

# **Concept to Create an Alabama Insurance Institute**

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## Mission Statement

The Alabama Insurance Institute will be an independent nonprofit center of excellence which supports and promotes activities that strengthen the competitive insurance market in Alabama for benefit of a healthy economic environment and service to consumers. The Insurance Institute will provide education programs using partner organizations and leadership to develop innovative approaches to solving problems associated with insurance issues. This will require independent analysis and research to implement well-informed decisions. Issues to address include but are not limited to fields of engineering, building science, architecture, accounting and finance, risk management, insurance, building codes and inspections, law, teaching and communication, and other fields of expertise as needed. The cross discipline, multi-profession approach will be a center for insurance and mitigation analysis, research and education. It will provide independent interpretation of information and provide opinions and unbiased conclusions.

Alabama Affordable Homeowners Insurance Commission suggests to Governor Bentley to seek proposals from Alabama's educational institutions to provide comprehensive proposals to facilitate, develop, establish and manage an Alabama Insurance Institute to provide information and research for use by the various stakeholders including state and federal agencies, policy makers, insurance companies, elected officials, and the public at large. The intent is to provide a healthy and aggressive technology framework making information readily available to all stakeholders.

### Core Focus is:

- Education and Outreach
- Research and repository of information
- To facilitate collaboration among agencies and stakeholders
- To foster leadership and engagement by academic institutions and students

### The Institute's goals are to:

- Be a statewide credible and respected source of information on risk management
- Build capacity in insurance research
- Create a platform for better collaboration among academia, professional associations, trade groups, government agencies and stakeholders in each community
- Provide new insights valuable to policy makers, consumers, and insurance and risk management professionals alike
- Identify barriers that may distract new insurers from conducting business in Alabama
- Be independent, high quality and rapidly responsive to all stakeholders
- Identify insurance industry strategies and activities that can benefit Alabama's economy and quality of life
- Identify opportunities for insurance industry partnerships and collaborations between the public, academic institutions, trade associations and consumer groups
- Coordinate and disseminate information related to catastrophic storm risk management, including but not limited to research and information that benefits businesses, consumers, and public policy makers
- Facilitate Alabama's preparedness and responsiveness to catastrophic storms and collaborate with other public and private institutions
- Create and promote studies that enhance the educational options available to risk management and insurance students which encourage academic enrollment

- Publish and disseminate findings primarily related to risk management on a regular basis
- Organize and sponsor conferences, symposia and workshops to educate consumers and policymakers
- Be financially sustainable with dedicated funding
- Operate in an accountable manner with established deliverables and performance matrix
- Use all available expertise and infrastructure available to distribute education, research and economic information
- Establish a communication outreach program to citizens and public at large

Also, the Center goals would be to provide research to officials interested in or impacted by insurance and underlying factors that drive insurance pricing, terms and availability including such topics as:

- Home design, construction materials and techniques that would increase resistance to strong winds, hail and wind driven rains (architecture, material science, building science, atmospheric science) to reduce rates by fostering more options
- Problems with the current captive insurance legislation making such insurers less effective in attracting capital than they could be
- Educating Alabama's congressional delegation and policy makers about why the catastrophe reinsurance market has moved offshore and how to bring it and its related well paying jobs back to the US and to Alabama without cost to taxpayers
- Approaches to increasing Alabama's attractiveness to potential out of state homeowner insurers
- Approaches to reducing the price surge in lodging and building materials following a catastrophic event
- Insurance regulation: too much versus too little; where Alabama sits on the regulatory spectrum

### Alabama Insurance Institute

This proposal calls for establishing an Alabama Insurance Institute at a university or central location in Alabama. Research indicates that a relatively small investment in an institute as described can yield large returns to the state in terms such as reduced costs and increased benefits from risk management expenditures, enhanced availability of insurance and increased productivity. In recent years, Alabama has faced financial, meteorological and health related crises of historic proportions, underscoring the need for a deeper insurance and risk management knowledge base. The committee recommends reviewing other institutes to discover what works and what does not, and how we can improve our initial plan. Several examples are referred to under the heading 'Collaborative Examples' as an appendix to this draft.

### **Cost of Risk to the State of Alabama**

Like most environments, the State of Alabama is subject to many natural catastrophic events including tornadoes, hurricanes, hail storms, floods and earthquakes, to name the most severe perils here. It is subject to man-made catastrophes such as pollution, epidemics and conflagrations, as well as oil spills beyond our control.

Every day Alabamians must deal with the usual perils that can destroy the finances of a business or a family. These include potential liability from operating a car (or fleet of cars), loss of a dwelling (or factory), loss of earnings when a business is out of commission, paying medical bills, replacing the earnings of a breadwinner (or key person in a firm) and planning for retirement (or providing pensions

for a workforce). The cost of risk managing is substantial and adds up to a significant percentage of a family or business's budget. Managing risks in the most efficient and effective way is an ongoing battle that leaves most people confused and frustrated – and often they end up doing the wrong thing.

Improvements in the risk management process can provide substantial savings on what is known as *cost of risk* which include factors such as insurance premiums, uninsured losses, loss prevention efforts, and administration. Annually the cost of risk in the State of Alabama runs into the hundreds of millions of dollars. Even a small improvement in this number can justify a substantial investment in research and education – both of which can be provided by the Alabama Insurance Institute.

## **Implementation**

PHASE ONE: Planning and structure of operating entity including development of funding sources

PHASE TWO: Establishment by legislature to set its authority, role and funding resources

## **Research, Information Exchange and Training**

### Research

The families and businesses of Alabama can benefit significantly from the creation of an Alabama Insurance Institute that carries out credible, high-quality research leading to pragmatic results. Its output should influence public policy and provide practical benefits to the public, professional organizations, trade groups and nonprofit organizations. Among the many issues that the Institute might address are:

- Availability of insurance. The addition of new insurance companies increases competition in the marketplace. What barriers if any are keeping additional financially sound insurance companies out of the Alabama market? What will bring additional insurers into the market?
- Insurance rate mitigation. What measures can be taken to reduce insurance rates? What is the ratio of benefits to cost for various approaches? How can the consumer get the most bang for their buck?
- How can individuals and families most effectively manage the personal risks they face such as premature death, disability, medical expense and outliving their resources?
- The cost of healthcare consumes approximately eighteen percent of GDP in the United States and the trend is inexorably upward. What approaches to providing and financing healthcare have been effective in other states and nations? Are any elements of these approaches relevant for the State of Alabama? What lessons, if any, may be learned from the experience of others?
- Worker compensation is a significant issue for many businesses. What approaches for making this essential program more efficient and effective have proved successful elsewhere?
- What techniques beyond insurance might be used to manage risk effectively, especially in disaster-prone areas such as the coast? How can these techniques be employed by families and businesses?
- What public policy measures might be helpful for making insurance more easily available at a fair price? What has worked elsewhere? What has been tried and failed?
- How can businesses and government infuse risk management techniques into decision making processes to enhance the well benefits to all stakeholders?

### Information, Education and Training

As stated, the Institute would have an important role in providing public information, education and training functions that would benefit citizens throughout the state. Intelligent consumers make markets more efficient and effective, which promotes the ability of the free enterprise system to provide the most goods and services for the least cost and improves business practices. Among the areas of consumer education and training the Institute could provide are the following:

- Provide consumers the knowledge they need to make intelligent risk management decisions (including the purchase of insurance) and lower their cost of risk. This could be done online, via television and radio public service announcements, and also through community-based seminars led by instructors who have been trained through the Institute
- Establish a source of information readily accessible and understandable to answer consumer questions about insurance such as how does insurance work; what are the different types of insurance and what basic knowledge does any consumer need concerning each type; what do I do if I have a claim; what are the social benefits of insurance; how are premiums determined; what happens to the premiums I pay to insurers; how significant is fraud in the cost of insurance and what can I do if I suspect someone of fraud; how do I shop most effectively to get the right insurance for me, my family, and business, and how do I keep my rates down; how are insurance companies regulated and how can I involve regulators if I believe the law is being broken; what are the different types of insurance distribution systems and what are the features of each; what is the nature of financial ratings on insurance companies and how do I find the financial rating on my carrier; what are the probabilities of various types of losses (e.g., death by accident and otherwise, auto crashes and collision with deer and other animals, house fires, tornadoes, hurricane, disability)?
- Provide training for K – 12 teachers so that they can teach financial literacy, including insurance literacy, to their students
- Provide models for institutions of higher learning on how to initiate risk management and insurance education into their curricula
- Enlist college students to help consumers with their questions about insurance and other risk management techniques

The Institute would work with many other organizations including nonprofit foundations established to conduct education and research in insurance and risk management, universities throughout the world, and the Alabama Insurance Department and other state agencies charged with providing related services.

### **A Home for the Alabama Insurance Institute**

The Institute's mission calls for it to develop programs that will enhance public policy makers' knowledge and provide practical solutions that benefit the citizens of the state. To do this effectively, the Institute must have access to a deep well of resources that can be reached through both formal and informal channels. Furthermore, it should be respected for its high level of competence, integrity and credibility. To accomplish this mission in the most effective and efficient manner it could be located on a university campus where most of the intellectual and support resources needed are already in place. Sound decisions on this multi-dimensional subject require input from a wide variety of perspectives. Furthermore, the Institute's leader must be highly respected and recognized for work in his or her field.

The location that will house the Institute should be well-positioned to serve as a home for such credible information and research. The Institute setting should be able to provide highly-qualified faculty in

closely related areas such as actuarial science, statistics and mathematics, engineering, natural sciences, law and public policy.

### **Suggested Organizational Structure**

#### Director

The director should be a seasoned professional acclaimed with highly-respected credentials in his or her fields of research and experience, and capable of leadership at the highest level.

#### Research Associate

A seasoned researcher preferably published in some credible documentation of field research.

#### Communications Director

Experienced in developing and monitoring multi channel communications and outreach,

#### Graduate Assistants / Interns

The applicants might be PhD students who benefit by furthering their research while creating doctoral dissertations, thus benefiting the state by increasing the pool of talented scientists.

### **The Alabama Insurance Institute Advisory Committee/Board**

The Alabama Insurance Institute Advisory Committee/Board will provide direction, information, experience, education and advice to the Alabama Insurance Institute staff. The committee/board is a seamless network of voluntary participants including governmental, business and nonprofit organizations dedicated to working with the Institute to inform Alabamians about the benefits of insurance as an individual and business risk management tool while educating them about its applications, components and limitations. The committee/board will assist the Institute in using actuarial and issue-based research about insurance in partnerships with professional organizations, schools, businesses, community groups and other nonprofits with the fundamental objective to empower Alabamians with the knowledge they need to make intelligent risk management decisions for themselves and/or their businesses.

#### **Suggested Members for Consideration**

Governor of Alabama  
Alabama Department of Insurance  
Alabama Department of Revenue  
Alabama Independent Insurance Agents Association  
Alabama Insurance Information Service  
Alabama Association of Realtors  
Alabama Bankers Association  
Alabama Mortgage Bankers Association  
Alabama Life Underwriters  
Business Council of Alabama  
Home Builders Association of Alabama  
Consumer Group Organizations  
Insurance Companies

**Potential Academic Partners:**

Alabama State University  
Athens State University  
Auburn University  
Auburn University Montgomery  
Samford University  
Troy University  
Tuskegee University  
University of Alabama  
University of Alabama at Birmingham  
University of Alabama in Huntsville  
University of Montevallo  
University of South Alabama

**Potential Professional Partners:**

Alabama CPA Society  
Alabama Society of Professional Engineers  
American Institute of Architects  
Alabama State Bar  
Casualty Actuarial Society  
American Risk and Insurance Association

**Potential Trade Partners:**

Homebuilders Association of Alabama  
Alabama Association of Realtors  
Alabama Bankers Association  
Mortgage Bankers Association of Alabama

**Agencies and Groups in Other States:**

National Association of Insurance Commissioners  
South Carolina Department of Insurance

**Federal Agencies:**

Federal Emergency Management Agency  
U.S. Government Accountability Office

**Non Government Research Organizations:**

Captive Insurance Companies Association  
Carnegie Institution for Science  
Independent Insurance Agencies  
Risk Management Society  
Insurance Industry Rating Agency and Research Group

**Industry Research and Trade Associations**

American Insurance Association  
Reinsurance Association of America  
Insurance Institute for Business and Home Safety  
Reinsurance Association of America  
Property Casualty Insurance Association

## Collaborative Examples

### **Hazards and Vulnerability Research Institute (University of South Carolina)**

<http://webra.cas.sc.edu/hvri/>

They are associated with the department of geography and they work with homeland security, NASA, Army Corps of Engineers, National Science Foundation and NOAA.

Researchers outside of USC include individuals from Benedict College, LSU, University of Arizona and Norwegian University of Science and Technology. Student researchers include a dozen PhD students across seven disciplines and six Masters and undergraduate students.

### **Center for the Study of Natural Hazards and Disasters (University of North Carolina)**

<http://hazardscenter.unc.edu/>

The advisory board is made up of professors from different schools (Civil Engineering at Georgia Tech, Environmental Science at Appalachian State, Engineering at Texas A&M, Engineering at Jackson State) as well as government officials and industry representatives. Geographically they come from across the nation but a great many have ties to North Carolina.

The Principle Investigators are delineated into Coastal Hazards Modeling (with reps from Miss State and Oklahoma), Engineering (reps from NC State, LSU, and Texas Southern), Planning (reps from UNC Chapel Hill), and Social Science (reps from Connecticut and LSU).

The actual staff members are all UNC-CH professors from various disciplines.

They also list other schools that they partner with such as LSU, Mississippi State, UNC Charlotte, Massey University, New Zealand, etc.

### **Risk Management and Decision Process Center (University of Pennsylvania)**

<http://www.wharton.upenn.edu/riskcenter/>

Not much information is available as they are a private school. They list corporate associations which are companies paying for research to be completed. They have a list for government partners (DHS, D&QT, FEMA, USDA, EPA) including international groups (OECD, World Bank and World Economic Forum). They do not list exactly who they work with but the listed academic partners include Carnegie Mellon, University of Wisconsin-Madison, CREATE at USC, Georgia State University, Harvard and University of Michigan.

The research team is directed by professors from Wharton's Risk Management program. The research fellows come from mostly other Ivy League schools. There is also a visiting scholars program with individuals from Europe and the Pacific Rim.

### **Stephenson Disaster Management Institute (Louisiana State University) <http://www.sdmi.lsu.edu/>**

The Board of Experts is made up of representatives of state government, industry risk managers, FEMA and the US Military. There are Senior Fellows which are experts from the recovery industry. The staff is made up of individuals on campus at LSU. The research affiliates are all members of LSU staff. The graduate students come from various backgrounds including public administration and communications. LSU's center is a bit different. They have the "Command College" which is to train emergency management professionals; the Disaster Lab, which is a command center for disaster operations; and Small Business Disaster Preparedness which is to help small businesses with continuity planning. The effort is more on outreach than on research.



**Florida Catastrophic Storm Risk Management Center (Florida State University)**

<http://www.stormrisk.org>

The center has an advisory council that oversees the strategic direction of the center. The majority of the council is made up of industry professionals both in the insurance industry and risk management for major employers. For example, the Vice President of Risk Management for The Walt Disney Company is on the council. The members of the council are found all over the states from Miami to Tampa to Orlando to Tallahassee. Academia is represented in the case of FSU and the Chief Operating Officer of the Florida Hurricane Catastrophe Fund (FHCF) for the State Board of Administration of Florida represents the interests of the citizens.

The primary researchers are from Florida State but individuals from Florida A&M, the University of Florida and Florida Atlantic University are also represented.

**National Sea Grant College Program (No Central University) <http://www.masgc.org/page.asp?id=3>**

The Board of Directors is made up of one representative from each of the Mississippi- Alabama Sea Grant Consortium member universities. Board members do not serve terms. They are appointed for the duration of their association with the organization. The Board of Directors meets on an annual basis to discuss program and budget issues. Sea Grant, despite its nonprofit status, is an organization and requires practical and concise management. This is where the Mississippi-Alabama Sea Grant Consortium Management Team comes in. Members participate in discussions and decisions regarding the interaction, integration and planning of program operations. Working within the national priorities identified by the National Sea Grant College Program, the Sea Grant Advisory Council helps further define priority coastal issues relevant to Mississippi and Alabama and helps ensure that research and outreach programs address the needs and priorities of Mississippi and Alabama ocean and coastal communities, businesses and policy makers. The work of the Technical Review Panel is to evaluate each proposal, the mail reviews and the applicants' rebuttals to provide a summary of the scientific merit and prospects for success. The panel's role is instrumental in determining which proposals are funded.

**Dauphin Island Sea Lab (Stand alone facility) <http://www.disl.org>**

The DISL primarily serves the 22 four-year colleges and universities of Alabama through its college summer courses and graduate programs of University Programs. The educational mission also includes Discovery Hall Programs (DHP) which encompasses K-12 field programs, teacher-training and public outreach. DHP also includes the Estuarium, the public aquarium of the DISL, which focuses solely on the Mobile-Tensaw Estuary System.

The research programs of the DISL range from biogeochemistry and oceanography to systems ecology. Although most research focuses on the near-shore and estuarine processes of Mobile Bay, field sites of the internationally-renowned faculty include Mexico, Australia, and Croatia and other countries.