

**Remarks before the  
House Insurance Committee  
Alabama House of Representatives**

**HB321 - The Alabama Coastal Insurance Authority Act**

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Thank you Mr. Chairman and members of the committee for conducting this hearing today and for your consideration of House Bill 321 by Representative Joe Faust, The Alabama Coastal Insurance Authority Act. This bill that is cosponsored by all members of the Mobile and Baldwin County legislation delegations, illustrating their view of its importance to their home area. Similar legislation has been introduced in the Senate sponsored by Senators Bill Hightower and Trip Pittman.

While this issue can get very complicated very quickly, the goal of this bill is relatively simple. Its goal is to provide coastal homeowners with the opportunity for equal or better wind coverage at more affordable, while still actuarially sound, property insurance rates. This bill would transition coastal policyholders from the current Alabama “Wind Pool”, the Alabama Insurance Underwriting Association, the AIUA, to a newly established Wind Pool, the Alabama Coastal Insurance Authority (ACIA), which will be designed to achieve federal non-profit tax exempt status.

The ACIA would also use post-loss assessments to reduce the cost of capital, thus allowing consumers the opportunity for reduced rates. With this legislation, the Department hopes to effectively address two major issues surrounding coastal property insurance in Alabama: (1) property insurance affordability; and, (2) functionally uninsured policyholders.

This legislation was devised and recommended by the Coastal Insurance Working Group (CIWG), appointed by Governor Bentley in June of 2015 and consisting of insurance

experts, consumers, and policymakers including representation from the Insurance Department, the Governor's office and the Alabama Center for Insurance Information and Research. The Governor asked members to focus attention on public policy to address the cost of property insurance along Alabama's Gulf Coast. The Working Group began its deliberations in August 2015 and delivered its report to the Governor in January of 2016. The group met diligently for two full days each week during this four-month period and consulted numerous local and national experts and practitioners in the insurance field.

Under current law, membership in the AIUA is required for all insurers writing fire and extended coverage including wind coverage in Alabama. As the Wind Pool was originally conceived, property owners in Mobile and Baldwin counties could seek an AIUA policy, which is an actual cash value wind only policy, as a "last resort" when they have been unable to purchase better coverage at a lower rate elsewhere. However, today the AIUA currently provides coverage to more than 30,000 Alabama policyholders in Mobile and Baldwin Counties and has a total insured value of more than \$5.3 billion. HB321 will allow for the next logical step in the business evolution of Alabama's Wind Pool.

The AIUA Board of Directors is currently selected, under Alabama law, according to the organization's Plan of Operations and consists almost entirely of AIUA member insurers. This bill would make the new ACIA's governing structure comparable to Wind Pools in other coastal states. The Commissioner of Insurance would appoint an independent Board of Directors made up of 6 insurers, 2 agents, 4 local business leaders and the Alabama Director of Risk Management. The bill would also clear the path for the ACIA to apply for federal tax exempt status. A needed condition for approval is the state's financial participation. This bill would provide such participation through exemption from the state premium tax - about \$1.5 million per year. Such a status would allow the ACIA to accumulate reserves more quickly and to lower rates. It would relieve the insurance industry of all current direct financial responsibility of the Wind Pool.

Now, Mr. Chairman, let me briefly address assessments. This bill **WILL NOT** create **NEW** assessments for non-AIUA policyholders. Under current law, the AIUA assesses insurance

companies after a large hurricane. Those companies may recoup the assessment from policyholders statewide via rate increases in the year following the storm. In other words, statewide assessments already occur indirectly under the current wind pool law. The last one occurred in 2005 after Hurricane Katrina. However, the new ACIA proposal does not require any more of an assessment on statewide policyholders than the current program. In fact, storm impacts that would trigger the post-loss assessments contemplated under the new ACIA must reach a higher threshold for approval than in the current wind pool program before they may become effective AND the assessments are expected to be, when and if they occur, lower under the new ACIA, not to mention transparent.

I hope this committee will be able to support this important legislation which the Department believes will provide a unique and innovative method to bring property owners in our state's coastal counties some much needed relief.

Thanks go out to Governor Bentley for starting this process, to our coastal area legislators for sponsoring the bill and to the dedicated local citizens, many of them are here today, as well as the government employees and industry experts that have worked so very hard to get us to this point.

Mr. Chairman, I have with me today the Deputy Commissioner and Chief Actuary Charles Angell who represented the Department on the Working Group and is one of the chief architects of this proposal. If committee members have questions about the details of how all this will work, I will defer the Mr. Angell to address them.

Again, thank you Mr. Chairman. I very much hope that you and all members of this committee will be able to support this important legislation.

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