

STATEMENT OF W. ANDERSON BAKER, III

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GILLIS, ELLIS & BAKER, INC.

ON BEHALF OF GREATER NEW ORLEANS, INC.

HOUSE FINANCIAL SERVICES SUBCOMMITTEE ON HOUSING AND COMMUNITY
OPPORTUNITY

HEARING ON "H.R. 920, THE MULTIPLE PERIL INSURANCE ACT OF 2007"

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Madam Chairwoman and Members of the Subcommittee, I am Anderson Baker, President of Gillis, Ellis & Baker, Inc., one of Louisiana's largest independent insurance agencies. I appreciate the opportunity to appear before the Subcommittee today, on behalf of Greater New Orleans, Inc. (GNO, Inc.), a ten parish regional economic development organization in southeast Louisiana representing over 100 businesses in all major sectors of the local economy. Madam Chairwoman, at the outset I would like to extend my personal appreciation and thanks to you for the intense interest that you have shown in New Orleans over the past two years. Since Hurricanes Katrina and Rita, you have visited our City numerous times and have fought tirelessly in the Congress for common-sense relief for our area. For that, we are deeply grateful. I would also like to acknowledge Congressman Taylor from our neighboring State of Mississippi for the persistent and creative leadership that he has demonstrated after these hurricanes devastated the Gulf Coast, and, in particular, for his leadership on H. R. 920, the subject of today's hearing.

Almost immediately after Hurricanes Katrina and Rita, GNO, Inc., through its regional Insurance Task Force, began to work with the local business community and Federal, state and local officials to address the myriad insurance issues that arose in the aftermath of these

devastating storms. I serve as an active member of that Insurance Task Force and my company has done its best to provide guidance and perspective to GNO, Inc. on this insurance crisis as our community has struggled to rebuild. I know that I do not have to remind this Subcommittee that the New Orleans area lost 300,000 in population, 200,000 homes, and 18,000 businesses as a result of these hurricanes. We have grappled with the maze of insurance challenges presented by this post-Katrina environment literally every day since August 29, 2005. In fact, during that time, our company has handled literally thousands of post-Katrina claims. We therefore have as much or more direct, personal experience with the insurance challenges facing New Orleans and the Gulf Coast than any other local organization.

One of the biggest challenges has been the uneven treatment of policyholders, whether commercial or residential, who experienced significant wind damage to their property. Prior to Hurricanes Katrina and Rita, the private insurance market would readily provide wind coverage for both homeowners and businesses. However, in the post-Katrina environment, insurance companies that remain in the market are in most cases either significantly restricting wind coverage or are simply no longer offering this coverage. As an insurance agent in New Orleans, I am forced to either place these coverages in the surplus line markets, with the Louisiana Citizens Property Insurance Corporation (the State of Louisiana's residual plan), or not offer this coverage at all. When the private markets cannot respond to a catastrophe of this magnitude, even two years after the hurricanes, it is appropriate for the Federal government to step in and provide some reasonable form of relief, be it temporary or permanent.

For over three decades, the Federal government, through the National Flood Insurance Program (NFIP), has provided flood insurance in almost all areas of the country. The NFIP has played a valuable role in offering coverage for flooding risks that the private market has been

understandably reluctant to undertake. Insurers typically do not wish to provide coverage for an event that can cause significant loss to numerous properties at the same time and in the same area. Instead, they tend to insure random, yet predictable, events. And, as Hurricanes Katrina and Rita aptly demonstrated, there are times when the private industry simply does not have the infrastructure and capacity to adequately respond to a massive number of claims. And, of course, as this Subcommittee well knows, the NFIP does not currently provide wind coverage, a significant shortcoming in the face of a major hurricane with winds of 150 miles per hour or more.

In my company's case, we handled approximately 1,400 NFIP flood policies in the years prior to Hurricanes Katrina and Rita. After those two hurricanes ravaged south Louisiana, we handled nearly 700 flood claims with a total aggregate damage of approximately \$38 million. Of course, our company addressed only a fraction of the total number of claims and the total cost of the additional thousands of claims runs into many more billions of dollars. Faced with the magnitude of these claims, it has become increasingly difficult for policyholders in the City of New Orleans and other coastal areas, such as the Gulf Coast of Mississippi, Alabama and Florida, that are susceptible to the significant perils of wind and flood damage to obtain coverage. Indeed, I am sad to report that almost all personal and commercial property policies in the New Orleans area are either not being renewed or are renewed with severe restrictions regarding wind damage. For those that are moved from one insurer to another due to non-renewal, we are seeing homeowners' premiums triple in cost and commercial property rates increase fourfold. Furthermore, for those that can obtain some sort of wind coverage, the wind provision in the typical renewal policy will almost invariably contain a deductible as high as 5%,

effectively raising out of pocket costs for consumers and lowering their claims payout in future storms. And, owners of vacant buildings are simply unable to obtain wind coverage of any sort.

We all read the stories in the press about the slow pace of the recovery in New Orleans. And, certainly there is a lot of blame to go around at all levels. But, clearly, one of the central reasons behind the anemic recovery of our region is the insurance crisis facing homeowners and businesses all across south Louisiana. How can we expect homeowners to return to New Orleans and rebuild their lives when insurance is either unavailable or not affordable? How can we expect businesses to reopen in an economic climate where the cost of insurance - in addition to increased housing costs, labor costs and utility costs - has skyrocketed beyond any reasonable level? It is essential that the Federal government work closely with those of us on the ground facing this crisis on a daily basis to develop common-sense solutions to this problem. The NFIP has been a valuable insurance program to date, but it must be modernized to reflect current real-world realities.

Madam Chairwoman, that is why I am pleased to testify today in support of H. R. 920, Congressman Taylor's multiple peril bill, which is co-sponsored by several Members of the Louisiana delegation. As you know, this bill would amend the National Flood Insurance Act of 1968 to require that the NFIP provide policyholders the option to purchase insurance against loss resulting from physical damage or loss of property arising from any flood or windstorm, essentially adding the option of wind coverage for the first time to the NFIP. In our view, this bill will provide an incentive for insurers to continue writing policies in coastal areas by removing the burden of providing wind coverage. By amending the NFIP to allow the voluntary purchase of wind coverage, the private insurance market will be relieved of much of the risk of uncertainty that exists in the current "wind versus flood" debate. The result should be more capacity in the

private sector. H. R. 920, if enacted, would allow the property owner to insure the wind deductible that is currently being imposed through the expanded NFIP.

To fully understand the merits of this point, one must understand why insurers are currently imposing wind deductibles. As mentioned previously, private insures do not want to be exposed to a situation that threatens many properties in the same area to the same peril at the same time. The wind deductible relieves the insurers of the bulk of this exposure to a wind loss. Even with the wind deductible, most “admitted” insurers have no appetite for wind coverage along the Gulf Coast. Certainly, that is the case in New Orleans.

However, under the amendments to the NFIP as proposed by Cong. Taylor, insurers could structure their policies to eliminate the lower level of wind coverage that currently causes such difficulties in the event of a massive loss. Others in the industry are more qualified to discuss the actuarially sound prices that should be established for this coverage. Right now, the only pricing that we are seeing is either from the insurers who are forced to stay in the market at an artificially low price or others who under current market conditioners are quoting extremely high rates.

If the revised NFIP wind program were actuarially priced (as is being contemplated for flood premiums), it would allow for the buildup of capital in the program and diminish the likelihood of the magnitude of the losses incurred after Hurricanes Katrina and Rita. We must recognize that, in the event of major wind events in the future, the Federal government will be called upon for financial assistance again and again. H. R. 920 would allow more people to participate in a program that is building up reserves to pay for future losses – and thereby reduce some portion of the Federal government’s exposure when the next major hurricane hits one of our coastlines, while also protecting existing assets of homeowners and businesses.

I am therefore pleased to add the solid support of GNO, Inc. for H. R. 920. We fully understand the differences of opinion on this and other post-Katrina insurance issues, and the reluctance of Congress to intervene in the past. But, it is a reality that an increasing number of Americans are now living in coastal regions and the economies of hundreds of counties, parishes and cities are at stake. In this environment, it is essential that Congress act aggressively to provide appropriate relief to the thousands of homeowners and businesses that are so hamstrung by this insurance crisis along the Gulf Coast. H. R. 920 takes a significant step in that direction.

Thank you for the opportunity to appear before you today. GNO, Inc. and its Insurance Task Force look forward to working with the Financial Services Committee on this important legislation. I would be pleased to answer any questions that you may have or submit any additional information that you may require.