

PUBLICATION

Bringing Back the Mississippi Gulf Coast

July 1, 2009

"This article first appeared in *The Regulator*, the journal-newsletter of the Insurance Regulatory Examiners Society."

Last spring, the US. Department of Health and Human Services (HHS) distributed an e-mail to constituents informing them that the final week in May had been designated "Hurricane Awareness Week." Receiving an e-mail about Hurricane Awareness Week from FEMA, the Federal Emergency Management Agency, makes sense, but HHS? It seems we have made significant strides since Hurricane Katrina.

But have we? Almost four years after Katrina, unbelievable devastation still exists in those areas that incurred her wrath. And while the human toll and extensive property damage to New Orleans is all too real, it is important to remember that Katrina came ashore over the Gulf Coast of Mississippi ("Gulf Coast"). As a result, the Gulf Coast suffered extensive damage and has yet to recover.

The 80-mile stretch of the Gulf Coast has always differed from other coastal communities, such as those found in South Carolina or Florida. Mississippi's coast is a "working" coast. Prior to Katrina, people worked in occupations such as shipping and commercial fishing, and they lived along the coast where they worked. Their homes were modest by most coastal community standards. After Katrina, these homes were largely nonexistent. Even today, there are front porch steps that lead to nowhere.

As for commercial properties, ghostly reminders of once-thriving business communities are common – vacant stretches of parking lots with vegetation growing through cracked pavement are frequently seen as well as empty lots where the only evidence that buildings once stood are the identifying signs that managed to survive the devastation.

There are pockets of success. The Biloxi gambling community is once again thriving. Tony Bennett, Jay Leno and the Counting Crows perform at the casinos. New hotels are planned, such as Jimmy Buffett's Margaritaville. Unfortunately, during the economic downturn, much of the construction along the coast has stopped, pushing the recovery even further behind.

The lessons learned from Katrina need to be remembered now that the 2009 Hurricane Season is upon us: buy flood insurance, take inventory of household goods, have a disaster kit. In other words, be prepared. But what can you do to protect your home? Is there something more that can be done?

Building Codes

Prior to Katrina, many of those buildings along the Gulf Coast were built under inconsistent or weak building codes and were often built below the flood plain. This partly explains why the damage was so extensive. Not all of the lessons have been learned. Drive along the coast today and only a few homes are being built to withstand hurricane force winds or flooding. Most are not.

Presumably, new homes and buildings are, at a minimum, being built in accordance with local building codes. Strong building codes have gained renewed prominence once again thanks to the introduction of H.R. 2592,

sponsored by Representative Michael Arcuri (D-NY) and Representative Lincoln Diaz-Balm (R-FL). This legislation would provide incentives for the adoption and enforcement of statewide building codes, including additional funding for participating states. The bill is a product of the Building Codes Coalition formed by the National Association of Mutual Insurance Companies ("NAMIC") and has garnered strong support from other industry groups such as the American Insurance Association ("AIA").

For Mississippi, the call for tougher building codes is nothing new. From his days as a State Senator to his current role as Commissioner of the Mississippi Insurance Department ("MID"), Mike Chaney has fought for improved building code standards. Building codes lead to stronger, safer houses. "If the coast or any other wind-prone area is going to succeed, building codes are one of the key elements in making housing and insurance more affordable. Tough building codes, construction of new homes to code and above the Rood plain, and ensuring proper land use regulations are all elements of a strategy to make the coast more able to withstand hurricane-force winds and water. But it's not enough to simply set building codes, they must be enforced as well," said Commissioner Chaney.

Wind Mitigation Standards

What else will bring the Gulf Coast back? Commissioner Chaney believes that wind mitigation construction techniques will lead to lower insurance premiums, which will encourage people to build along the coast.

The little sister to building codes, wind mitigation standards were developed as a result of studying damage caused by hurricanes, tornados, and other storms. There are a variety of techniques that can be used to strengthen buildings, including hurricane-resistant shutters or impact-resistance windows and garage doors; reinforcing roofs with polymer glue; constructing hip roofs (sloped on all sides like a pyramid) as opposed to traditional gabled roofs; and other roof-to-wall connections like hurricane straps.

The more wind-resistant a building is, the less damage it will sustain in a storm. why not encourage people building, or retrofitting an existing home, to use those mitigation techniques?

As with anything else, it costs money to make a building more storm-proof, roughly adding \$2,000 – \$3,000 per project, so people generally do not want to invest in these techniques. Along the Mississippi Gulf Coast, this holds true as well. Commissioner Chaney, however, has a plan: The Mississippi Wind Hazard Mitigation Program. Chaney strongly believes that wind mitigation is a key step in protecting Mississippi lives and property.

A legislatively mandated cost/benefit analysis to be completed in August will establish specific requirements for Mississippi. Once that study is complete, Chancy says "We can begin to implement the steps in individual homes should funding become available. Not only will the mitigated property be more wind resistant and safer for the occupants, but this will lead to significantly lower insurance premiums in the hurricane areas."

Commissioner Chaney is referring to H.B. 753 (2007), which directed the MID to conduct a study on wind mitigation standards. Commissioner Chaney was able to secure a \$1 million grant from Mississippi Governor Haley Barbour to conduct the study, which will in turn pave the way for \$25 million in hurricane home mitigation assistance for Gulf Coast homeowners.

The study will estimate the costs and benefits associated with various construction techniques that reduce wind damage, to make recommendations as to the best ways to encourage mitigation, to provide incentives in property insurance premiums, and to educate Mississippians about the benefits of mitigation. At this point, it is unknown as to whether the study will recommend specific discounts for specific mitigation techniques. While supportive of mitigation standards designed to make buildings safer, many insurers and trade associations

caution against dictating mandatory insurance discounts. Each insurer should be free to set its rates and discounts based on actuarially sound principles, according to Liz Reynolds of NAMIC, who lauds South Carolina as a great example of a balanced approach to the thorny issue of legislating wind mitigation insurance discounts.

As of 2007, South Carolina requires insurers to offer discounts to those homeowners whose dwellings have been properly built or retrofitted using wind mitigation construction techniques. But, South Carolina did not mandate the amount of the discount for those implementing such techniques; instead, it recognized the importance of allowing an insurer to set its rates based on its experience.

"South Carolina's wind mitigation plan provides opportunities for all stakeholders to take on an appropriate level of responsibility. Not only has the state adopted mitigation credits, but South Carolina also offers state tax incentives for policyholders who establish catastrophe savings accounts," said Ms. Reynolds. In 2009, Alabama adopted a wind mitigation discount program modeled after South Carolina's plan.

Allstate, one of the larger insurance companies writing in Mississippi, also cautioned against mandatory discounts. "It is always better for the consumer when there is competition in the insurance marketplace. If each insurance company is allowed to set its own discounts, then the consumer has a wider variety of choices available. If the amount of a discount is mandated, you lose that differentiation between insurance companies, and the consumer loses," said Lorrie Brouse, Regional Counsel for Allstate.

According to State Farm's Steve Simkins, Regional Counsel, "we're committed to helping legislators, regulators, and community leaders understand the need for modern effectively enforced building code minimums. Additionally, we encourage the use of strong construction home building programs such as the Institute for Business and Home Safety's Fortified for Safer Living and the Federal Alliance for Safe Homes' Blue Print for Safety."

Both State Farm and Allstate take the consumer educational piece seriously as well. State Farm is sponsoring **StormStruck: A Tale of Two Houses?** an attraction at Walt Disney World's @ Epcot® INNOVENTIONS. StormStruck® enables guests to experience the power of a weather event while learning how to best prepare for floods, hail, high winds, lightning and more.

Allstate has also established ProtectingAmerica.org, designed to educate consumers and state and federal legislators on the need for disaster preparedness, encourage stronger building codes, and enhance existing emergency response protocols.

Finally, Commissioner Chaney is hosting the 2009 "Catastrophe Preparedness and Insurance Forum: Education, Mitigation, & Sustainability" program in July. This annual program began in the aftermath of Katrina and brings together coastal regulators, legislators, storm experts, and building engineers to educate the public on the problems facing coastal residents.

Is there really a need for mandatory wind mitigation programs? Earlier this year, Nationwide announced that it was voluntarily implementing mitigation discounts. Other companies have similar discount plans in the works, one of which should be announced shortly after the start of Hurricane Season.

The four-year anniversary of Hurricane Katrina is almost here. Like most catastrophes, the shock can wear off quickly and everyone returns to a "business as usual mode." But, Katrina was responsible for at least \$40 billion of property damage, according to the Insurance Information Institute, and is by far the costliest hurricane to ever strike the United States. It killed at least 1,500 people, making it the third deadliest hurricane to hit the United States. Katrina is also considered the largest natural disaster in United States' history.

In case you're wondering why the title to this article quotes only half of Mark Twain's famous aphorism, "Everybody talks about the weather, but nobody does anything about it," it is because insurers and regulators **are** doing something about it.

Through careful oversight and proactive measures, they are encouraging people to do the smart thing: protect themselves and their homes. Build strong. Build smart.