United Policyholders
Empowering the Insured

[Bach Talk – Government supported property insurance programs are here to stay]

If a home or business owner in the United States can't find property insurance in the private market, they can buy it through a variety of hybrid public/private arrangements, often referred to as "pools" or "Residual Market Mechanisms" (insurance lingo for programs that cover risks private market insurers don't want). These arrangements are federal and state government-sponsored "last resort" programs through which an individual or business can buy insurance for fires, terrorist attacks, earthquakes, hurricanes, flooding, and other risks.

These programs are a lifeline to property owners that need insurance coverage to operate a business, buy or sell a home, comply with legal requirements, maintain a mortgage and/or keep a financial safety net in place. UP has long advocated that they be transparently well-run, accountable, and that their products and claim handling meet the reasonable expectations of the policyholders that pay the premiums that fund their operation.

In our system, private insurance companies are generally free to pick and choose who and what they will insure. Government is obligated to serve all. The private and public sectors have a shared responsibility to deliver reasonably priced insurance products that meet the reasonable expectations of consumers. Delivering on that responsibility remains a work in progress. And while advocates of small government and the free market remain critical of government forays into functions that have been traditionally performed by private market players, government involvement in providing property insurance is imperative in this context.

Because businesses and homes in the U.S. have to be insured due to lender requirements, and because property owners generally want to protect their assets, government has been called upon to fill the uninsured gaps the private sector creates. This has led to the creation of many government-sponsored insurance programs. The National Flood Insurance Program, (NFIP), the Terrorism Risk Insurance

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Program are examples of hybrid Federal Government/private market property insurance. State examples are Citizens Property Insurance in Florida and Louisiana, the California Fair Plan, and the Texas and Alabama Windstorm Associations that insure properties for risks and in regions private companies don't want to cover.

Virtually all government-provided insurance programs include contracts with private companies to handle some or all aspects of marketing, sales, underwriting/risk assessment, claims handling, coverage, payout and litigation decisions. This dynamic has plusses and minuses for consumers. There is public/political/media pressure on these hybrid entities to keep rates affordable, and the policies they sell tend to be standardized, but the financial arrangements between participating private entities and government agencies and the claim handling dynamics can be unfavorable for policyholders. An example: Superstorm Sandy victims got shortchanged on their flood insurance benefits by private companies under contract with the National Flood Insurance Program. See "The Business of Disaster", PBS, Frontline, and "The Storm After the Storm" as aired by 60 Minutes.

For more on how private companies are engaged in government insurance programs, note that during the 2018-2019 government shutdown, "FEMA said it decided to halt flood insurance funding because commission payments to private insurance companies the government contracts with to issue policies could be seen as an "impermissible funding obligation" during the shutdown."

The bottom line, hybrid public/private insurance programs are not going away – they're here to stay and they're expanding. Taxpayers and the policyholders that patronize these programs need them to be efficient, ethical, competent, and responsive.

2024 UPdate: Residual Market Policy Counts Double in Five Years Amid Weather-Related Challenges https://news.ambest.com/newscontent.aspx?AltSrc=104&RefNum=261573

2022 UPdate: https://www.insurancejournal.com/news/southeast/2022/07/01/674312.htm

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