Driving Loss Reduction Through State-Created Residual Insurance Markets: Environmental Defense Fund/Cornell University Report

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The Environmental Defense Fund ("EDF") and Cornell University issued a report titled:

Driving Loss Reduction Through State-Created Residual Insurance Markets ("Report").

The Report's authors include:

- Carolyn Kousky
- Environmental Defense Fund
- John Aloysius Zinda
- Cornell University
- Hannah K. Friedrich
- Cornell University
- Talley Burley
- Environmental Defense Fund
- Kyunghee Kang
- Cornell University

The Report's focus is the potential role of state-created insurance "markets of last resort" in reducing risk and stabilizing coverage for policyholders facing challenges due to climate change weather disasters.

The Report describes state residual insurance programs as providing financial protection to property owners unable to obtain insurance coverage in the private market. It states that the increase and frequency in magnitude of natural disasters due to climate change has resulted in private insurers withdrawing from high-risk areas. As a result, risk is increased, and financial challenges expand for residual markets.

The focus is the resulting necessity of risk mitigation to:

- Reduce future damages.
- Improve the insurability of properties.
- Stabilize the fiscal position of residual insurance programs.

Risk reduction is argued to be the:

…only long-term solution to the stress rising risks are placing on property insurance.

Therefore, the Report examines:

- How state residual insurance markets are incorporating risk reduction strategies.
- Identifies best practices.
- Provides recommendations for programs to enhance their risk reduction initiatives.

Examined are what are described as three primary strategies to encourage property owners to invest in mitigation:

1. Premium reductions for specified mitigation measures.
2. Adoption of no-cost insurance endorsements that cover the costs of certain resilient rebuilding upgrades after a substantial loss.
3. Grant programs that fund disaster mitigation retrofits.

Best practices are identified for adopting risk mitigation programs in state residual markets that include:

1. Make the business case.
2. Make participation easy for policyholders.
3. Cultivate partnerships.
4. Establish a culture of risk reduction.

A copy of the Report can be downloaded here.