

CREATING SAFER COASTLINES

Photo by Paul B. Riley

Travelers Institute takes the lead, hosts industry expert panel to address the coastal insurance crisis



Members of the panel included (from left): Manuel Lonfat, Ph.D., Managing Director, Travelers; Julie Rochman, President & CEO, Institute for Business & Home Safety; Jay Guin, Ph.D., Sr. Vice President of Modeling & Research, AIR Worldwide; Joan Woodward, Travelers Executive Vice President of Public Policy and head of the Travelers Institute; Dail Rowe, Ph.D., Sr. Scientist, Regional Manager, WeatherPredict Consulting, Inc.; Ann Roberson, Manager, South Carolina Safe Home Program; and Eric Nelson, Vice President, Personal Insurance, Travelers.

Photo courtesy of Travelers

By Becky Risher

More than half of the U.S. population lives on the coastlines, where severe weather and inadequate disaster planning puts everyone at great risk. While 2009 was a relatively mild year for hurricane activity, the threat to life and property has not diminished.

The Travelers Institute recently convened a panel of experts to discuss mitigation strategies to protect property, keep residents safer and reduce costs for both consumers and insurers.

The "Partnership on Mitigation Summit" was held at Claim University, Travelers' state-of-the-art training facility in Windsor, Connecticut. Eric Nelson, vice president of Travelers Personal Insurance moderated. Panel guests included: Julie Rochman,

Institute for Business & Home Safety (IBHS); Dail Rowe, WeatherPredict Consulting; Manuel Lonfat, Travelers; Jay Guin, AIR Worldwide; and Ann Roberson, South Carolina Safe Home Program. Joan Woodward, executive vice president, The Travelers Institute, opened the program.

The goal of the summit was to promote collaboration in identifying, testing and implementing mitigation techniques that foster safer, more resilient communities. The panel

discussion touched on everything from modeling and data collection, to improved construction techniques and building codes. With each presenter, the extent of the crisis became clearer.

While making coastal living safer is the primary goal, the consensus amongst the panel members was that mitigation will also bring stability to the coastal insurance market and drive down premium costs.

To that end, Travelers announced a 35% hurricane premium credit in certain coastal states for homes built or retrofitted to resist tropical storm and hurricane winds. The credit is part of Travelers Coastal Wind Zone Plan. According to Eric Nelson of Travelers, “We hope this initiative and meaningful premium credit will encourage home owners, builders and building officials to adopt these disaster resistant standards.”

Travelers believes solving the problem of available and affordable coastal insurance requires a partnership between the federal government, state and local leaders, consumer groups, and the insurance industry. The answers to these problems aren’t simple, and there is a perception amongst some coastal insurance agents that the tendency is to bury our collective heads in the sand.

Sustainable, stronger building practices

According to FEMA, every dollar spent on mitigation yields \$4 in loss reduction. Property owners should be encouraged to invest in better roofing materials, storm shutters and reinforced glass. The question for both consumers and insurers is what investments should be the priority? Without adequate data, the answer is unclear.

IBHS President and CEO Julie Rochman says, “When you’re talking about property loss prevention, objective applied science can and does significantly reduce property losses, injuries and deaths.” IBHS is currently building a state-of-the-art research and training facility in South Carolina for full-scale testing of residential and commercial structures—all in pursuit of more and better data.

“Data is rarely collected during an event. It’s only collected post-event. The IBHS lab will show us how wind impacts structures during the event,” says Manuel Lonfat who works with catastrophe modeling for Travelers. “For example, will a

110-mph rated shingle really survive 110 mph winds?”

The panelists all agreed that protecting the roof is job one. “If you can protect the roof, you go a long way toward preventing losses. We’re focused on the roof edges where damage typically starts,” says Dail Rowe, WeatherPredict Consulting.

This sentiment was echoed by Jay Guin of AIR Worldwide, “The first stage of wind damage is to the roof. We’ve known this for 50 years. It’s not rocket science but we as a community tend to avoid this.”

Another issue is older vs. new construction. Following Hurricane Ike which hit in 2008, Travelers moved in to assess damages. For newer construction built to newer codes, the average claim was \$4,000. For older construction with older codes, the average claim was \$17,000. A total of 75% of losses was in older homes.

What’s the solution?

What’s clear is that the solution for creating safer coastlines is complex and needs to be addressed on multiple levels. Real-world disaster simulation and data collection are imperative. The data will guide decision-making about retrofitting and new construction techniques that make for safer, more durable structures. Enforced, uniform building codes should not be “aspirational” according to IBHS’s

The Travelers Coastal Wind Zone Plan

Working with Congress, federal, state and local governments, consumer and insurance industry groups, Travelers developed their Coastal Wind Zone Plan based on these four principles:

- A stable and consistent regulatory environment that establishes an independent federal commission to establish standards for named storm rating and underwriting
- Transparency in calculation of premiums that is based on certified models that are updated as needed
- Cost-based federal reinsurance mechanism for extreme events with savings passed on to consumers
- Mitigation against losses including standardized, enforced codes; enhanced construction techniques; land use planning requirements; and meaningful premium credits for retrofitting



Today's building codes vary from state to state and town to town.

What We Do Know

- Newer construction performs at least 50% better (built post 1995)
- Majority of hurricane losses occur in older properties
- Both claim frequency and severity are higher in older construction
- Roof damage in 85% of cases is the most frequent cause of loss

Julie Rochman. Today's building codes vary from state to state and town to town.

Gulf and Atlantic state legislators and insurance industry representatives are working in cooperation to share best practices. The South Carolina Safe Home Program offers grants for retrofitting homes, the results of which are both lower premium costs and energy savings for home owners. Plan Manager Ann Roberson says, "Consumer outreach is key. You have to get home owner buy-in." Mississippi and Alabama are developing similar programs.

Travelers believes in a private market solution to the coastal insurance crisis. To create market stability, Travelers proposes an independent federal commission to establish standards and rules for storm rating and underwriting.

Travelers' Eric Nelson says, "Insurance companies would be more likely to do business in these risky areas and customers would not be facing non-renewals and availability problems." In an unstable regulatory environment, insurers don't feel comfortable making underwriting decisions.

Stability brings peace of mind for property owners because the rules would be applied consistently. Additionally, customers would have more options available to them.

Moving forward, coastal residents need to see themselves as part of a community. Mitigation works in the collective. Why bother to reinforce your property when your neighbor is unwilling to do the same? Where will you work or shop if area businesses don't make their structures safer? Protecting our coastlines is a collaboration

between residents, government and insurance professionals.

When asked why Travelers chose to host this Mitigation Summit, Joan Woodward of the Travelers Institute replied, "We have a responsibility to lead the industry."

For agents seeking additional information, the National Association of Professional Insurance Agents (PIA) is currently updating its Insurance Foundation Disaster planning program to include a suite of materials that member agents can use to educate consumers, businesses and local leaders about catastrophic storms, including what to anticipate with larger events involving longer-term recovery, according to Pat Borowski, senior vice president of PIA. "As we reach out to communities, we have to say this is a fundamental responsibility that you all have," she says. ■