Puerto Rico Without Insurance: An Island In Turmoil
In September 2017, two powerful hurricanes (Irma and Maria) slammed into different parts of the Caribbean. First, Hurricane Irma skirted Puerto Rico and left one million residents without power. Two weeks later, Maria completely devastated this U.S. territory and its population of 3.47 million people. Regarded as the worst natural disaster to hit the island in nearly 90 years, Maria’s 155 mph wind speeds knocked out power throughout the entire island, destroyed homes, uprooted trees, and caused widespread flooding. Tens of thousands of residents left Puerto Rico, while many more are living in temporary shelters on the island; thousands of businesses have shut down. Nearly six months after the storm, electricity still has not been fully restored to about 200,000 families and businesses.¹

The recovery from the two hurricanes has been extremely slow, due largely to the fact that most homeowners in Puerto Rico do not have insurance. Air Worldwide states that only about one-half of the island’s residents have homeowners coverage (lower than the U.S. average).²

![Most Residential Properties in Puerto Rico Are Not Insured](chart.png)


In stark contrast, about 90 percent of Puerto Rico’s commercial buildings (many of which are pharmaceutical companies and hotels) are covered; damage to these properties contributed to most of Maria’s $20 billion insured commercial loss.

Additionally, an overwhelming majority of residents in Puerto Rico do not have flood insurance. According to the Wharton Risk Management and Decision Processes Center (University of Pennsylvania), fewer than 4 percent of Puerto Rican households have flood insurance. About 0.4 percent of the island’s housing units have flood coverage from the National Flood Insurance Program (NFIP), and the remaining 3.6 percent have flood coverage through the private sector.²

¹ USA Today article, March 5, 2018.
Among the homeowners who do have residential flood insurance policies in Puerto Rico, roughly 90 percent are policies issued by private insurers which is significantly higher than the U.S. average of about 2 percent. One possible reason for the higher rate of private flood rate may be because the NFIP rates do not account for different construction practices, making many private flood policies less expensive than NFIP policies. Another reason may be that private flood insurers offer flexible coverage options, e.g., higher coverage limits and flood coverage paired with vandalism coverage.\(^3\)

Due to the extensive damage to roads, bridges, the power grid, the sanitation system and lost tourism revenue, Puerto Rico’s uninsured losses from Irma and Maria are very high. Reasons for the high uninsured rate on the island may include the following:

- With an average household income of about $19,000, people may not be able to afford insurance. Before Irma and Maria, about 46 percent of the population were living below the poverty level.\(^4\)

- Residents do not want to for the reason stated above, pay a deductible on a standard homeowners policy when damage occurs. Rather than getting homeowners insurance, they may prefer to rely on the potential of receiving government assistance.

- Although loan institutions require insurance on mortgaged properties, there are only slightly more than 500,000 active mortgages in Puerto Rico. More than 10 percent of these mortgages are delinquent (three times higher than the U.S. average), threatening owners with foreclosures by the lenders.\(^5\)

- Informal building is quite common in Puerto Rico. These homes, ranging in the hundreds of thousands, are usually constructed by the owners without a mortgage and are very basic. They tend to be built without permits and in squatter communities. Since they have no mortgages, homeowners insurance is not required or obtained.

4 Data USA, https://datausa.io/profile/geo/puerto-rico/.
5 Black Knight Financial Services.
• Other homes in Puerto Rico have been passed down from one generation to another. These homes are likely located in depressed areas and do not have a mortgage.

• Maintaining reasonable flood standards in Puerto Rico may be too expensive for many municipalities and counties. As such, the 11 percent of Puerto Rico residents who live in high-risk flood zones may not purchase flood insurance.

It will take many years for Puerto Rico to fully recover from Hurricanes Irma and Maria. Without insurance, the territory’s economically depressed communities may struggle to effectively rebuild. Providing relief to the island is especially difficult, given its current debt crisis (even before the hurricanes struck) and geographic location. Homeowners and communities whose homes and properties were destroyed or badly damaged will have to rely on low-interest federal aid and other public or charitable sources. Despite a bleak outlook, the magnitude of the devastation caused by Irma and Maria could present an unprecedented opportunity for Puerto Rico to rebuild and modernize its infrastructure and buildings.

6 https://medium.com/living-beyond-floods/96-uninsured-in-parts-of-puerto-rico-to-be-hit-hardest-by-hurricane-irma-683d87f465c1. The population of the U.S. Virgin Islands (105,000) is very small compared to Puerto Rico’s population.