

by NAMIC

INDIANAPOLIS (Nov. 18, 2008) –“ The exponential growth of North Carolina’s state-created insurance pool for coastal coverage could wipe out many smaller private insurers in the state, according to the National Association of Mutual Insurance Companies (NAMIC). NAMIC is urging policymakers to improve and strengthen the pool before the next major storm hits.

A study committee set up by the Legislature is charged with developing recommendations for the North Carolina Insurance Underwriting Association. Commonly known as the Beach Plan, the association was established in 1969 to provide property coverage for coastal homeowners unable to obtain insurance from the private market; but experts say the plan’s growth, combined with actuarially inadequate rates, has left it unable to pay for a major storm, forcing private insurers to pick up the tab. NAMIC urged the panel to take immediate action.

“Because the Beach Plan has drifted from its market-of-last-resort mandate, this effort is a must even though North Carolina has not experienced a significant storm in recent history,” wrote Liz Reynolds, NAMIC’s Southeast state affairs manager, in a letter to the committee in advance of a meeting today. “In fact, it’s best that we make changes before a catastrophe creates the chaos and devastating market effects experienced by other states.”

NAMIC member companies underwrite close to 40 percent of the total property/casualty insurance premium in the state. The majority of the companies are mutuals, which were established to fill a specific need, especially in the more rural western areas.

North Carolina has a “vibrant market of single-state insurers serving a unique purpose” but “smaller insurers are at risk because they would have to take on a greater share of the market if the Beach Plan is unable to meet its obligations,” Reynolds wrote. “And because those companies operate only in North Carolina, they do not have the option of withdrawing from the state to focus on better markets elsewhere.” Reynolds warned that many smaller, single-state insurers in North Carolina could go out of business after a hurricane if the Beach Plan is allowed to continue growing without the financial foundation to sustain increased exposure.

“Adequate rates are a must if we are to address the steadily increasing exposure to losses. And consumers must be empowered to take responsibility for risk reduction,” she wrote. “Ultimately, solutions for improving and strengthening the Beach Plan must support a diverse and vibrant marketplace that provides a wide range of financially prudent choices for consumers.”

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