International Council of Shopping Centers

ICSC Office of Global Public Policy

Issue Brief: Catastrophe Insurance

The Issue:

As a result of the $89 billion in privately insured losses experienced during the 2004 and 2005 hurricane seasons, real estate professionals reported in early 2006 a significant hardening of insurance market conditions and an increase in premium rates and deductibles for commercial buildings located in Florida, throughout the Gulf South and along the Atlantic seaboard.

If insurance can be obtained, certain areas may experience higher rates and lower coverage limits as the new industry standard, with significant differences in the way catastrophe-exposed property risks are being underwritten. These capacity and pricing problems are not limited to the coastal regions; Earthquake-prone areas throughout the country are also experiencing increases in commercial earthquake insurance rates and deductibles.

As long as insurance remains a mandatory business input, a requirement for capital creation and a key component to recovery after a natural disaster, problems with insurance capacity and pricing will continue to impact businesses across the country. While prices may moderate once the current capacity crunch is resolved, pricing may never return to pre-Katrina levels due to the increased scrutiny from ratings agencies. Continuing concern remains regarding future market dislocation following the next major natural catastrophe.

Our Position:

First, ICSC believes that issues related to catastrophic insurance must be discussed from the perspective of community continuity. Solutions that focus on homeowners and do not include commercial property owners ignore the importance of job and retail opportunities in the recovery process.

ICSC believes that there should be a multilevel response from local, state and federal officials. At the local level, planning agencies and local officials must work with insurance companies and builders to find and enforce appropriate building codes that consider mitigation, constructability and community aesthetic standards while also considering economic incentives to spur mitigation efforts.

ICSC continues to work with interested groups across the country to find options to bring more commercial insurance capacity to the impacted areas through possible expansion of models that allow for industry pooling, a government backstop or increased access to the catastrophe bond market. ICSC has also provided support for Congressional initiatives to expand coverage for commercial policyholders under the National Flood Insurance Program.

Opposing Argument:

Some believe that building in high-risk areas should not be “subsidized” by those who live on “high and dry” land. This argument especially extends to a federal role, where those in opposition argue that taxpayers should not subsidize those in specific regions of the country with a higher probability for catastrophic loss.

ICSC’s Response:

More than half of the U.S population lives within 50 miles of a coastal area, near some of our nation’s most notable, picturesque and historic landmarks. Preserving coastal communities should be a government priority. Also, many natural disasters (such as earthquakes, tornadoes and forest fires) are not limited to coastal areas. Additionally, the federal government often provides assistance to underinsured areas to help rebuilding after a catastrophe. A federal “backstop” or national risk pool would provide a better solution than a “first dollar” subsidy of direct federal disaster assistance.

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