Unregulated insurers taking a bigger piece of Louisiana’s property insurance market

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Upstart ‘insurtech’ company among firms gaining customers in state

For nearly a decade, Denise Hancock always turned to a broker to find competitively priced home insurance. So when her insurer, United Property and Casualty, went under earlier this year, Hancock appealed to her longtime agent.

“The quotes they came back to me with were both more than double” the price of her existing policy, she said. Hancock decided to try something new: An upstart company called KIN with a small but growing presence in Louisiana that was able to insure her duplex in the Broadmoor neighborhood of New Orleans.

She said signing up was simple: No agent. No inspection. Everything was done online in less than an hour.

But there’s one significant downside to buying a policy from KIN: The company is a “surplus lines” insurer, meaning its rates are not regulated by the state. As a result, KIN’s losses are not backed by Louisiana’s insurance bailout fund if the company ever goes broke. It’s a risk more consumers are willing to take these days, given the state of the market.

“Certainly it’s a fear of should they go insolvent and I have a disastrous claim, what might happen,” Hancock said. “But on the other hand, I certainly don’t have $8,000 or $9,000 to pay out of pocket to buy a different policy. I feel like I’m in a holding pattern at least until the next renewal period.”

Perhaps it’s a sign of desperation or, in Hancock’s case, a lack of confidence in the state’s regulators that so many are willing to forgo the state’s protection. Although Hancock’s policy was still more expensive than what she was paying, the price was substantially less than quotes from her insurance agent.

“I truly lack faith in our state government just as much as — or more than — any corporation,” she said. “I can’t say knowing Louisiana approves of any (company) makes them a good (company). That doesn’t really assure me.”

Growing in crisis
Two of the largest surplus-lines insurers are backed by behemoths, and are thus unlikely to fail. Dover Bay Specialty Insurance Co., which is affiliated with State Farm, collected more than $33 million in premium last year – a 47% jump from 2021.

The Allstate-backed North Light Specialty Insurance Co. grew even faster. In 2022, North Light recorded more than $19 million in premium, more than double what it wrote the previous year, according to annual financial statements.

On a smaller scale, the company KIN collected $5 million in premium for home insurance coverage in 2022 – twice as much as it did in 2021, records show. Company officials say the insurer now has more than 4,000 Louisiana policyholders. Its market share is still well under 1%, state records show.

What sets KIN apart from its competitors, though, is that it deals directly with consumers, cutting out the independent agents who often work for commissions. And its innovation, company officials say, is that KIN uses public and private data to gain more insight into a customer’s property than a typical insurer.

It’s a different kind of insurance company – one forged in the mold of businesses like Uber, Netflix and AirBnB, which aimed to disrupt traditional business models. Industry insiders call them “insurtech” companies. A number of the firms are trying to reinvent the way insurance products are sold, but only a few have stepped into the complex and costly world of homeowners insurance.

Ease of service is their main pitch. But consumer advocates say the verdict is still out on whether the companies can transform the industry for the better, or if they’ll flame out like many tech startups.

“It reminds me of Uber and Lyft. We’re the new, clean, simple version. When in reality, the bottom line is: Are they going to pay claims fairly?” said Amy Bach, executive director for United Policyholders, a consumer group. “For me, it’s all about will they deliver.”

The ‘insurtech’ gamble
KIN was formed just four years ago.

Only a fraction of its customers are in Louisiana. Financial records show KIN booked more than $200 million in premium in Florida, where company officials say they already have 97,000 policyholders.

Angel Conlin, KIN’s chief insurance and compliance officer, said the company chose Florida and then Louisiana because of their high risk, which creates some business opportunities. But unlike some newly formed insurers, KIN hasn’t tried to grow by taking policies from failed companies or from the state’s insurer of last resort.

“Every single policy we write one by one,” Conlin said. “And we look at every single house to make sure we have the accurate roof, home construction and the code it was built under.”

Conlin said the company wants to grow methodically. Even so, KIN was singled out for its meteoric growth by Inc. magazine last year; it was the fifth fastest-growing private insurance company in the U.S. The sharp uptick in revenue coincided with the collapse of several insurance companies operating in the Southeast last year, and insurers that canceled or stopped writing new policies.

KIN’s rapid expansion, in some ways, resembles the easy business new insurers picked up in the years after Hurricanes Katrina and Rita. But Conlin says KIN is mindful of mistakes made by the companies that have gone under.

“A lot of that has been attributed to them (failed insurers) having inaccurate data when they ran catastrophe models,” Conlin said.

The quality of data has compounding effects, she said, since every attribute of a home’s construction helps determine what it will take to replace it. So if a roof, for example, is 14 years old but an insurer records it as being only 5 years old, the likelihood that it will be damaged is much greater than the company expects. A company that makes that mistake would buy less reinsurance and set aside less money to pay claims than it should have.

Source: https://uphelp.org/unregulated-insurers-taking-a-bigger-piece-of-louisianas-property-insurance-market/ Date: November 23, 2024

“Then multiply that across all the homes in your portfolio,” Conlin said. “If you’re underestimating that then you’re not placing the right amount of reinsurance, you’re not making sure you have the right amount of surplus in your bank to pay those claims. What happens is, when a hurricane hits, it can blow through a carrier’s reinsurance program and they don’t have enough coverage.”

Still, good data is only the beginning.

“These entrepreneurial entities are great at sales pitches but when it comes to paying claims, they’re very inexperienced and that’s a problem for the consumer,” said Bach, the consumer advocate.

What happens when a catastrophe strikes is far more important. Data science doesn’t do that.

“The consumer doesn’t need technology to get their homes fixed,” Bach said. “They need the insurance company to send a human being out, look at their home and figure out what needs to be done to restore it to its pre-loss condition.”

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