

# **ALABAMA COASTAL PROPERTY INSURANCE BILL**

## **Frequently Asked Questions**

### **1. What is the goal of this bill?**

**Response:** The goal of this legislation is to provide coastal homeowners with equal or better wind coverage at more affordable rates. It would establish a new Alabama “Wind Pool” designed to achieve federal non-profit tax exempt status. The name of the new organization would be the Alabama Coastal Insurance Authority (ACIA). The ACIA would also use post-loss assessments to reduce the cost of capital.

### **2. What problems exist in Alabama’s coastal counties that this bill is trying to solve?**

**Response:** Affordability of homeowners insurance, uninsured homeowners, and functionally uninsured policyholders.

- **Affordability:** Since the 2004-2005 hurricane season, homeowners insurance premiums in Mobile & Baldwin Counties have on average more than doubled from their 2005 level, and some homeowners have seen increases as much as 500%. In addition to their premiums increasing dramatically, their deductibles also increased from an average \$500 deductible to a deductible equal to 2% or 5% of their home replacement cost. Many homeowners (estimated 20,000) do not carry wind insurance because of the high price. Unless the situation is improved so homeowners can afford insurance, Mobile and Baldwin counties may appear unattractive to businesses going forward.
- **Functionally Uninsured:** Many insureds have an Actual Cash Value (as opposed to Replacement Cost Value) policy which in combination with a 2% or 5% deductible yields little if any claim payment for a \$10,000-\$15,000 claim. After the next hurricane, tens of thousands of coastal workers may not be able to repair their homes because they either have no insurance or have insufficient insurance.

### **3. Will this bill create new subsidies for coastal homeowners insurance?**

**Response:** No. In its current form, AIUA currently may receive a “subsidy” from homeowners statewide after a large hurricane by way of insurers recouping their AIUA assessment via a statewide rate increase in the following year. However, the new ACIA proposal doesn’t require any more of an assessment than the current program.

### **4. Does this bill adopt a model similar to Citizens Property Insurance Company in Florida?**

**Response:** ACIA would use a post-loss assessment strategy, similar in some ways to that of Citizens Property Insurance Company in Florida. However, at its inception, Florida Citizens used statutorily mandated rates that were not actuarially sound. ACIA rates would be actuarially sound for a non-profit that does not have to include a provision for cost of capital in its rates.

### **5. Where did this idea originate?**

**Response:** The bill was devised and recommended by the Coastal Insurance Working Group (CIWG) which included insurance experts, consumers (including members of HHII), and policymakers.

Commissioner Ridling supports the bill. Governor Bentley created the CIWG in June 2015. The Governor asked members to focus attention on public policy, guidelines, and possible multi-state approaches to address the cost of property insurance along Alabama's Gulf Coast. The CIWG began working in August 2015 and completed this report in January of 2016. The group met diligently for two full days each week during this four-month period.

**6. How would this proposal affect the long-term sustainability of our local economy?**

**Response:** This proposal should help reduce the number of uninsured homes as well as the number of functionally uninsured homes in Mobile/Baldwin, and that greatly aids the long-term sustainability of the region. And the lower property insurance premiums will either put new funds into the local economy or into the homeowners' savings accounts, both of which make the region stronger.

**7. The bill would transfer the burden of a catastrophic loss from insurance companies to consumers. Can consumers afford this risk?**

**Response:** The potential assessments plus reduced insurance wind premiums will never exceed the current wind premiums, and most likely will be less, so this reduces the burden on coastal consumers.

**8. How much will this bill reduce income generated to the state's general fund by way of the premium tax?**

**Response:** The statewide insurance premium tax generates more than \$300 million to the state general fund. The new approach would reduce that amount, at least initially, only about \$1.5 million. However, the positive economic impact generated by consumers' premium savings remaining in the local economy would make up for any reduction in the state insurance premium tax.

**9. How can the ACIA offer greatly reduce premiums and provide more coverage, but still have sufficient funds to pay claims?**

**Response:** The proposed ACIA rates would be approximately 50% below the current voluntary market rates. The rate reduction as it relates to AIUA before the addition of new coverage would only be about 20%. This rate reduction is feasible due to the savings from raising the reinsurance attachment point to a 1-in-50 year event (about a 10% to 15% savings), from eliminating the cost of capital in the retained losses (about a 12% savings), and from eliminating all taxes (another 5% savings). The cost of the additional coverage for ACIA is estimated to only be about 10% to 15%. In the early years there would not be sufficient funds to pay all claims if a hurricane occurred, hence the need to sell bonds and issue assessments. But the cost of the assessments will be less than the savings from the premium reductions.

**10. Will the bill take the private market out of wind insurance in Mobile and Baldwin County and place it in the hands of the State of Alabama?**

**Response:** It places the financial responsibility on the consumers, not the State of Alabama, but yields significant savings to the consumers. The ACIA will be more cost efficient than the insurance industry. We would hope, however, that the insurance industry would be able to find a way to offer comparable rates with extra coverages to our consumers, and thus remain competitive in the market. Also, many consumers will choose not to go with the ACIA because they want limits or coverages that ACIA will not be able to offer.

**11. How would the ACIA cover a hurricane loss if reserves are insufficient?**

**Response:** ACIA would issue 20-year bonds to cover a hurricane loss if reserves are insufficient. These bonds are not backed by the State. Insurers must purchase bonds not purchased on the open market. Then, ACIA policyholders would be charged assessments for 20-years to service the bond debt. The assessments would be capped at 100% of an insured's wind premium even if multiple hurricanes occur and multiple assessments are needed. The assessments would be collected annually by county tax assessors along with the annual property tax. If the homeowner sells the house, the homeowner may prepay remaining assessments or let the buyer pay the remaining annual installments.

**12. Would homeowners statewide be charged assessments if the ACIA assessment cap is invoked?**

**Response:** Homeowners statewide are already being indirectly assessed after a hurricane, since their insurers are permitted to increase their statewide rates to recoup for any AIUA assessments. Insurers would collect these assessments from their policyholders on behalf of ACIA. The likelihood of a non-ACIA assessment over a 20-year period is only 6% to 10% according to actuarial estimates. This proposal could yield smaller and less frequent non-ACIA assessments than the current AIUA assessment methodology.

**13. Some will oppose the idea of making insurance assessments collectable by the tax assessor's office because the majority of homeowners in the coastal counties are strapped financially after a storm and an assessment could place their home-in jeopardy, with the home being auctioned on the court house steps. Is this true?**

**Response:** The coverage provided by the ACIA will be replacement cost, not depreciated cost as is the case for most AIUA policyholders today. This will greatly reduce the out-of-pocket costs for a consumer after a storm. If an assessment is needed after a storm, the annual assessments will not exceed the annual premium savings that the consumer had received, and most likely will be less, so the consumer will not be as financially strapped as they would be today without this proposal. Therefore, the consumer should be able to pay all assessments and should not be placing their home in jeopardy.

**14. Wind pools in Texas, Louisiana and Mississippi are all trying to depopulate. Why would we want to possibly cause our wind pool to grow?**

**Response:** The Texas, Louisiana and Mississippi wind pools have not decided to take the lead in their states to find an economical solution for the property insurance affordability problem, while Alabama is showing leadership in taking on this challenge. It is not our goal to grow the Alabama wind pool, but the CIWG believes it is time to provide coastal consumers with a wind policy offering good coverage at a price they can afford so as to create a resilient and attractive community for residents and businesses, which will benefit the entire state.

**15. Is this bill a vast departure from capitalism?**

**Response:** Capitalism would suggest that a low-cost provider will win the market. ACIA is not the government and is not going to charge an unsustainable rate, so this is not really a departure from capitalism. We would hope, however, that the insurance industry would be able to find a way to offer comparable rates with extra coverages to our coastal consumers, and thus remain competitive in the market.

**16. Haven't property insurance rates been rapidly falling in the past few years, so is this drastic step really needed?**

**Response:** Property insurance rates have been coming down, though one could question if it has been rapid. They are still considerably higher than they were, and coastal homeowners insurance rates are still more than double the rates upstate. But if rates are coming down, then that means the industry should soon be able to compete with ACIA, and that would be a further benefit to our coastal consumers.

**For More Information, contact:**

Charles Angell or Mark Fowler  
Alabama Department of Insurance  
charles.angell@insurance.alabama.gov  
mark.fowler@insurance.alabama.gov  
(334) 269-3550

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