



WIND POOL INSURANCE: STRATEGIES FROM THE SLC STATES

CSG REGIONAL POLICY WEBINAR SERIES
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Sharing capitol ideas.

Residual Markets

David C. Marlett, PhD, CPCU
Chair, Department of Finance, Banking and Insurance
Appalachian State University

marlettdc@appstate.edu

828.262.2849

<http://insurance.appstate.edu/>



Residual Markets

- “Residual Markets” in which insurers participate to make coverage available to those unable to obtain coverage in “Standard Market”
 - Market of Last Resort
 - *FAIR Plans, Beach Plans, Wind Pools, Citizens*
 - Role of the “Excess and Surplus (E&S) Market”

Why Do We Have Residual Markets

- The Standard and E&S market challenges
 - Risk assessment and forecasting
 - Concentration of risk and potential catastrophic losses
 - Incentive to insure the exposure
- Are insurers able to charge rates they feel are required based on catastrophic exposure? If not they won't offer the policy

How to Pay for “The Big One”

- As the exposure grows, so does the difficulty in responsibly designing catastrophic loss financing arrangements
- The Tower – 1 in 100 year event based on models
 - Combination of
 - Accumulated cash
 - Assessments
 - Reinsurance (or Cat Bonds)

Broad Trends

- Rapid growth in coastal states during 1990's up to 2008
 - Northeast stable following Sandy and Irene
 - Atlantic Coast (SC, NC, VA) insurance market is showing signs of improvement with improving rate adequacy, available reinsurance coverage and stabilized residual market exposure
 - Florida is unique in exposure and scale of problems
 - Gulf Coast still dealing with aftermath of Ike, Rita and Katrina
- Reinsurance and Cat Bond Market
- Catastrophe Models

Fixing the Problems

- Reforms made in reaction to a recent catastrophic event are likely to be rushed and poorly designed
- How do you encourage reform in the absence of a catastrophic event?
- Leadership and buy-in of stakeholders – regulators, insurers, agents, legislators (statewide), builders and realtors
- Regional differences and fairness

Measures Impacting Wind Pool Insurance in Alabama

by Representative Steve McMillan

Brief overview of Governor Robert Bentley's
Affordable Homeowner's Insurance Commission,
Legislation, and Anticipated Actions.

Affordable Homeowners Insurance Commission (AHIC)

- Created by Governor Robert Bentley in 2011.
- Designed to deal with availability and affordability of homeowners insurance in the state of Alabama.
- Comprised of 30 members charged to explore existing issues and recommend potential solutions.

Commission Organization

- Statewide Representation and public hearings
- Activities of the commission were set up into 3 stages:
 - 1. Education and Information gathering
 - 2. Compiling/ Evaluating options, best practices, research models.
 - 3. Develop priorities/ recommendations to positively impact insurance availability and affordability.

AHIC Created 4 Sub-committees

- Education
- Mitigation
- Regulatory
- Statutory

Education

- Proposed the creation of the Alabama Center for Insurance Information and Research with the following objectives:
 - Provides policymakers and consumers with info and education similar to entities in other states.
 - Designed to assist with disaster and crisis management.
 - Create a competitive insurance market within the state.

Mitigation

- Adopt uniform standards.
- Implement hazard mitigation grant programs.
- Adopt uniform building codes.
- Develop programs to train and license contractors and code officials.

Regulatory

- Strengthen building codes and enforcement of codes.
- More emphasis on consumer affairs division of DOI.
- Other recommendations became law during time of commission deliberation.

Statutory

- Endorsed legislative passage of several bills previously introduced but not passed.
- Consensus of coastal legislators was to allow time for impact of already passed bills prior to initiating further legislative action.

Act 2006-509/ SB 305

- Provided for creation of captive insurance companies licensed under the Alabama Department of Insurance and maintain principal place of business in Alabama.

Act 2008-391/ SB3

- Removed prohibition in Act 2006-509 that prevented captive insurance companies from providing personal motor vehicle or homeowners insurance coverage.

Act 2008-392/ SB296

- Codified Alabama Insurance Underwriting Association; required insurers to be members to continue to transact fire and extended coverage insurance business in Alabama; carrier members remain liable for pro-rata share of losses; ratified plan of operation; articles of agreement, rules and procedures; allowed carry over of surplus monies.

Act 2010-217/ SB10

- Provided alternative ways for surplus line insurers to do business in Alabama by allowing DOI waiver of requirement for carrier to have been in business at least five years in another state if trust fund is established and funded in Alabama and assets are acceptable to DOI commissioner.

Act 2012-373/ SB210

- Property Insurance Clarity Act
- Requires insurers to provide policy and premium info to DOI for aggregate information.
- Must be posted and readily available on DOI website.
- In addition DOI must post a general description of the rate-making methodology.
- Information must be kept confidential until aggregated.

Act 2012-413/ SB227

- Allowed for a catastrophe savings accounts to be used for reimbursement of deductible amounts and other uninsured portions of risks of loss to residential property owners from windstorm event; allows tax deduction for deposits made into the account.

Act 2012-429/ HB323

- Created Insurance Fraud Unit within the Department of Insurance; defined insurance fraud; provided immunity from civil liability for persons reporting and investigating suspected insurance fraud; provided penalties; authorized Commission to promulgate rules necessary to implement and administer.

Act 2012-510/ HB166

- The Homeowners Bill of Rights, which among other things, requires carriers to provide the policyholder with the Outline of Coverage and Comprehensive Policy Checklist.

AIUA Increases

- From 2004-2013 AIUA has experienced a ten-fold increase in policies.
- Total insured value- 2004: \$330 million
2013: \$4.9 billion
- Policy types:
 - 99.6% residential
 - 66% are owner occupied
 - 81% of residential occupied by homeowners who live and work in Baldwin and Mobile Counties (2 coastal counties)

Alabama Premium Discounts by order of Commissioner of DOI

- 10 percent: house built in compliance to 2006 Residential Code.
- 10 percent: house that meets “bronze” standards (roof and attic vents)
- 15 percent: house that meets “silver” standards (“protection of envelope” and exterior openings)
- 20 percent: house that meets “gold” standards (anchoring and exterior openings which can sustain hurricane wind pressure)
- 25 percent: new house built to Fortified for Safer Living Standards.

Biggert-Waters Flood Insurance Reform Act

- The Biggert-Waters Flood Insurance Reform Act of 2012 (BW-12) is a law passed by Congress and signed by the President in 2012 that extends the National Flood Insurance Program (NFIP) for five years, while requiring significant program reform. The law requires changes to all major components of the program, including flood insurance, flood hazard mapping, grants, and the management of floodplains. Many of the changes are designed to make the NFIP more financially stable, and ensure that flood insurance rates more accurately reflect the real risk of flooding. The changes will be phased in over time, beginning this year.
- http://www.fema.gov/media-library-data/20130726-1912-25045-9380/bw12_qa_04_2013.pdf

Frequently Asked Questions

- How have the recent spate of hurricane- and tornado-related losses impacted consumers?
 - Actual Hurricane losses are not used by carriers in setting rates; rather, losses projected by hurricane models are used. The 2011 tornado losses were limited by the DOI so that they carried less than a 1% weight when averaged with all the other non-hurricane wind losses that have occurred in Alabama over the last 20 years. In the past, carriers have typically requested smaller increases than they could justify based on their loss experience; however, recently carriers have been requesting increases closer to their justified indicated rate increases, most likely due to those tornado losses.
- What kind of premium increases are AL homeowners experiencing?
 - Over the last 12 months carriers have been granted rate increases ranging from 0% to +35%, with an average around +12%.

FAQ Continued

- Are the costs of homeowners' insurance being fairly distributed across the state?
 - Generally, yes. Carriers must provide statistical support at the territorial level for the rate changes they request, and no territory may receive an increase greater than the territory's loss history supports. However, in some territories where the carrier may desire to grow a larger book of business, the requested rate increase may be much smaller than the increase they could justify.
- What sort of requirements are being made on insurance companies regarding the number of policies they write, the premiums they charge and the losses they incur in the state?
 - The state has no authority to require any carrier to write any Homeowners policies anywhere in the state. Our statutes only require that if they do write Homeowners policies, their rates must not be excessive, inadequate, or unfairly discriminatory. Therefore, the DOI does not regulate a carrier's underwriting/eligibility rules for writing a Homeowners policy or the number of policies they write; the DOI only regulates the rates the carrier may charge.

Information Provided by:

- Representative Steve McMillan
- Bob Groves, Director AIUA
- Charles Angell, Deputy Commissioner Alabama DOI
- www.fema.gov
- www.naic.org
- For additional information please contact:
 - Representative Steve McMillan via e-mail
 - bcldo7@gmail.com
 - Or Jess Skaggs, Baldwin County Legislative Delegation
 - jskaggs@baldwincountyal.gov



**Representative Todd Hunter
Texas House of Representatives
Chairman of the Calendars Committee**

Representative Todd Hunter

Legislation Authored in 2013 Related to Wind Storm Insurance

- HB 2350 - Relating to certain property insurance coverage available through the Texas Windstorm Insurance Association and other entities, the operation of those entities, and activities to pay and reduce losses under that coverage.

Representative Todd Hunter

Legislation Authored in 2013 Related to Wind Storm Insurance

- HB 2351 - Relating to the composition of the board of directors of the Texas Windstorm Insurance Association.
- HB 2352 - Relating to the operation of the Texas Windstorm Insurance Association and to catastrophe preparedness in the seacoast territories of this state; authorizing assessments, surcharges, and fees.

Representative Todd Hunter

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- HB 2350 - Relating to certain property insurance coverage available through the Texas Windstorm Insurance Association and other entities, the operation of those entities, and activities to pay and reduce losses under that coverage.

