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-Allen H. Neuharth, Founder, Sept. 15, 1982

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Today's debate: Catastrophic coverage

When the government sells insurance, everybody pays

Our view:

Plan to aid state programs would encourage risky development.

Last January, Floridians decided they'd had enough of rising homeowners' insurance rates. Tallahassee allowed a state-run company called Citizens Property Insurance to expand its coverage of private homes and businesses against damages from hurricanes and other disasters.

The results have been nothing short of stunning. Citizens, once an insurer of last resort, is already the largest property insurer in Florida and the fourth largest in America.

Its growth stems from one simple fact: Its rates are based on political, rather than meteorological, considerations. The company has amassed $400 billion in potential liabilities while collecting premiums at a rate of just $3 billion per year. Those premiums are about half of what actuaries say Citizens would have to collect if it were a private business.

This is a good deal for Floridians and politicians who want their votes, but it's horrendous public policy. Citizens has no way of paying claims after a major hurricane (Andrew, in 1992, caused $23 billion in damage) other than for the state to borrow money and recoup it through tax hikes, insurance surcharges — or a federal bailout.

A plan to help formalize that understanding, as well as encourage other states to go down this irresponsible path, is working its way through Congress. Sponsored by a pair of freshmen Democrats from Florida who face tough races next year, the bill passed the House late last week and is pending in the Senate, where it has picked up important backing from Hillary Clinton, who has her own interest in votes in Florida.

The measure would provide government-backed loans to states, and groups of states, stuck with major losses. Both the history of the National Flood Insurance Program — currently in need of a $20 billion bailout — and specific language in this plan strongly suggest that the likelihood of these "loans" being repaid is about the same as collecting money borrowed by a ne'er-do-well brother-in-law.

The Florida action, as well as the bill in Congress, are part of a troubling trend. As insurance companies have hiked rates in Eastern and Gulf Coast states to reflect their new assessment of hurricane risk, these communities have sought ways to help get taxpayers to foot the bill.

Photo by Stephen Morton, Getty Images

Andrea: Floridian Tim Haynes checks storm damage in May.

States do have regulatory responsibilities to protect homeowners against abusive or discriminatory practices by insurers. And the federal government may have a role in helping coastal states pool their risks. But for states to get into the discount insurance business, backed up by Washington, is unfair and unwise.

Private insurers not only insure against loss, they help reduce the chances of loss in the first place by demanding higher premiums when they see enhanced risk. This helps to protect environmentally fragile coastal communities.

Backers of an expanded federal role in insurance note that U.S. taxpayers already foot much of the bill for disasters through disaster relief. That is true. And in this respect they walk a fine line between being compassionate to fellow Americans and creating a moral hazard by being so generous.

But the latest approach crosses a new and dangerous threshold. It is one thing to provide assistance to individuals and communities that have inadequate insurance. It is quite another to have state and federal government assume a much larger role in the insurance business, one that encourages risky development at the expense of taxpayers far from the nearest beach.

Spread the risk

Opposing view:

National program would lower insurance rates, recognize reality.

By Bill Nelson

It suddenly appears Congress may create a national catastrophe-assistance program to brace millions of homeowners against natural disasters — and disastrous insurance rates.

The House, by a 258-155 vote, has passed a plan by Reps. Ron Klein and Tim Mahoney, both of Florida. Now the Senate has a companion bill by Sen. Hillary Clinton and me. The bill would allow multiple states to join to help pay for each others' disaster costs and would provide them with low-interest federal loans when damages exceed the resources of state-run catastrophe funds.

Even though both bills keep the federal government out of the insurance business, President Bush is threatening a veto because, he says, it might take business away from private insurers. Other critics claim it would be a taxpayer bailout of Floridians who build where hurricanes can blow them away or Californians whose houses have been burned to cinders.

But these critics fail to see that taxpayers nationwide already are paying the staggering costs of recovery and rebuilding after natural disasters. Consider: For hurricanes Katrina, Rita and Wilma, taxpayers have put up some $94.3 billion. And there's already a federal backstop for terrorist events.

Wouldn't it be better if we also spread the risk from wind, water, wildfire and earthquake among those states facing enormous loss and, thus, lowered the cost of insuring against such calamities?

Florida and California aren't alone, after all. Recent disasters have hammered half-a-dozen states: Katrina in Louisiana, Mississippi and Alabama; hurricanes Andrew and Hugo in Florida and South Carolina; and the Northridge earthquake in California.

I can't say it much better than did Florida Gov. Charlie Crist in a recent letter to *The Wall Street Journal*: "While individuals must do all they can to provide for themselves, in the end, rebuilding and repairing lives and property in the wake of a major natural disaster or terrorist strike is and should be a collective American effort ... A national catastrophe fund would establish a disciplined, structured plan for what, as a simple matter of reality, will be substantial federal assistance following a major natural disaster."

Sen. Bill Nelson, D-Fla., is his state's former insurance commissioner.