.

"Major catastrophic events are likely to stimulate and rekindle debate on the issue," said Robert Hartwig, president of the Insurance Information Institute, a New York trade group. "But the two candidates for president seem to have different views on the issue so that influences potentially what would happen," he added.

BILLION DOLLAR HEADACHE

Private insurers paid out more than \$40 billion to cover damage from Katrina in 2005, and at least \$30 billion more for damage from Rita and Wilma, hurricanes that hit later that same year.

But because standard home policies do not generally cover flood damage, the federal government was also left to pick up a sizable tab from Katrina, paying out about \$16 billion for flood damage. It also forked out about \$100 billion more for disaster relief.

Some argue the federal government needs a formal policy so that money is set aside for such catastrophes, rather than having to come up with the funds after the fact.

Proposals currently on the table could see the federal government step up its participation in a number of ways, including creating a federal catastrophe reinsurance backstop to cover state losses, or the addition of wind coverage to the national flood scheme.

Insurers such as Allstate Corp <ALL.N>, the largest publicly traded U.S. home insurer, and Hartford Financial Services Group Inc <HIG.N> support increased federal participation, at least in some fashion.

Under one of the proposals, the Homeowners Defense Act, state-run insurance ventures would be able to transfer some of the risk to the private market, and set up a federal loan program.

New York Senator Hillary Clinton has introduced a similar Senate bill that is supported by Obama.

Protecting America.org, a coalition founded by Allstate, says the measure is "an integrated solution" that could cut more than \$11 billion each year from homeowners' insurance premiums.

Others -- including many reinsurers who provide back-up coverage to other insurers -- are opposed to such measures, saying there is sufficient capacity within the private sector, and that federal schemes would be at risk of being underfunded.

A recent report, sponsored by two reinsurance trade groups representing the interests of both U.S. and foreign reinsurers, also raised the possibility that current proposals could contain large hidden costs.

Robert Shapiro, the report's lead author, said ultimately taxpayers across the country could, under such measures, have to foot hundred-billion-dollar bills for damage to coastal properties, based on storm activity comparable to the 2005 hurricane season.

"These legislative changes could cost the federal government some \$140 billion to \$161 billion in 2009, \$197 billion to \$230 billion in 2013, and \$278 billion to \$332 billion in 2017," said Shapiro, a former undersecretary for commerce in the Clinton administration.

Shapiro said he had used conservative assumptions in his calculations, and that figures could be higher as populations grow, and costs for such things as building materials rise.

"If the country wants to assume this responsibility, OK, they can assume the responsibility but they should understand what its dimensions are," Shapiro said.

(Editing by Gary Hill