

**ECONOMIC IMPACT OF INSURANCE COSTS
ON MISSISSIPPI GULF COAST DEVELOPMENT**

EXECUTIVE SUMMARY

Prepared for:

Gulf Coast Business Council



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Overview

Population and employment growth on the Mississippi Gulf Coast came to a halt in 2005 when Hurricane Katrina, the worst natural disaster in United States history, devastated the area. Initial recovery has been impressive, but high insurance rates have slowed down the recovery effort and now threaten further recovery. This study examined the history of insurance relative to the area and the impact of the cost of insurance on the area's recovery and revitalization.

Background

In 1987, the Mississippi Legislature established the Mississippi Windstorm Underwriting Association (MWUA), often referred to as the Mississippi Windpool. The MWUA legislation of 1987 provided a method whereby an adequate market for windstorm and hail insurance is provided in the coastal area of Mississippi. The windpool was designed to be an insurer of last resort and provide insurance coverage when the private market would not. Each year since Katrina, new and helpful legislation has taken place to bring some relief to the homeowners.

In 2005, approximately 16,000 policies were written in the wind pool. Following the devastation of Hurricane Katrina in August of 2005, the wind pool lost all of its accumulated reserves and assessed member insurers \$295 million. This resulted in a skyrocket of insurance premiums statewide to cover the cost of these assessments, and drove private insurers out of the coastal market. Today, as businesses and homeowners have no other insurer to turn to, the number of policies written in the wind pool has increased to over 42,000. The total insured value in the wind pool more than tripled by 2007 from \$1.8 billion to almost \$6 billion.

Findings

This study found that higher insurance costs negatively affect sales of existing homes, new home construction and sales, discretionary spending and rebuilding efforts in the area. In particular,

- Insurance costs that are higher in the six coastal counties than North Mississippi reduce the value of the home a typical family can afford.
- By 2006, the same \$100,000 of coverage cost \$1,290, and by June of 2008 the same \$100,000 of coverage cost \$1,189.
- If 90% of the \$20 million grant to the Mississippi Windpool is passed through as a rate reduction to the policyholders, this would create a multiplier effect on spending. The final impact would be based on the amount spent versus the amount saved and other leakages out of the spending cycle. Nevertheless, it is reasonable to expect that a \$20 million investment to the Mississippi wind pool would generate at least \$26.9 million in additional tax revenues to the state.
- The impact of a \$20 million investment to the wind pool would generate 715 jobs in the local economy and an increase of \$72 million in consumer spending.

Gulf Coast Projections

Sale of Existing homes									
				Income and Revenues per home	Economic Impact from sale of 1500 existing homes		Taxes generated		
Real estate related activities				\$ 12,609	\$ 18,913,500	\$ 945,675			
Additional expenditures on consumer items				\$ 5,171	\$ 7,756,500	\$ 542,955			
Additional home construction				\$ 17,513	\$ 26,269,500	\$ 1,576,170			
					\$ 52,939,500	\$ 3,064,800			
Multiplier Impact from sales of existing homes									
				Multipliers*	Potential impact		Taxes generated		
Output multiplier				1.399	\$ 52,939,500	\$ 74,062,361	\$ 5,184,365		
Earnings multiplier				0.1612	\$ 52,939,500	\$ 8,533,847	\$ 426,692		
Job creation				13.5	\$ 52,939,500	715	\$ 1,020,050		
							\$ 6,631,108		
Multiplier effect from reduction in insurance rates									
\$ 20,000,000	\$18,000,000	\$ 72,000,000					\$ 5,040,000		
Impact of construction of 1000 new homes									
							\$ 12,214,685		
Total tax impact									
							\$ 26,950,593		
<i>* Multipliers obtained from:</i>									
"The Impact of Real Estate on the Florida Economy"									
published by Shimberg Center for Affordable Housing									
University of Florida									