<u>For DOI</u>: Absence of Clarity Bill Data

1. Can the DOI collect and publish the data required by the Clarity Bill without a law being passed?
2. What percentage of Mobile and Baldwin homeowners
   - Buy insurance from non-admitted companies
   - Have dropped their wind-and hail insurance

   1) **There is a good possibility that the DOI could order this type of data going back 5 years as support for our overall review of rates. Some companies may not have the data broken out as required and thus would have to spend time, money and effort to comply. There would be the potential of a law suit by some in industry opposing the reg.**

   2) **The DOI suspects approximately 20% - 25% of the Mobile/Baldwin Homeowners market is written by surplus lines carriers, and another 10% by the AIUA.**

<u>For DOI</u>: Big numbers vs. Probable Maximum Loss
Industry testimony often uses TIV (Total Insured Value), creating a sense of astronomical costs due to hurricanes. They talked often of the trillions of dollars in total insured value, omitting the PML.

1) What was to the total insured loss statewide due to Hurricane Ivan? **$2.1B**

2) What was the total wind-insured loss due to Hurricane Ivan in Mobile and Baldwin counties? **Not available**

3) What does Probably Maximal Loss refer to? **PML refers to what the models estimate the loss would be from the most damaging hurricane anticipated to occur within a stated return period (e.g. 100 years. A 100-year return period means you ignore all hurricanes that have less than a 1% probability of occurring in a given year. A 250-year return period means you ignore all hurricanes that have less than a 0.4% probability of occurring in a given year.). There are different PML's for different return periods (i.e. 250 years, 1000 years, etc.)**

<u>For DOI</u>: Price bias against coastal counties
Slide 20 (?) titled Alabama Rate Statutes says, "Alabama statute says that rates must not be: Excessive, Inadequate, Unfairly discriminatory." **<u>Question</u>**: Does the <u>statute</u> or DOI define the terms "Excessive," "Inadequate" or "Unfairly Discriminatory?" If so, is it hard for you to get us a copy of the definitions?

The statute does not provide very meaningful definitions of excessive, inadequate or unfairly discriminatory. Statute says:

- **An unreasonably high rate exists if a reasonable degree of competition does not exist in the area with respect to that class of business;**
- **No rate shall be held to be inadequate which upon reasonable assumptions of prospective loss and expense experience will produce an underwriting profit.**
- **The statute says the DOI shall consider the financial condition of the insurer, among other things.**

The DOI definitions are:

- **Excessive means the rate exceeds the actuarial indication.**
- **Inadequate means the rate is substantially less than the actuarial indication and over the long run will endanger the profitability of the carrier.**
- **Unfairly discriminatory means that the rate for a specific territory or category of risks is excessive.**

1) **Slide 21** says: "We do permit insurance companies to utilize rates below their actuarially justified rates in order to be competitive, as long as it does not endanger the company's financial solvency." **Question**: Is that by Alabama statute; or is it DOI policy? **: It is by DOI policy that we permit rates below the indication in order for companies to be competitive.**

News article about Fire: This news article by Jeff Amy in the April 5, 2009 Press Register says "Some Alabama insurers are charging customers more to cover risks like fire and theft – those having nothing to do with hurricanes – than customers elsewhere, despite no clear evidence that such losses are generally higher here, Insurance Commissioner Jim Riddling says." The article goes on to say that Mr. Riddling was looking into the problem further and believes that the rate gap developed over a 25-year period. **Question**: Is this an example of the way in which that policy permitting insurance companies to charge differing rates for competitive reasons manifests? **Yes, companies historically request increases on the coast more in line with their actuarial indications (but never in excess of those indications), while companies have requested lower rates upstate than those actuarially indicated, so as to be more competitive. This trend has been less common the last two years.**

Difference in prices are non-actuarial:
Question: Is it a fair representation of this DOI policy (or Alabama law) to say that in some instances the DOI permits insurance companies to charge different parts of the state different prices – and the difference in prices is based on non-actuarial reasons? **Yes and No. Companies often file their actuarial indications by territory with the DOI, and the DOI never permits a company to charge a territory a higher rate than indicated. Therefore, differences in prices may be for actuarial reasons. But, as explained in the previous answer, the DOI will permit companies to charge a territory a rate lower than is indicated, reflecting that company's marketing (i.e. non-actuarial) strategy.**

For DOI:

The Alabama DOI claims that the April 27 tragedy was a 1-in-250 year is based on tornado models run on a "countrywide basis," according to AON slide #5. Is the AON statement correct? If so, why did DOI run tornado models on a countrywide basis, and does it require hurricane modeling to be run on a countrywide basis? **News articles suggested that the April tornadoes represented a 1-in-20 year event. Aon explained to the DOI that this was based on the probability of another similar event happening somewhere in the country. When the DOI asked what the probability would be of the April tornadoes re-occurring in Alabama, Aon told the DOI that the AIR tornado model suggested it was a 1-in-250 year event, and the RMS model suggested it was a 1-in-10,000 year event. So the DOI result was based on the Alabama model, not the countrywide model. Aon has acknowledged that their slide was incorrect regarding this issue.**

1-in-250
For AON:

1. Does AON stand behind it's statement in Slide # 5 that the April 27 tragedy in Alabama was "more likely" a 1-in-50 year event? **No. Aon has confirmed that the 1-in-250 year event estimate is appropriate.**

Alabama Affordable Homeowner Insurance Commission
Topics for Consideration in February 29, Commission Meeting
Prepared by Don Price Feb 23, 2012

- **Fairness** to
  - Mobile and Baldwin County citizens
  - Citizens in rest of Alabama
  - Homeowner Insurers
  - Alabama State, county and municipal governments
- Questions about accuracy and **fairness**
  - Models being taken as fact when all expert speakers have stated that they should not be.

    This is true to some extent….Models are not fact, they are estimates, but they are the only reasonable estimates available that may be used to set rates. Though the models differ in their estimates, experts do not say that one model is right and another model is wrong. Models are better estimates of future expected losses than historical hurricane losses for two reasons: the low frequency of hurricanes, and the ever-changing make-up of an insurer's portfolio of insured homes over a long period of time (home values, wind vs. ex-wind, number of homes, location of homes, etc.)

  - Accuracy of premium rates being used is questionable since they were developed based upon modeled projected hurricane costs which the modelers have admitted are erroneous and overstated by over 40% for coastal Alabama.

    The DOI doesn't believe modelers have said the models are erroneous…..they have said that based on new data they have revised their models, which, in the case of RMS, has lowered the estimated losses on the coast. In the past, RMS estimates on the coast have been substantially higher than the AIR estimates; now they are lower than AIR estimates. Each insurer must decide whether the AIR or RMS models better reflect their exposure to loss. Some insurers use an average of the two models since they are not sure which model is better, while some insurers only use one model.

  - Do not understand why rates for coastal Alabama have not been reduced since RMS admitted that their projections indicate a 40%+ over charge for Alabama coastal communities.

    AIUA recently lowered their wind rates so as to reflect the new RMS version estimates. Some companies don't use the RMS model, they use AIR, and AIR has not reduced its estimates for the coast. The DOI does not mandate (or even suggest) which model a company must use, nor does AM Best, nor do reinsurers.

· Do not have confidence that actual hurricane claims or modeled hurricane projections are charged to the correct counties, zip codes and neighborhoods. That is the foundation for the clarity bill. I do not understand why the industry would resist the clarification and increase consumer confidence unless they know they have goofed up by charging coastal Alabama for the full cost of hurricanes both in their models and in their rates.

The DOI doesn't know what this statement is based on, but each company provides its portfolio of insured homes to the modeler, including zip code, and sometimes latitude/longitude. The data requested in the Clarity Bill will not provide credible evidence as to whether the hurricane rates being charged on the coast are either correct or incorrect.

· Concerns that significant rate increases post April 2011 tornadoes are a way to recover tornado losses from policyholders throughout the state including coastal Alabama.

The DOI has told companies that they may only include 8% of their April tornado losses in their future rate filings, which will limit the statistical impact that the tornado will have on rates. However, it is correct to be concerned that companies which used to request rate increases well below their actuarial indications may no longer do so due to their recent losses.

· Use of artificial boundaries to demarcate rate differences; example is north and south of I-10

Rates for rating territories must be based on the actuarial indications for each territory, so different rates for different territories are justified. Obviously, one could certainly ask whether a territory boundary should be moved one block this way or one mile that way, but there are almost limitless permutations of territory definitions that one could consider, which would be impossible for the DOI to evaluate. Therefore, any setting of territory boundaries may appear arbitrary, just as city/county boundaries (and their differing tax rates from one block to the next) may appear arbitrary.

· Lack of transparency in Alabama's rate approval process - public has no access to the process and no confidence in what comes out of the process.

Hopefully with additional education the public will develop confidence in the rate approval process.

· Lack of transparency in Alabama's rate appeal process

· Public has questionable access to DOI to appeal a rate increase in spite of Alabama law expressly providing for this right.

Other than for NCCI Workers Compensation rate filings, it is correct that the DOI typically does not conduct rate hearings for participation by the public. Once a rate filing is approved for any line of insurance, the DOI does not interpret the statutes as giving an insurer or the DOI latitude to adjust an individual consumer's rate or premium to some rate or premium other than what is dictated by the insurer's approved rate filing. Consumers can request the DOI to assist in reviewing if the consumer's premium was miscalculated, but if it is calculated in accordance with the insurer's rate filing, any adjustment to that rate or premium would violate the unfairly discriminatory statute.

- Public has little access to insurer data in order to make a meaningful appeal to a rate increase.

Current statute maintains that all actuarial data, projections, estimates, etc. are proprietary trade secrets.

- Alabama has established significant barriers to new insurer entrants instead of incentives by the peculiar premium tax credit mechanism. This barrier should be removed.
- The state does not actively pursue new insurers to come to the state to write homeowner insurance

The DOI continuously attends conferences and holds meeting with prospective insurers. We met with 3 new potential carriers the week of March 12, 2012.

- One attempt to encourage new homeowner insurers into the state was the passage of a law in 2008 to permit the writing of homeowner insurance by captive insurance companies. However, the restrictions on these companies are so tight that no company has been formed to do this. The restrictions which should be removed are:

  - Coverage by the state guaranty fund for these companies is excluded; agents will not write homeowner insurance in a company not covered by the guaranty fund
  - Ability of these companies to spread risk throughout the state does not exist - only homes in Mobile and Baldwin are available to captive insurers to write homeowners insurance
  - Ability to raise capital is severely restricted - only capital provided by the insured homeowner or his association or an insurance company is permitted. Private investor capital is not permitted.
- The ability of Alabama's housing stock to withstand relatively weak tornado and hurricane winds is low. The will to agree on strengthening techniques and effective financing does not exist. The result is unnecessary rebuilding costs.
- The knowledge base of how the insurance industry works in Alabama is low. Previous studies such as the Coastal Recovery Commission recommended that this be cured by the establishment of The Alabama Insurance Institute. The CRC Report specifically highlighted that:

The Alabama Insurance Institute May be a Key Going Forward

The entity would provide ongoing study of insurance models and products in other states It would include the participation of various stakeholders -- consumers, agents, insurance companies, government officials, and various professionals involved in the construction, sale, appraisal, and financing of homes.

The Institute Would:

- Provide a better understanding of the insurance system in Alabama and how to make it better
- Increase transparency in the insurance market
- Embark on public and professional awareness campaigns
- Foster a competitive private insurance market
- Enable innovative approaches and products to provide a range of consumer options.
- Promote better universal risk management
- Advance the study, development, and communication of various efforts
- A public education campaign coordinated by the insurance institute could
- Collect and disseminate data to inform consumers and various professional stakeholders about the insurance system in Alabama and strategies to lower risk. Drive research about mitigation and building standards.
- Study the effectiveness and viability of innovative market-oriented ideas

- Promote public private partnerships combined with specialized insurance products and insurance structures such as captive Insurance Companies.