

Insurance costs become 3rd storm By Kathy Chu, USA TODAY



Robert Green sits on what's left of his New Orleans home after Hurricane Katrina

NEW ORLEANS — Robert Lynn Green Sr.'s sign stands outside his FEMA trailer here in the Lower 9th Ward, a neighborhood flooded after Hurricane Katrina, proclaiming: "If You Build It They Will Come."

It's a vision of hope, of faith, of recovery. Yet that vision is ever more elusive for people here. In this once-vibrant community, still largely shuttered 19 months after Katrina, empty tracts stretch for blocks.

The rebuilding of Green's neighborhood and others in Louisiana and Mississippi hinges on many factors, including the need for more construction aid. But perhaps nothing has slowed rebuilding more than the rising cost and fading availability of insurance.

Homeowners and business owners say their premiums have doubled or tripled since Katrina. Businesses are delaying rebuilding. Workers have been slow to return. Sky-high insurance has become what Mississippi Attorney General Jim Hood calls the "third storm" to hit the region — behind Katrina itself and the legal disputes over insured damage.

As insurance turns into a crushing burden for residents, a ripple effect is threatening jobs, and by extension, the region's recovery. Employers are finding it difficult to recruit workers, who simply can't afford home insurance or can't obtain enough of it. High insurance rates are offsetting grants and tax breaks state and federal governments have dangled to try to spur development. And some businesses say insurance woes are driving them out of the state.

Katrina killed Green's 73-year-old mother, Joyce, and 3-year-old granddaughter, Shanai, and

washed away his house. Now, with insurers jacking up rates or even refusing to issue policies along the Gulf Coast, Green's difficulty in obtaining homeowners insurance is another setback in his struggle to rebuild his home and reclaim his life.

Insurers "want to do business when it's good and don't want to do business when it's not," says Green, 52, who plans to buy a policy from the state-created insurer, Louisiana Citizens, which provides last-ditch coverage — at rates of at least 10% higher than the private market — to homeowners who can't buy insurance elsewhere.

"It serves a purpose for them to say that the risk here is so great they can't insure us," Green says. "It makes it harder," he says, "for people to come back."

In some Louisiana and Mississippi neighborhoods, the lingering effects of Katrina are written in the "for sale" signs that outnumber those proclaiming, "I will rebuild."

Hurricane Katrina caused major or severe damage to about 267,000 homes in Louisiana and Mississippi. It also shut down thousands of businesses.

One of the businesses that hasn't been able to reopen is Mermentau Convenience, Seafood and Tavern, in Grand Chenier, La., which sold shrimp, crabs and catfish.

Owners Penelope and Keith Courvelle say they can't rebuild their seafood business because they can't afford the insurance they'd now face: \$13,000 a year, about seven times what they paid before Katrina. "If I could break even, I would already have rebuilt this business," says Keith, 50.

Ongoing disputes

Surging insurance prices come as hundreds of homeowners and business owners remain locked in disputes with insurers over payments for Katrina damage. "That is just one of the biggest stories in people's lives here: dealing with insurance issues," says Andy Kopplin of the Louisiana Recovery Authority, a state agency created after Katrina to help rebuild Louisiana.

A few miles from the Courvelles, Yancy and Terri Welch have been living in a trailer since the hurricane because they've received no compensation from a homeowners policy for Yancy's destroyed home. All that's left of the house is the foundation.

"We're almost at the point now where since homeowners (insurance) hasn't paid anything, we're not going to get (insurance) when we do rebuild," says Terri.

The Welches hope to use any payout to build a home.

Yet most homeowners are required to insure their home because they have a federally regulated mortgage. Some homeowners here are hesitant to rebuild without some assurance that insurance prices will decline. Homeowners rates have as much as doubled along the coast since Katrina; business rates rose even more.

"People are willing to put up with a lot to come home," says Rep. Bobby Jindal, R-La. "But the cost of living has gone through the roof."

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The insurance industry is the number one reason post-Katrina recovery has dragged on and on... This is because of sky high premiums and the lack of companies willing to write policies. Even still, elected officials cow-tow to the industry.

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Morris Strickland, a business owner in Ocean Springs, Miss., says he can't afford to rebuild his furniture shop or oil-change business, which were wiped out by Katrina, because of skyrocketing insurance. He's also rethinking plans to develop a shopping plaza and a housing complex.

"The rate increase has affected everything," Strickland says. "I can't afford a 400% increase like this. I don't know how any businessman can."

Insurers say they've had to raise rates sharply along the Gulf Coast and in other coastal areas because these areas seem increasingly vulnerable to hurricanes. Besides paring back or dropping coverage to homes and businesses along the Gulf Coast, insurers more often are requiring policyholders to pay 2% or more of any property damage before insurance kicks in.

"With predictions of more intense and frequent hurricanes, the degree of risk has grown," says Robert Hartwig, chief economist for the trade group Insurance Information Institute. "Insurance needs to reflect the risk of underwriting in these areas."

Consumer advocates, though, complain that insurers are raising rates unfairly. After Katrina, insurers began using a new risk formula that increases the projected short-term losses in coastal areas such as the Gulf Coast. That means higher rates for homeowners.

The Consumer Federation of America and the Center for Economic Justice have criticized this new model as flawed because it emphasizes five years of loss projections. Insur-

ance rates historically have been based on at least 100 years of losses in a region. That reduces the impact that any one storm, such as Katrina, has on rates, says J. Robert Hunter, director of insurance for the federation.

Profits keep coming

Insurers, which earned a record \$43 billion in profits in 2005, are likely to have reaped \$59.8 billion in profits in 2006, according to the Insurance Information Institute. Industry groups say insurers are posting big profits despite paying \$40.6 billion so far for Katrina damage — more than for any other natural disaster in history — thanks to sound investments, profits in other states and lines of business other than property insurance.

Insurers can't use those profits to lower rates such as those on the Gulf Coast, Hartwig says, because "insurance law in every state requires that premiums be based exclusively on that state's experience" with losses.

State officials in Louisiana and Mississippi say they're working with insurers to ease rates and widen availability of homeowner policies. But they fear that if they push too hard, insurers will stop operating in the states. Prices would likely then rise further because of less competition.

State Farm has said it will stop writing new homeowners policies in Mississippi, partly because of ongoing lawsuits that seek to force it to pay for Katrina-related damage.

Michael Olivier, secretary of the Louisiana Department of Economic Development, says the state "does not wish to be adversarial" in trying to resolve

insurance problems but "wants to work with the insurance industry" to make insurance available at lower prices.

Meantime, Jindal, the Louisiana congressman, and Rep. Gene Taylor, D-Miss., are championing a proposal for a national insurance program, which would be run by the U.S. government and protect homeowners against wind and other perils that insurers increasingly don't cover. This plan — which would be available to homeowners nationwide — would expand the government flood insurance program, which insures against flood damage to homes and businesses.

As the cost of insurance approaches the level of their mortgage payments, more homeowners and businesses are moving out of affected areas.

Some say it's not just the price of insurance; it's that they can't get enough of it.

After Katrina, "Literally, our insurance costs more than doubled. There was a \$1 million increase in our premium per year," says Tom Oreck, CEO of Oreck, a vacuum-cleaner maker with a facility in Long Beach, Miss. "That's bad but not the difficult part. The difficult part was the best we could do was get one-third of the pre-Katrina coverage."

Adding to those troubles, only half the company's workforce of 500 returned to the area. "We increased the pay, but it did not keep up with the increased cost of living," Oreck says. "The main problem was difficulty getting enough workers at any price."

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Oreck says insurance and labor problems, along with other "harsh realities of living on the Gulf Coast" are forcing the company — one of the first to reopen after Katrina hit — to move its manufacturing plant to Cookeville, Tenn.

Other companies also have raised pay to try to attract workers. McDonald's restaurants along the Gulf Coast are offering estimated starting wages of \$8.75 to \$10 an hour, up to 13% higher than before Katrina, says Bill Garrett, a McDonald's vice president.

Bernard Charbonnet Jr., a member of one of the oldest families in New Orleans, is selling his house there and buying one in Baton Rouge. He hasn't received adequate compensation from his insurer for Katrina damage to his office and home, he says, and now faces pricier insurance.

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More financial blows

As rebuilding stalls, businesses that have reopened are absorbing a financial blow, too.

In Biloxi, Miss., Dung Trinh and Lam Nguyen are rethinking their decision to open Pho 777, a Vietnamese noodle shop a few blocks from the white sands of city beaches. Their previous restaurant was badly damaged, and the landlord hadn't decided what to do with the building. So

they opened this shop six months ago a few miles from the former location, paying about triple their previous rent and insurance.

This area once teemed with Vietnamese homeowners and business owners. But many residents have left, at least temporarily, because of property damage, Trinh and Nguyen say. Those who remain are more apt to use their money to repair their homes than go out to dinner.

On a recent Monday at 7 p.m., the restaurant had only a few customers, including two Biloxi police officers drawn by the \$6 all-you-can-eat special offered to on-duty officers in uniform.

Trinh, 46, says it's difficult to find workers. "Maybe it was the wrong time to open the restaurant."

Fifty miles away, in Bay St. Louis, Miss., an artist's haven by the sea, Maggie May's art gallery is struggling because of rising insurance costs and fewer customers.

State and federal grants to homeowners, along with low-cost loans to businesses, are helping rebuild Bay St. Louis, says Dave Moynan, a co-owner of the gallery. But government grants, he says, took months to get to homeowners. Businesses have received loans but have gotten no government grants, according to the state.

Other businesses say high insurance is offsetting credits such as the federal Gulf Opportunity Zone tax breaks, which let businesses deduct costs for cleaning up and rebuilding in the affected areas. "We're coping as best we can because we chose to be here," Moynan

says. "But we haven't recovered."

Across the street, jewelry designer Deborah Kennedy, whose former shop was damaged by the storm, says she'll have to wait until summer to see whether she can stay in business in Bay St. Louis. That's when her homeowners and business insurance policies are up for renewal. She fears her rates will rise sharply. "If we lose our businesses, we lose our homes."

Back in New Orleans' Lower 9th Ward, Green says pricier insurance means even those who rebuild will make big sacrifices. "If you have to pay \$4,000 for insurance, and you only make \$8,000 or \$9,000 a year, you've got to eat, you've got to pay electricity," he says. "You can't pay for your medication. It's not going to be good for a lot of people."