<u>ALABAMA COASTAL PROPERTY INSURANCE BILL</u>

A Point Paper

Goal of this legislation is to provide coastal homeowners with equal or better wind coverage at more affordable rates. This legislation would allow the Alabama Insurance Underwriting Association (AIUA; also called the "Wind Pool") to achieve federal non-profit tax exempt status and it would change the name of the organization to the Alabama Coastal Insurance Authority (ACIA).

Under current law, the Board of Directors is selected according to the AIUA Plan of Operations and consists mostly of AIUA member insurers. This bill would make the new ACIA's governing structure comparable to Wind Pools in other coastal states and would ensure greater financial strength and public confidence in the organization's ability to quickly respond to claims in the event of a major storm. Specifically, this bill would:

- Allow the current AIUA to be replaced by a federally tax-exempt non-profit so as to accumulate reserves more quickly and to lower rates.
    - Name the new entity the Alabama Coastal Insurance Authority (ACIA)
    - The Commissioner of Insurance would appoint an independent Board of Directors
        - 6 insurers, 2 agents, 4 local business people, Alabama Director of Risk Management
    - ACIA to be exempt from AL premium tax (approximately $1.5M/yr.) and municipal business license fees (approximately $80,000/yr.).
    - No other financial responsibility of the State for ACIA.
    - Commissioner would require regular financial reports and conduct financial exams on ACIA.

- Relieve the insurance Industry of all current direct financial responsibility of ACIA: would permit insurers to recoup future assessments directly from policyholders; ACIA not backed by AL Guaranty Fund.
    - Commissioner could request AIUA member companies to voluntarily convert their equity in AIUA to ACIA surplus notes (i.e. seed capital); those declining may take their equity as a cash distribution from AIUA.

- Typical non-ACIA policyholder would receive approximately a 50% reduction (about $1,000 per year) from their <u>HO-3 RCV</u> premium. AIUA policyholder would receive initial premium reduction of approximately 20% (about $350 per year) and much broader coverage:
    - RCV, higher limits, additional living expenses, ordinance & law, more deductible options.

- If ACIA reserves are insufficient to cover a hurricane loss, ACIA would issue 20-year bonds to cover the loss.
    - These bonds are <u>not</u> backed by the State.
    - Insurers must purchase bonds not purchased on open market.
    - ACIA policyholders would be charged assessments for 20-years to service the bond debt. Assessments are capped at approximately $1,000 per year on average.

more

        - Assessments would be collected annually by county tax assessor along with the annual property tax.
        - If homeowner sells his house, he may prepay remaining assessments or let buyer pay remaining installments.
    - Non-ACIA homeowners would be charged assessments once ACIA assessment cap is invoked.
        - Non-ACIA homeowners 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.
        - 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.

- The ACIA could be in operation as soon as 1/1/17 if the bill is passed in the 2016 Regular Session.

<u>For More Information, contact:</u>

Charles Angell or Mark Fowler
Alabama Department of Insurance
(334) 269-3550

###