

AFFORDABLE HOMEOWNERS INSURANCE COMMISSION
Friday, February 10, 2012
9:00 A.M. – 3:00 P.M.

Attendees:

Judge Tim Russell (Chair)	Aubury Fuller
Commissioner Julie Magee	Don Price
Representative Joe Faust	Elizabeth Huntley
Representative Steve McMillan	Joe Ruffer
Representative David Sessions	Wayne Parker
Geoff Plott	Rux Bentley
Sid Belcher	Michelle Kurtz
Carl Schneider	Tom Pieplow

Opening Remarks:

Chairman Judge Tim Russell greeted the audience and members of the Affordable Homeowners Insurance Commission (AHIC). After opening remarks, a prayer gave by committee member Aubury Fuller, afterwards, the reciting of the Pledge of Allegiance.

Judge Russell then proceeded to introduce the first speaker, Amy Bach from San Francisco, California. Bach is a professional advocate for consumers since 1984 and an attorney since 1989. Bach is a native to New York and co-founder of United Policy Holders in 1991. She has worked with legislators in New York and California.

Speaker:

Amy Bach - San Francisco, CA

Amy Bach is involved with the recovery work and works with state insurance regulators. Bach notices that Alabama's homeowner's insurance has become a "hot" issue within

Alabama. With Alabama having a coastline and a being so far inland, as explained by Bach, insurance is very complex with no easy solution.

Bach then begins to give insight into what other states have done that have similar challenges. As well as offer insight into what California's Earthquake Authority has done.

In California, after the earthquake the legislature created an entity that is a residual market insurer.

Bach discussed Florida and stated Florida developed a public model that doesn't have the taint of a profit motive that comes with commercially developed models.

She sees neighboring coastal states sharing the same problems facing Alabama and she recommends an annual event or meeting of DOI at which common goals, common problems and sharing information would be beneficial. She recommends keeping a healthy risk pool and working with other states is the way to go.

Bach then went through some of the steps related to rate regulation and moderating increases. She said Senator Brooks is working on transparency legislation related to insurer's rate filings Bach said rate filings should be public record which will help regulators keep better tabs on what policies are looking like and what rates are being charged. She noted The Alabama DOI has beefed up actuarial resources and sees that as a positive move.

Bach discussed limiting the use of cash fee modeling and stated that insurers don't live on premiums collected alone, but make their profits from investment income and she suggests considering claim payout per storm in relation to premiums collected, in the context of investment income which affects the ability for insurers to maintain profitability in the state.

She mentioned the divisiveness between the coastal and inland areas and said that Alabama is one state and everyone has less exposure regardless where they live and that insurers want

pooling of diverse risk. A smaller pool, or less diverse pool increases risk. She recommended when looking at rate filings, it should be considered one state, one pool.

Bach spoke of affordability enhancements by providing grants for people to take steps to make their home better able to resist future storms and encouraged keeping pressure on private insurers to implement discounts to their policyholders who comply with building codes. Additionally, she recommends creating tax-free savings accounts to cover deductibles for homeowners and business owners.

She cautioned against creating a bigger headache for all by relying on surplus lines that aren't protected by guaranteed funds.

Bach concluded her remarks by saying her organization runs a "Roadmap to Recovery" program which offers aid to victims of catastrophic disasters by providing useful information. She would like to see this commission to do what it can to restore the public's confidence in the private insurance companies and to bring back a system that actually delivers peace of mind at an affordable price. At the conclusion of her remarks, she took questions from the members of the committee.

Speaker:

Don Brown – Tallahassee, Florida

Don Brown is a former legislator in the Florida Assembly and served eight years on the Florida Insurance Commission. He has been an Insurance Agent for thirty-nine years. He began his remarks by stating there are many ways to finance risk. He believes it is better to finance risk with capital rather than debt. He recognizes this committee has a difficult job and stated there are competing interests attempting to exert its influence. Mr. Brown asked this committee to think in terms of guiding principles.

He explained why Florida's experience is relevant to Alabama. Florida's exposure is greater than all other states along the Atlantic and Gulf of Mexico coastlines. Thirty nine percent of all major hurricanes have affected Florida. Seventy one percent of CAT 4 or 5 hurricane strikes have been in Florida or Texas. Eight of the ten costliest hurricanes in US history have impacted Florida.

13.9 million out of 18.8 million Florida residents live in coastal areas and in 2007, Florida has almost \$2.5 trillion in coastal property. Citizens with 27% of the market share the primary Florida Homeowners Market, Florida Stand Alones have 57% of the market and other nationals share 16% of the Florida market. Mr. Brown said since Alabama has a relative small exposure on the coast, it has the ability to spread risk throughout the state.

Brown discussed the Florida Hurricane Catastrophe Fund (FHCF) and explained it is a structured tax-exempt state trust fund under the direction of the State Board of Administration. All private insurers operating in the state are required to buy coverage from the FHCF. The purpose of the FHCH is to protect and advance the state's interest in maintaining insurance capacity in Florida by providing reimbursements to insurers for a portion of their CAT losses. It is financed by premium charges to insurers, investment earnings and emergency assessments on insurers.

The FHCH was created in 1993 by the Florida legislature to ensure insurers would not cease to provide coverage in Florida. In January 2007, a bill was passed to increase FHCF's exposure from \$16 billion to \$30 billion. The bill included an addition of a temporary increase in coverage limits called a TICL layer.

The FHCH's coverage is problematic in as much as its coverage is limited to its ability to pay claims. If there are insufficient funds to cover CAT hurricane losses, the State issues bonds and levies assessments on insurers. If the state can't borrow the money, they don't pay the claims. Presently there is an \$18.389 exposure that would require in excess of \$11.2 billion in bonds, which is significantly more than any other state has ever successfully done.

The estimated claim paying capacity has predicted a shortfall in FHCF's ability to pay claims. Though some have criticized the estimate as being inaccurate, it still presents a troubling issue and creates a degree of uncertainty. Mr. Brown said they must find a better way than depending on the financial markets to loan money.

Brown discussed assessment and said seventy five percent of the CAT fund is paid by lines not related to the homeowners market and by people who do not benefit from the CAT fund.

In discussing assessments, he stated if the FHCF underperforms by twenty percent, then seven of the top fifteen Florida insurers will become impaired.

Presently there are legislative proposals to fix the FCHF, including making certain the CAT fund needs to be "right sized." The goal is to rely more on cash resources and reduce emergency assessments.

Brown warned that if the CAT fund doesn't perform, and this legislation isn't passed, the rates will increase by twenty to sixty percent.

Citizens Property Insurance Corporation is the state operated insurance company of Florida. It was established in 2002 in response to Hurricane Andrew. Originally, it was designed to be the insurer of "last resort", but has now grown to be the state's largest property insurer. It operates three accounts: a Personal Lines Account, Commercial Account and a Coastal Account. Mr. Brown said with its growth, Florida has created a House of Cards. Public liability will grow as Citizen's grows and Citizen's ability to pay claims is partly dependent on FHCF which reimburses Citizens a percentage of its losses post retention. Citizens' patterns are similar the FHCF in as much as its questionable ability to pay claims and it's potential economic impact on participating insureds. Mr. Brown said the reality of Florida's system is that the money is unlikely to be there when it is needed and it provides only a fictional capacity.

Brown concluded his remarks by advising not to focus on the wrong solution. Florida, he said, does not have an insurance crisis, but rather a Hurricane crisis and he identified the human behavior of building in dangerous places and expecting others to pay. Mr. Brown encouraged the committee to find a social policy to help these people rather than trying to contort the insurance system. To do that, he said, one must identify the problem, which he said are hurricanes and human behavior.

After taking questions from the commission members, the meeting broke for lunch.

At 1:30 p.m. the meeting resumed with Chairman Russell's introduction of Dr. Pieplow of Athens State University. After retiring from the US Army, Dr. Pieplow joined the faculty of Athens State University where he teaches economics. He offered the commission the opportunity to provide economic analysis and sensitivity analysis for ideas or proposals the commission might consider and be at the commission's service to provide academic assistance.

A motion was made to ask Barbara Larson to serve as moderator of the commission. It was seconded and the motion carried unanimously. Ms. Larson is the Executive Director of Leadership Alabama.

Chairman Russell asked the legislators where we are now that the legislative session is upon us. He asked the legislators to comment on bills. Representative McMillan discussed how the legislative process works. There was discussion on pending legislation including Senate Bills 210, 227, 228, 229, 230, 231 and 232. Legislative updates will come to each commission member by email.

Discussion was held regarding meeting days and times in consideration of accommodating the commission members' schedules. There was consensus to move the meetings to Wednesday afternoons in the State House.

A motion was made to recognize Byron Shehee for his service. Reese Hodges was introduced and will distribute his contact information.

There was some discussion on creating sub-committees to accomplish the Commission's goals. Additionally, there needs to be a way to prioritize a list of topics for discussion. By surveying or polling commission members with key questions, we would be able to identify key issues and be better able to organize our thoughts prior to the meetings.

Ms. Larson would be key to set the processes in place to recognize priorities that enables the Commission to have a good working, productive session when we meet.

Recognizing that everyone on the Commission has deep passions about a variety of issues, it is thought the moderator will be able to facilitate and focus on common issues.

The Commission will establish and work with facts, which are indisputable. There is not one single solution, rather the Commission will present the Governor with a portfolio of as many possible solutions (market based, educational, regulatory and statutory) and the Governor will choose which issue(s) to pursue.

The Chairman adjourned the meeting. The Commission will meet next on Wednesday February 29, 2012 at 2:00 P.M.