‘Beach Plan’ Insurance Not Worth A Grain of Sand

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Article:

I f you’re like me, you learned only recently that North Carolina has a “Beach Plan.” At first I thought it was a strategy for taking summer vacations, but it’s actually a state-run insurance program for properties along the coast. And like so much else these days, the Beach Plan is in financial trouble.

Why is North Carolina in the insurance business? And why in particular is it insuring the beachfront homes of relatively well-off people? These are darned good questions, but they’ve been put to the side by the urgent need to fix the Beach Plan.

The Beach Plan was established in 1969 as the insurer of last resort for property owners on barrier islands directly adjacent to the ocean. But it evolved beyond its original mission, and now the plan sells homeowner’s insurance throughout the 18 counties closest to the ocean. Only a third of insured homes are on barrier islands, which obviously stretches the concept of “beach.”

And because the plan now insures over half of all homes in those 18 counties, it’s hardly the insurer of last resort.

Over the years, the Beach Plan has undercharged coastal residents, who paid premiums that didn’t fully reflect the risk of storm damage.

As a result, the plan is severely underfunded. Its reserves of less than $2 billion are insufficient to cover the $5 billion or more in losses that could result from a single large hurricane.

Currently, the Beach Plan can make up the difference through special levies on insurance companies. Not surprisingly, that prospect leaves insurers cold, and many are issuing ominous warnings about leaving the state. A few have already stopped writing policies here. Further withdrawals would end up costing all homeowners, because fewer insurers means less competition and higher premiums.

A bill making its way through the General Assembly would improve things, but it’s no free lunch. The legislation would reduce the subsidies of coastal premiums, reduce coverage limits, and encourage homeowners to seek private insurance. It would keep the special levies on insurance companies but would cap them.

One provision of the bill has raised hackles in central and western North Carolina. In the event that losses exceed the plan’s capacity, insurance companies would be allowed to add a premium surcharge to all homeowners in the state. That sounds unfair, but as noted above, homeowners would pay even sooner without a fix. At least the proposed legislation caps the cost to homeowners far from the beach.

The bill isn’t ideal, but it’s a start. And perhaps it will give policy makers enough breathing room to ask why we should have a Beach Plan in the first place. Is there any reason that the vast majority of coastal homeowners shouldn’t be insured by private insurers?

To be sure, it’s reasonable to bypass the market when there’s a compelling public interest. For example, most of us get our drinking water from municipal systems (gasp — socialized water!) because we believe that the ability to pay shouldn’t be the determining factor in the distribution of a necessity. But while beachfront property is on the water, it’s not a necessity like water.

Ideally, fixing the Beach Plan now will help lawmakers shrink it in the future. North Carolina should provide insurance to those who truly cannot afford it. But beyond that, fostering competition among private insurers in a regulated market is bound to be a better and more sustainable solution.