

NAIC

NATIONAL
MEETING
**FALL
2021**



When private options shrink for insuring property ...

Residual market entities and
consumer challenges

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NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Insurance Provided By FAIR Plans By State, Fiscal Year 2020 (1)

State	Number of policies			Exposure (2) (\$000)	Direct premiums written (\$000)
	Habitational	Commercial	Total		
California	198,206	4,690	202,896	\$118,203,282	\$308,640
Connecticut	1,461	43	1,504	272,264	2,034
Delaware	1,272	54	1,326	224,842	490
D.C.	128	14	142	51,095	143
Florida (3)	568,051	5,376	573,427	144,799,737	1,182,125
Georgia	12,508	364	12,872	1,780,475	15,826
Illinois	2,427	38	2,465	313,000	3,417
Indiana	1,041	25	1,066	988,600	1,058
Iowa	1,120	16	1,136	67,606	823
Kansas	13,476	169	13,645	851,530	7,576
Kentucky	6,849	304	7,153	340,815	3,765
Louisiana (3)	39,671	1,471	41,142	6,658,437	59,195
Maryland	925	43	968	314,977	729
Massachusetts	209,342	192	209,534	86,249,126	299,350
Michigan	15,334	233	15,567	2,278,644	10,996
Minnesota	4,399	52	4,451	421,493	3,107
Mississippi (4)	4,309	0	4,309	216,999	2,651
Missouri	2,088	82	2,170	153,986	1,588
New Jersey	9,418	236	9,654	1,351,405	6,281
New Mexico	9,168	145	9,313	86,821	4,885
New York	27,756	1,869	29,625	8,152,000	28,444
North Carolina	193,723	5,104	198,827	24,677,084	111,968

Insurance Provided By Beach And Windstorm Plans, Fiscal Year 2020 (1)

State	Number of policies			Exposure (2) (\$000)	Direct premiums written (\$000)
	Habitational	Commercial	Total		
Alabama	16,288	33	16,321	\$4,819,371	\$22,032
Mississippi	14,397	250	14,647	2,406,870	26,155
North Carolina	201,178	9,557	210,735	78,198,588	348,265
South Carolina	16,498	250	16,748	5,193,668	32,829
Texas	187,529	7,924	195,453	55,009,638	369,601
Total	435,890	18,014	453,904	\$145,628,135	\$798,882

California: 202,896
Florida: 573,427
Louisiana: 41, 142
Massachusetts: 209,534
North Carolina: 198,827/210,735
South Carolina: 198,827/16,748
Texas: 79,575/195,453



Tension points:

- “Take All Comers”/ Adverse risk pool
- Rates/Caps/Subsidies
- Adequacy of coverage: Max dwelling limits, HO-3 or named perils
- Post Loss Assessments
- Reinsurance. ILS, Cat Bonds, Fl Hurricane CAT Fund
- Prevailing view that private options should be superior
- Legislative engagement



Consider:

As climate change reduces private appetite for insuring existing homes, public options can and should provide essential, affordable protection

[HO-3, dwelling RCV, loss of use coverage, code upgrade, debris removal, liability]

Logic suggests there be different standards for the pricing and quality of policies on *newly constructed homes in regions vulnerable to climate change*

Coming to the risk vs. Risk increased during ownership of home



California Fair Plan Basics:

Established by statute (California Insurance Code sections 10091 et seq.) in August, 1968. All licensed property/casualty insurers that write basic property insurance required by Insurance Code sections 10091(a) and 10095(a) are members of the FAIR Plan. The FAIR Plan issues policies on behalf of its member companies. Each member company participates in the profits, losses and expenses of the Plan in direct proportion to its market share of business written in the state.

- Basic policy *does not match an HO-3*. Fire, Lightning, Internal Explosion, Smoke
- Limited loss of use coverage
- Coverage for vandalism is optional
- Max dwelling limit increased from \$1.5 M to \$3M in 2021
- Some options for replacement cost coverage, deductible levels



Notable CA developments:

- CFP is a critical financial lifeline for CA property owners
- Requirement of 3 turn downs to get a CFP policy no longer enforced
- CDI and CFP are in litigation over HO-3 mandate
- Legislature gave CDI non-renewal moratorium authority which is significantly helping maintain stability in the private market and prevent drastic overpopulation of CFP



“Opposite land”

(CA Fair Plan President Annelise) “Jivan urged lawmakers to make other insurers also write more policies in fire-prone areas so that fewer people are having to turn to the FAIR Plan.

”I jokingly say pretty regularly, ‘I work in (an) opposite world,’” she said. “I probably run the only company that, really, success is measured by a shrinking portfolio and a shrinking customer base, because that is actually a sign of a very healthy voluntary or private market. At the moment, that's not the case.”



Source: CBS8 San Diego, April 5, 2021

Florida Citizens:

Citizens was created by the Florida Legislature in August 2002 as a not-for-profit, tax-exempt, government entity to provide property insurance to eligible Florida property owners unable to find insurance coverage in the private market. Citizens is funded by policyholder premiums; however, Florida law also requires that Citizens levy assessments on most Florida policyholders if it experiences a deficit in the wake of a particularly devastating storm or series of storms.

Citizens operates according to statutory requirements established by the Florida Legislature and is governed by a Board of Governors. The board administers a [Plan of Operation](#) approved by the Florida Financial Services Commission, an oversight panel made up of the Governor, Chief Financial Officer, Attorney General and Commissioner of Agriculture.



FL Citizens basics

- Basic policy matches an HO-3 form
- Max available dwelling limits are county-specific (\$700k, \$1M)
- Options include code upgrade coverage, sinkhole coverage, replacement cost on contents



Depopulation efforts:

Florida law requires that Citizens create programs to help return Citizens policies to the private market and reduce the risk of assessments for all Floridians. These programs are subject to the approval of the Office of Insurance Regulation (OIR).

The Depopulation program works with private-market insurance companies interested in offering coverage to Citizens policyholders. Participating companies must be approved by the OIR. Approved takeout companies can offer to take over your Citizens policy at any time during your policy period.

The Depopulation Unit works directly with active and prospective Florida insurers and representatives to facilitate the transfer of policies.

Citizens' policy count had swelled in 2012 to 1.5 million...Depopulation efforts whittled the count to a low of 419,475 in October 2019.



Current FL snapshot:

Citizens is now on-course to see its policy count surpass 1 million in 2022, rising further by the end of the year... One driver of an accelerating rate of policies to Citizens has been reinsurance costs, which have risen considerably for some Florida carriers.

Source: <https://www.artemis.bm/news/florida-citizens-growth-could-near-previous-highs-depopulation-in-focus/>

Residents can purchase Citizens insurance if they cannot find private insurance or if a private insurer's policy is priced 15% above a comparable Citizens' offering. State law precludes Citizens from raising renewal rates more than 10%.

Source: fernandinaobserver.com/general/state-subsidized-insurer-adds-100000-policies-as-florida-property-insurance-rates-surge



Notable in FL:

Florida Market Assistance Plan (FMAP) - Free referral service that helps consumers find personal residential insurance with authorized private-market insurance companies

Florida Hurricane Catastrophe Fund (FHCF) - a tax exempt state trust fund that provides reimbursement to residential property insurers for a portion of their Florida catastrophic hurricane losses. It is intended to be self-supporting, with funding primarily from actuarially-determined premiums paid by residential property insurance companies, and, in some circumstances, revenue bonds backed by emergency assessments on a variety of property and casualty insurance premiums.



Louisiana Citizens

- Established: Created by the Louisiana legislature in 2006 ([RS 22:1430.2](#)) as a nonprofit organization created to provide insurance products for residential and commercial property applicants who are in good faith entitled, but unable, to procure insurance through the voluntary insurance marketplace.
- Coverage Basics: LA Citizens offers an HO-3 and other options
- Louisiana Citizens developed a process in 2008 to “depopulate.” New or existing private insurance companies are encouraged to assume policies currently covered by Louisiana Citizens from policies approved for depopulation in accordance with LSA-R.S 22:2314. Through this process, Louisiana Citizens can transfer selected policies back to the private insurance market in accordance with LSA-R.S. 22: 2314.



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Citizens, which covers properties that the private insurance industry won't, is now in its 14th round of depopulation... Meanwhile, despite three hurricanes and two tropical storms hitting Louisiana during the 2020 season, Citizens reports no uptick in home or business owners seeking coverage, a sign of health in the local insurance market.

“By enacting a proactive reinsurance strategy and using modeling to select policies for depopulation, Citizens is in a strong financial position and providing stability to the homeowners market during a turbulent time,” said Donelon. “Despite the multiple hurricanes that hit the Louisiana coast last year, Citizens is in a great place to weather these financial storms and continue to support private sector competition in the property insurance marketplace.” Source: www.bizneworleans.com/insurer-of-last-resort-sees-continued-drop-in-policy-count/

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At present, it is responsible for over 38,600 policies in Louisiana and 0.28% of the state's homeowner's market, but expects to increase its policy count by around 5,000 next year, while at the same time depopulating roughly 100 policies.

Source: <https://www.reinsurancene.ws/reinsurers-to-absorb-most-of-louisiana-citizens-461m-ida-loss/>



Notable in LA:

Louisiana: Citizens expanded its commercial limits to \$10 million on an individual building, \$3.2 million for contents and \$20 million in the aggregate, versus previous limits of \$5.5 million, \$2.2 million and \$11 million, respectively.

Board members noted that the increase would better enable Citizens to accommodate policyholders seeking coverage when they already have an open claim with an insurer during renewals.



Thank you...Questions?

Contact info: amy.bach@uphelp.org

Resources:

- Dropped by your insurer, where to go for help (www.uphelp.org)
[CA, WA, NY, NJ, CO]
- The lowdown from UP on the CA Fair Plan (www.uphelp.org)

