

As Premiums Rise, Homeowners Drop Wind Coverage

By LIAM PLEVEN Wall Street Journal

A small but growing number of homeowners are taking an extreme approach to insurance against hurricane winds: They're going "bare" -- doing without the coverage entirely.

Florida this year passed a law making it easier to opt out of wind coverage amid a voter backlash over soaring premiums, and the practice is also appearing in other states, particularly those along the Gulf Coast hit hard by recent storms.



Reuters

A tree rests on a house in Beaumont, Texas, after Hurricane Rita hit in 2005.

While the option of doing without wind coverage is generally limited to people who don't have mortgages -- banks typically require borrowers to carry insurance -- even a slender increase in those going uncovered could have broader repercussions in the wake of another major storm. A drop in insurance payouts could leave storm-struck areas with fewer resources for rebuilding and shift some of the burden to taxpayers. That more individuals are opting to go without coverage also underscores the breakdown of the insurance system in coastal areas.

Nobody tracks how many Americans are going without wind coverage, and it's likely still rare -- most homeowners do have mortgages and 96% carry some

kind of home insurance, which often includes wind coverage, according to the trade group Insurance Information Institute. Moreover, in some coastal states, wind coverage is typically included as part of a general policy, making it harder to drop. Nevertheless, people in the insurance industry say it occurs, and some say they see an increase.

"There's no doubt in my mind that there are more people going bare than in the past," says Robert Rusbuldt, chief executive of the Independent Insurance Agents & Brokers of America, an Alexandria, Va.-based organization that represents 300,000 agents and brokers nationwide. "They're betting against Mother Nature."

Mr. Rusbuldt says a survey conducted for the group in May concluded that nearly three million Americans were dropped by their home insurers in the past two years -- more than two-thirds of them in 16 Southeastern states. The survey had an average margin of error of 3.7%. "You have to assume" that some of those people did not get new wind coverage, he says.

After the devastating hurricanes in 2004 and 2005 caused more than \$150 billion in damages, much of which they had to pay for, insurers have increased rates dramatically while dropping clients they consider high-risk. Allstate Corp. -- which insures nearly one out of every eight homes in the U.S., according to A.M. Best Co. -- has moved to shed roughly 290,000 customers in hurricane-prone states since Katrina, most of them in Florida.

Customers can choose to drop wind coverage on their own. "We work with them to make sure they are appropriately covered," says Mike Siemienas, an Allstate spokesman. But, he adds, "At the

end of the day, it's the customer's decision."

The federal government handed out at least \$6.5 billion in grants and aid money after Hurricane Katrina hit in 2005 -- some of which went to help people who didn't have government-backed flood insurance. But one of Katrina's consequences was a sharp jump in premiums for wind coverage from private insurers, which doubled or tripled in some coastal areas. Some homeowners are doing the math and concluding it can be more cost-effective to cover rebuilding costs out-of-pocket, rather than paying big annual premiums.



A house in Lake Charles, La., with roof damage after Hurricane Rita.

Kathy Sansbury dropped coverage on her Fort Lauderdale, Fla., townhouse after the premium roughly doubled in December, to nearly \$9,000. At that price, she and her husband concluded that after paying the higher premium for just 13 years, they would have spent enough to rebuild.

"It doesn't make sense, as expensive as it is," she says.

At the other end of the spectrum are individuals who either can't afford soaring premiums, or who have concluded that their homes aren't worth enough to warrant the price of coverage at all.

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Many consumers who do not have mortgages are going without homeowners coverage because of soaring premiums and fears the insurer won't pay when a claim, covered by the policy, is made.

There's also interest in self-insurance pools. Homeowners are "looking for ways to bypass insurance companies," says state Sen. Don Gaetz, a Republican who represents part of the Florida Panhandle.

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As Premiums Rise.....

"There's no incentive to have my home insured," says Melissa DeStio, who owns a roughly 30-year-old mobile home in Boynton Beach, Fla., that she estimates is worth up to \$6,000. "The premium far exceeds the benefit, after you pay the deductible."

Some insurance agents say they are seeing an increase in the number of clients who have taken the plunge of going uncovered or discussed the option. Alex Soto, who heads InSource Inc., a Miami insurance agency, estimates that 2% to 3% of his clients have dropped wind coverage. Five years ago, he says, such a step was almost unheard of.

Earlier this year, a number of homeowners in the New Orleans area opted to go without wind coverage after being dropped by their prior carriers and electing not to turn to Louisiana's insurer of last resort, says Marc Eagan, president of Eagan Insurance Agency. He estimates that 500 of his agency's 9,000 homeowners' insurance customers are currently without the coverage. But Mr. Eagan adds that the market's improving because no storms have struck the area so far this season, and he expects more insurers will be willing to offer coverage at rates that appeal to customers.

The recent upheaval in the insurance industry has led to a dramatic rise in the number of peo-

ple getting insurance through state-created insurers of last resort. These insurers sell insurance to people who can't get coverage otherwise, often at much higher rates than they got in the private sector. For instance, Florida's insurer of last resort, Citizens Property Insurance Corp., now insures more than 1.3 million homes, more than any other company in the state.

Until recently, insurers in Florida were required to include wind coverage in all policies they sold, except in particularly high-risk areas. But in response to anger over rising premiums, lawmakers passed new rules -- which took effect July 1 -- letting insurers sell policies without wind coverage to any Florida homeowner willing to sign a statement that they don't want it.

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Companies including Walt Disney Co. and Wal-Mart Stores Inc. have said they now carry less

insurance against hurricane damage after storms the past few years. In a recent filing with the Securities and Exchange Commission, Disney blamed "recent weather events" for its inability to purchase as much wind insurance as it previously carried. As a result, the company says it is "carrying more self-insurance ... than we have in the past." Disney's main property in a hurricane-prone state is the Walt Disney World theme park in Florida. But for some homeowners, dropping insurance simply means taking on a big risk. Wendy Avin, who lives in a mobile home park in Gulfport, Miss., a town that was ravaged by Hurricane Katrina, says she received an insurance payout for damages to her home from that storm. But now, she says, she cannot afford the wind coverage and is going without. "It really worries me," she says.

George Mastics, who lives near the Atlantic Ocean in Palm Beach, Fla., says the structural stability of his house, built in 1935, factors into his decision not to carry wind insurance. "The walls are so thick," he says. "I can't imagine a hurricane tearing it down."

"Maybe I'm a gambler. I don't know," he adds. But he hasn't paid for wind coverage for a few years. "So far, I'm ahead of the game."

