

STATEMENT OF DAVID GUIDRY  
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ON BEHALF OF GREATER NEW ORLEANS, INC.

SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

HEARING ON “AN EXAMINATION OF THE AVAILABILITY AND AFFORDABILITY OF  
PROPERTY AND CASUALTY INSURANCE IN THE GULF COAST AND OTHER  
COASTAL REGIONS”

APRIL 11, 2007

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Mr. Chairman and Members of the Committee, I am David Guidry, President and Chief Executive Officer of Guico Machine Works. I appreciate the opportunity to appear before your Committee today, on behalf of Greater New Orleans, Inc. (GNO, Inc.), a ten parish regional economic development organization in southeast Louisiana representing over 100 businesses in all major sectors of the local economy. Almost immediately after Hurricanes Katrina and Rita, GNO, Inc. began to work with the regional business community and Federal, state and local officials to address the myriad of insurance issues facing the greater New Orleans area.

Mr. Chairman, as a small businessman in the New Orleans area, I am truly grateful that you have called this hearing today to shine a national spotlight on one of the cruel realities of the post-Katrina Gulf South: businesses, both large and small, simply cannot find affordable insurance. More than a year and a half after Hurricanes Katrina and Rita, with all of the Federal dollars and tax incentives provided to our region of the country, many of you would expect to see the skyline in New Orleans crowded with cranes and bustling with construction activity. I am sad to report that, instead, very little of that activity is actually underway. While the experts may have any number of explanations for the slow pace of the recovery in New Orleans, I can assure

you that a primary and significant factor is the unavailability of affordable insurance for businesses.

I am told that in the greater New Orleans area, not a single commercial property insurance policy is being renewed on an “as is” basis, and that most are simply not being renewed at all. How can we possibly rebuild our great City under these circumstances? How can we expect capital to flow into our area when affordable insurance cannot be found? We must find a solution to this problem in the very near future. Indeed, if the insurance climate in the Gulf South does not materially improve in the next 12-18 months, many small businessmen and women will be forced to consider relocating to other regions of the country in order to obtain affordable insurance and maintain viable businesses. Unfortunately, many businesses already have relocated.

Mr. Chairman, let me tell you a little bit about my business and what we experienced during and after Hurricane Katrina. My company, Guico Machine Works, is an oil and gas equipment manufacturer that has been in business in the New Orleans area for over 25 years. Before the hurricane, our company had 65 employees churning out wellheads and related products in our plant located on the Harvey Canal in Jefferson Parish, Louisiana. Our business had accounts receivable of nearly \$1 million from sales of \$400,000 per month. However, after Hurricane Katrina hit in August of 2005, our manufacturing output immediately dropped to zero. For nearly six weeks after the hurricane, we received no mail or checks, yet customers continued submitting orders. We had a shop full of materials and machinery, but no workers, causing the shop to sit idle.

During Hurricane Katrina, the building next to my warehouse literally exploded and parts of that building rained down on my warehouse, causing extensive damage. Like most businesses

in New Orleans, I had insurance coverage against storm and fire damage. I also had wind and hail protection on our warehouse, but not on its contents. My insurance company denied coverage for the damages to my building and its equipment. I have unfortunately been forced to litigate this claim, and, in the meantime, have not received one dime from my insurer.

Without any insurance recovery, I have been unable to repair the damage. And, Mr. Chairman, on top of that, I have been notified that because the damage has not been repaired, my wind and hail policy will not be renewed. Moreover, the premiums on the balance of my insurance policies have increased a whopping 55% with far less coverage than under my pre-Katrina policies and my deductible has skyrocketed from \$2,500 to \$20,000. Furthermore, should I have opted for the same coverage as in my pre-Katrina policy, my deductible would have increased to \$175,000. These are not costs and risks that my small business can readily absorb. In fact, these increases threaten my ability to remain in business.

Without proper insurance coverage, I cannot obtain financing from local banks for my business. The banks may want to loan me money, but Federal regulations prohibit them from making loans on most uninsured assets.

Mr. Chairman, I am struggling to keep my business afloat. And, I am not alone. Most small businesses in our region are struggling. Struggling to rebuild, struggling to operate, struggling to obtain affordable insurance. For so many of the 18,000 businesses impacted by the 2005 hurricanes, obtaining adequate insurance coverage remains a major obstacle.

To put this all in perspective for you, let me give the Committee just a few real world examples of the experiences that similarly-situated businesses are facing in our area:

1. A local restaurant located in the French Quarter paid \$27,000 for its property insurance in 2005 which included a 2% wind/hail deductible with a minimum of

\$25,000. The 2006 renewal for the property with the same limits has been increased, believe it or not, to \$242,000 and now includes a 5% wind/hail deductible.

2. A French Quarter hotel with a property value of \$3 million had an expiring premium of \$17,000 with a policy that included a windstorm deductible of \$25,000. Its renewal policy significantly increased the premium to \$84,000 and the wind deductible increased to \$400,000.
3. A local shopping center experienced an increase in its property insurance premium from \$70,000 to \$250,000 and an increase in its wind deductible from \$350,000 to \$1.7 million.

Furthermore, when I visit with my colleagues in the business community in the New Orleans area, I am told that:

1. Almost all personal and commercial property policies either are not being renewed or are renewed with severe restrictions regarding wind damage.
2. Owners of vacant buildings are unable to obtain wind coverage of any sort.
3. Standard Business Owner's Packages (BOP), which had been a common form used for small businesses and provided broad property coverage, general liability, crime, umbrella, and automobile liability coverage, are no longer available in our area, with a few exceptions for offices in the larger buildings.
4. Commercial policies are now moving from a standard, admitted policy with a well-known carrier to a surplus lines policy.
5. Often the replacement policy will employ a layered structure, using two to more than five insurers to provide the full limit.

6. The wind provisions in the typical policy will almost always have a 2% to 5% deductible.
7. Business interruption coverage may not be provided if the wind coverage is placed with a different insurer.

These types of increases are simply unsustainable, particularly for small businesses like mine. Stories like these of annual premiums increasing five-fold or more and deductibles increasing over ten-fold are all too common. Even if companies are willing and capable of paying the high premiums to maintain property coverage, there remains the financial exposure of significant deductibles that may not be met if another hurricane-type event occurs. And, I am sure the Committee is aware that the upcoming hurricane season is predicted to be very active.

Addressing this insurance crisis will not be easy. But, I am certain of this: if I cannot operate my company in a stable environment, with reasonable and affordable insurance to protect my company and its employees, then I will be forced to move. In the end, the community that I love and worked so hard to help will suffer yet another loss.

Mr. Chairman, on behalf of the small business community in and around New Orleans, I urge you to address this crisis before it is too late. I know that many suggestions and alternatives have been put before you. In order to coordinate more fully with other stakeholders in this debate, GNO, Inc. is pleased to have joined the Natural Catastrophe Policyholders Coalition to address the very issues we are discussing here today, namely the availability and affordability of insurance. We fully understand the difficulty in reaching consensus on these complex issues. But my hope is that this Committee moves aggressively to provide appropriate relief to all of us who are fighting each and every day to run our businesses and be a positive part of the recovery of the Gulf South. As taxpayers who have worked hard and played by the rules, we are counting on

you and your colleagues in Congress to rescue us from this nightmare. We stand ready to work with you in any way that we can.

Thank you for the opportunity to appear before you today. I would be pleased to answer any questions that you may have or submit any additional information that you may require.