PROPERTY INSURANCE REPORT

The Authority on Insuring Homes and Commercial Property

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INSIDE

THE GRAPEVINE

Google Is Coming

There has not yet been a formal announcement, and everyone involved is trying their best to maintain a straight face as they utter "no comment." But this much is known clearly: **Google** will be bringing its online insurance marketplace to the United States at some point in the next few weeks. Called **Google Compare** in Europe, the program offers consumers a way to shop for insurance prices online from multiple insurers. True, this is exactly what other online shopping businesses are doing. But Google is the zillion-pound gorilla, and it stands to accelerate acceptance of this marketing channel.

Google will not overwhelm the existing online shopping portals.

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Alabama Struggles to Measure Risk to Everyone's Satisfaction

If insurers have finally settled into the routine of providing premium, policy counts and loss data by ZIP code to comply with **Alabama's** 2012 Property Insurance Clarity Act, they will be soon be gearing up for the next level of transparency: By 2018, all homeowners insurers will have to quote three separate premiums for hurricane coverage, other wind and hail coverage and all other perils.

Alabama is the only state to mandate filings that break out coverages in this way, said **Charles Angell**, deputy commissioner and chief actuary of the **Alabama Department of Insurance**. The regulation was adopted in late 2013 to help regulators "make sure the rates are appropriate for each of those sets of coverages," and to ensure one line

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Plentiful Reinsurance Capacity Provides Opportunities for Insurers

Homeowners insurers are taking advantage of the continuing surge in reinsurance supply in ways that will reduce the volatility of pricing after a major catastrophe and protect insurers from the multitude of severe storms that have been prevalent in the Midwest and South.

Even as the demand for property catastrophe reinsurance has been growing, the available supply is growing even faster, owing to the increasing influence of alternative capacity and below-average catastrophe losses.

Estimates of global insured catastrophe losses ranged from $34 billion and $39 billion in 2014, according to reports from reinsurance brokers **Guy Carpenter** and **Aon Benfield**. Aon Benfield said losses were down nearly 38% from the 10-year average of $63 billion, down 20% from those sustained in 2013 and down 49% from 2012.

Reinsurance capital grew to $575 billion last year, including $62 billion of deployed alternative capacity – both of them records, according to Aon Benfield's Reinsurance

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REINSURANCE *Continued from Page 1*

Market Outlook. The supply of alternative capital grew 25% in 2014, compared with 6% for traditional reinsurance capital. Though alternative capital represented just 12% of total reinsurance capacity, it represents 40% to 50% of the capital allocated to global property catastrophe risk, according to Aon Benfield. In addition, more traditional reinsurers are incorporating alternative capital into their own programs through catastrophe bonds, sidecars and industry loss warrants.

As a result of low catastrophe losses and an abundant supply of capital, reinsurers are offering excess capacity at attractive terms and pricing. Guy Carpenter's global catastrophe rate-on-line index fell 11%.

These trends are expected to continue at April, June and July renewals. "In general, homeowners insurers are experiencing less expensive underwriting capital, and the value proposition of reinsurance – the combination of the quality and price – has never been higher," said Aon Benfield Americas CEO **Bryon Ehrhart**.

Ehrhart described three significant ways in which homeowners insurers are taking advantage of the current conditions.

More home insurers are placing multiyear agreements of two, three or even five years, he said. Multiyear agreements smooth out the pricing volatility so common after a major disaster by protecting insurers from skyrocketing reinsurance costs.

More homeowners insurers are also adding aggregate protection below catastrophe retentions. Demand for aggregate coverage increased after 2011, during which primary insurers found themselves largely on the hook for $25 billion in tornado, hail and severe thunderstorm losses that fell below their reinsurance retentions. Pricing for this coverage shot up, however, as reinsurers worried about whether the excessive losses represented a new normal. As the number of storms have reverted to normal levels, Ehrhart said, reinsurers have been more willing to offer aggregate coverage at prices that make sense for primary insurers. "This year insurers are more able to arm themselves against losses within that retention," he said.

Finally, home insurers are also adding reinsurance at the top of their program for further protection against mega catastrophes, Ehrhart added.

"Market conditions that continue to bring downward pressure on pricing are being met with tremendous client-focused innovation," **Lara Mowery**, global head of property specialty at Guy Carpenter said in a statement. "The result has been a customized approach with expanded product offerings and terms and conditions that benefit our clients. PIR

United States

Property Insurance Profit Margins

10 Year Summary, % of Direct Premiums Earned

Line of Business	2013 Total Profit	2012 Total Profit	2011 Total Profit	2010 Total Profit	2009 Total Profit	2008 Total Profit	2007 Total Profit	2006 Total Profit	2005 Total Profit	2004 Total Profit	Avg Total Profit
Nat'l Homeowner	16.5	8.1	-3.8	7.2	5.7	-2.4	15.0	17.0	-2.4	3.0	6.4
Nat'l Fire	26.9	24.7	24.8	27.6	24.5	13.2	20.2	27.3	8.2	29.8	22.7
Nat'l Comm MP	14.9	9.0	4.1	13.2	11.0	9.2	19.9	19.7	6.8	9.8	11.8
Nat'l Allied Lines	6.3	-19.4	5.7	28.5	21.2	2.8	29.9	23.9	-125.1	-1.4	-2.8

Sources: National Association of Insurance Commissioners; *Property Insurance Report.* Calculations by *Property Insurance Report* using NAIC data. Calculations are estimates, some based on national averages.

THE GRAPEVINE

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Rather, Google is more likely to partner with them, providing (at a price) marketing support for enterprises such as **CoverHound** and **comparenow.com**. No matter how it plays out, Google won't suddenly own the world. It couldn't take over the much more open European market, and it won't be able to suddenly take over the much more closed U.S. market. However, unless it makes a mess of things, there is no reason to think that Google won't grab a big slice of the awareness of the insurance shopping consumer. This much is pretty much a certainty.

What is not a certainty is exactly how all this is going to play out. Just how will Google partner with other shopping sites? Will it be an agency or a lead generator? Will Google spend a bunch of money on old-media advertising, or lock into online-only advertising? Will Google be able to bring data skills to bear that will result in more accurate shopping experiences for consumers? For answers to all these questions, and many more, keep your eye on these pages and our soon-to-be soldout Auto Insurance Report National Conference, to be held May 3-5 and will feature a session examining the online shopping landscape.

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Hawaii and California Set the Profit Pace

Hawaii has retained its crown as champion both of long-term and short-term homeowners insurance profitability, posting the nation's highest average profit for the decade ended 2013 at 36.8% and also the highest one-year profit margin in 2013 of 29.6%. The national average profit

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Best Homeowners Markets Over Time

States Ranked By Average Profit Margin
On Direct Homeowners Insurance Premiums Earned 2004-2013

	Margin 10-Yr Avg	Margin 2013
1) Hawaii	36.8	29.6
2) Dist of Columbia	21.4	27.5
3) Rhode Island	19.5	22.5
4) California	19.1	17.1
5) Nevada	18.8	14.6
6) Delaware	18.8	22.8
7) South Carolina	17.2	25.8
8) Alaska	17.2	20.0
9) Oregon	17.1	18.9
10) Virginia	16.9	25.5
11) Massachusetts	16.5	22.3
12) New York	15.4	24.6
13) Vermont	14.6	15.8
14) Washington	14.5	18.7
15) Utah	13.8	15.0
16) Maine	13.7	16.3
17) Connecticut	13.4	25.9
18) Maryland	12.7	21.0
19) Idaho	12.7	12.4
20) New Hampshire	12.2	20.5
21) North Carolina	10.3	17.7
22) Iowa	9.9	16.0
23) Pennsylvania	9.9	22.3
24) Michigan	9.6	11.8
25) Texas	9.2	17.4
26) North Dakota	9.0	14.1
27) West Virginia	8.7	15.2
28) Wyoming	8.6	2.7
29) Arizona	8.3	12.1
30) New Mexico	7.5	13.0
31) New Jersey	7.0	32.6
32) Wisconsin	5.0	15.0
33) Montana	4.4	0.3
34) Illinois	3.2	-0.4
35) Kansas	0.3	10.2
36) South Dakota	0.1	-26.8
37) Florida	-0.5	33.0
38) Nebraska	-1.6	-47.8
39) Colorado	-1.9	-3.1
40) Missouri	-2.5	20.6
41) Ohio	-2.7	13.8
42) Indiana	-3.4	7.0
43) Arkansas	-3.9	20.9
44) Kentucky	-4.3	23.0
45) Minnesota	-6.4	5.7
46) Georgia	-7.6	-0.4
47) Tennessee	-10.8	16.0
48) Alabama	-11.7	17.1
49) Oklahoma	-16.8	-46.2
50) Mississippi	-35.6	-8.4
51) Louisiana	-36.8	22.4
United States	6.4	16.5

Note: This table is calculated by *Property Insurance Report* using data from the National Association of Insurance Commissioners, which does not endorse these calculations. See adjacent notes for information on data limitations.

State Market Focus: ALABAMA

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of coverage is not subsidizing another. The separate premiums will also have to appear on the policy declarations page.

"Coastal homeowners complain that they are charged more for fire coverage than homeowners in Birmingham," Angell said. "None of us know if it's true. With the regulation we will be able to tell."

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Alabama
Homeowners Multiperil Insurers

Groups Ranked by Total 2013 Direct Premium Written (000)

Group Name	2013 Premium	Mkt share 2013	Loss Ratio 2013	2012 Premium	Mkt share 2012	Loss Ratio 2012	2011 Premium	Mkt share 2011	Loss Ratio 2011
State Farm Mutual	$461,918	29.6%	48.0%	$439,621	29.8%	55.6%	$406,974	29.2%	168.2%
Alfa Mutual Group	$216,132	13.8%	50.6%	$218,522	14.8%	56.9%	$240,021	17.2%	202.6%
Allstate Corp.	$164,232	10.5%	42.8%	$146,341	9.9%	50.2%	$133,296	9.6%	231.6%
Farmers Insurance Group	$109,888	7.0%	35.9%	$112,419	7.6%	46.2%	$102,502	7.3%	128.4%
Travelers Companies Inc.	$89,407	5.7%	45.2%	$87,125	5.9%	68.5%	$85,176	6.1%	234.2%
USAA Insurance Group	$84,064	5.4%	66.8%	$69,275	4.7%	60.3%	$61,064	4.4%	209.8%
Liberty Mutual	$54,015	3.5%	53.6%	$47,500	3.2%	60.6%	$42,015	3.0%	198.6%
Nationwide Mutual Group	$49,737	3.2%	36.5%	$48,766	3.3%	68.3%	$47,826	3.4%	191.0%
Country Financial	$49,378	3.2%	45.4%	$48,473	3.3%	42.7%	$46,760	3.4%	189.2%
Auto-Owners Insurance Co.	$35,207	2.3%	34.7%	$35,031	2.4%	49.9%	$33,489	2.4%	182.5%
Cincinnati Financial Corp.	$31,695	2.0%	44.7%	$29,874	2.0%	45.2%	$27,600	2.0%	156.3%
ARX Holding/American Strategic	$21,942	1.4%	53.3%	$14,743	1.0%	49.0%	$4,638	0.3%	42.7%
MetLife Inc.	$21,665	1.4%	42.3%	$19,774	1.3%	48.3%	$16,999	1.2%	236.1%
Munich-American/American Modern	$20,621	1.3%	42.8%	$21,630	1.5%	41.1%	$23,582	1.7%	109.7%
Assurant Inc.	$16,521	1.1%	57.3%	$12,940	0.9%	42.9%	$7,814	0.6%	95.6%
Hartford Financial Services	$15,737	1.0%	38.8%	$15,190	1.0%	46.4%	$14,415	1.0%	176.1%
GeoVera Insurance Holdings Ltd	$15,529	1.0%	17.1%	$18,761	1.3%	10.1%	$22,274	1.6%	15.9%
Chubb Corp.	$12,596	0.8%	35.2%	$11,594	0.8%	81.8%	$11,090	0.8%	158.5%
American International Group	$10,945	0.7%	18.3%	$12,972	0.9%	15.3%	$14,572	1.0%	20.7%
Centauri Specialty Ins Co.	$9,081	0.6%	42.4%	$2,326	0.2%	30.0%	$0		
Auto Club Exchange Group (SoCal)	$9,042	0.6%	80.6%	$7,005	0.5%	135.8%	$4,706	0.3%	330.5%
American National Insurance	$7,422	0.5%	35.3%	$8,335	0.6%	36.9%	$8,525	0.6%	115.4%
Tower Group International Ltd.	$5,921	0.4%	51.3%	$2,159	0.2%	26.3%	$0		
State Auto Insurance Companies	$4,797	0.3%	26.9%	$4,801	0.3%	38.6%	$4,947	0.4%	161.3%
National Security Group Inc.	$4,517	0.3%	44.4%	$4,145	0.3%	46.2%	$4,450	0.3%	110.8%
IAT Reinsurance (U.S.)	$4,381	0.3%	6.3%	$4,480	0.3%	7.9%	$3,151	0.2%	18.2%
American Family Mutual	$3,987	0.3%	51.0%	$4,890	0.3%	94.3%	$5,362	0.4%	210.4%
QBE Insurance (Gen Cas/Unigard)	$3,597	0.2%	27.3%	$3,346	0.2%	19.1%	$583	0.0%	38.8%
Ameriprise Financial Inc.	$3,234	0.2%	64.6%	$1,989	0.1%	132.4%	$1,178	0.1%	307.8%
Companion P&C Group	$3,069	0.2%	3.3%	$2,777	0.2%	6.7%	$2,610	0.2%	7.0%
Statewide Totals	$1,562,262		46.0%	$1,477,102		54.2%	$1,395,561		181.3%

Source: SNL Financial, by permission, and the *Property Insurance Report* database.
Loss ratio is incurred losses as a percentage of direct premium earned. The ratio does not include dividends or loss adjustment expense. Single year data can be skewed by reserve adjustments.

State Market Focus: ALABAMA

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Angell acknowledges that "it will be expensive for the industry to change their rating process," but he didn't get much pushback since regulators worked with the industry to refine the regulation.

Currently, all attention is focused on the second release of data under **Alabama's** controversial Property Insurance Clarity Act. The 2013 data released earlier this month will do nothing to stem complaints from coastal homeowners who believe they are overpaying for insurance and subsidizing inland policyholders. The new data is also unlikely to convince insurers and regulators that the information published under the act – which includes premiums and losses for 10 years by county and ZIP code – should have any bearing on the rates that insurers are allowed to charge coastal homeowners.

When the Insurance Department published the first set of Clarity Act data in November 2013, it set off a firestorm. The **Homeowners' Hurricane Insurance Initiative** (HHII), a consumer group based on the Alabama coast, produced an analysis showing that homeowners premiums in Mobile and Baldwin counties were four times higher than the rest of the state despite substantially lower insurance losses over the 10 years ended in 2012. They argue that insurers should be charging rates based primarily on historical losses and not based on hurricane models, whose results they distrust.

In March 2014, the Insurance Department responded with a white paper disputing the HHII analysis by noting the weaknesses in the Clarity Act data. The coast has much lower loss ratios in part because they represent losses as a percentage of much higher premiums paid at the coast. More importantly, the data includes only losses and not other costs of doing business, including reinsurance and additional cost of capital required to attract companies to invest on the coast because of the volatility. In addition, the depart-

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Alabama
Property Insurance Profit Margins
10-Year Summary, % of Direct Premiums Earned, With National Averages

Line of Business	2013 Total Profit	2012 Total Profit	2011 Total Profit	2010 Total Profit	2009 Total Profit	2008 Total Profit	2007 Total Profit	2006 Total Profit	2005 Total Profit	2004 Total Profit	Avg Total Profit
State Homeowner	17.1	12.4	-80.4	4.4	-21.2	3.6	10.3	6.1	-13.9	-55.2	-11.7
Nat'l Homeowner	16.5	8.1	-3.8	7.2	5.7	-2.4	15.0	17.0	-2.4	3.0	6.4
State Fire	18.6	14.0	-21.3	7.7	15.8	-6.3	7.3	19.6	19.2	-2.1	7.3
Nat'l Fire	26.9	24.7	24.8	27.6	24.5	13.2	20.2	27.3	8.2	29.8	22.7
State Comm	15.6	16.0	-84.2	11.0	4.6	16.5	21.4	11.9	-10.8	-26.0	-2.4
Nat'l Comm	14.9	9.0	4.1	13.2	11.0	9.2	19.9	19.7	6.8	9.8	11.8
State Allied	31.7	35.4	-119.1	18.1	2.9	-20.9	25.3	118.8	-401.7	-143.3	-45.3
Nat'l Allied	6.3	-19.4	5.7	28.5	21.2	2.8	29.9	23.9	-125.1	-1.4	-2.8

Note: Profit calculations are by *Property Insurance Report* using data from the National Association of Insurance Commissioners. Calculations are estimates, some based on national averages.

State Market Focus: ALABAMA

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ment argued that the 2011 tornado losses should not be factored into the inland losses because the probability of an event like that is just one in 250 years, while a major hurricane, despite the recent calm, is likely to occur more frequently. In its rebuttal, the HHII disputed the rarity of the 2011 tornado. "The fact that the DOI persists in minimizing tornado damage while enforcing draconian hurricane models, demonstrates its bias against the coastal counties," the group wrote.

None of these arguments about the fairness of coastal rates will change with the 2013 data. "The latest data doesn't show anything different than what the data did last year," Angell said. "The [coastal] homeowners are paying premiums that contemplate some level of hurricane losses on average, so the loss ratios look very low down on the coast because the hurricane losses are nonexistent."

The 2012 data showed a 10-year loss ratio of 52% for the coastal counties and 92% for the rest of the state. Incorporating the 2013 data produces an 11-year loss ratio of 45% for the coast and 88% for the rest of the state. Looking at 2013 alone, the coast loss ratio was 19% while the remainder was 53%.

Perhaps more significant than the average

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Alabama

Commercial Multiperil Nonliability Insurers

Groups Ranked by 2013 Premiums Written (000)

Group Name	2013 Premiums	Mkt share	Loss Ratio
Travelers Companies Inc.	$35,319	9.2%	14.6%
Cincinnati Financial Corp.	$26,232	6.9%	40.4%
Auto-Owners Insurance Co.	$24,780	6.5%	42.9%
State Farm Mutual	$23,381	6.1%	71.6%
Nationwide Mutual Group	$22,283	5.8%	62.9%
Alabama Municipal Ins Corp.	$18,011	4.7%	-0.6%
Alfa Mutual Group	$14,984	3.9%	65.0%
Hartford Financial Services	$12,571	3.3%	61.9%
Zurich Insurance Group	$12,227	3.2%	31.4%
Allstate Corp.	$12,190	3.2%	50.1%
Tokio Marine Group	$11,658	3.1%	11.2%
Farmers Insurance Group	$10,977	2.9%	34.6%
Liberty Mutual	$10,593	2.8%	41.6%
CNA Financial Corp.	$10,366	2.7%	26.8%
Starr International Co.	$10,029	2.6%	54.7%
Chubb Corp.	$9,113	2.4%	38.1%
American International Group	$8,564	2.2%	2.4%
American Financial Group Inc.	$7,937	2.1%	73.8%
QBE Insurance (Gen Cas/Unigard)	$7,689	2.0%	17.8%
ACE Ltd.	$7,634	2.0%	-5.3%
Pennsylvania National Mutual Casualty	$7,321	1.9%	49.4%
GuideOne Insurance	$5,430	1.4%	29.5%
W. R. Berkley Corp.	$5,108	1.3%	95.6%
Church Mutual Insurance Co.	$4,514	1.2%	39.4%
Allianz Group/Fireman's Fund	$4,084	1.1%	23.2%
Argo Group International	$4,009	1.1%	10.5%
Munich-American/American Modern	$3,716	1.0%	40.2%
State Auto Insurance Companies	$3,569	0.9%	73.2%
IAT Reinsurance (U.S.)	$3,118	0.8%	47.7%
FCCI Mutual Insurance Holding Co.	$2,759	0.7%	54.1%
Arch Capital Group Ltd.	$2,581	0.7%	32.6%
Markel Corp.	$2,404	0.6%	2na
Statewide Totals	$361,871		53.5%

Data Source: SNL Financial, by permission, and the *Property Insurance Report* Database.
Loss Ratio is incurred losses as a percentage of direct premium earned. The ratio does not include dividends or loss adjustment expense. Single-year data can be skewed by reserve adjustments.

Alabama
2011 Insured Home Values

Home Value	Alabama	National Average
<$50K	0.7%	0.6%
$50-75K	4.0%	1.0%
$75-100K	9.0%	3.1%
$100-125K	14.4%	6.7%
$125-150K	15.3%	9.6%
$150-175K	14.0%	11.1%
$175-200K	10.7%	10.7%
$200-300K	20.8%	30.6%
$300-400K	6.5%	14.3%
$400-500K	2.5%	6.2%
>$500K	2.2%	6.1%
Total exposures	900,451	51,317,678

Source: NAIC, *Property Insurance Report*

State Market Focus: ALABAMA

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loss ratio is loss per policy. When HHII took into account some data issues raised by the DOI in its white paper, the group estimated that for the decade ended in 2012 the average loss per policy at the coast was 23% higher than for the rest of the state, $888 vs. $722. Meanwhile, the average premium for a home in Foley near the coast is two to three times higher, all things being equal, than for a home in Birmingham. (The gap has been shrinking but is still substantial.)

However unfair it may seem, it doesn't affect the rate-making process. While the past five years of losses form the basis for fire, theft or liability rates, companies today must use modeling data for hurricanes in place of historical loss data, Angell said. Not even accounting for the modeled expected loss from hurricanes, the cost of reinsurance alone boosts coastal rates about 50% higher than inland rates.

We would not be surprised to see a similar controversy erupt in **Louisiana**, which passed a Property Insurance Clarity Act modeled on Alabama's. In an effort to stave off similar legislation in **Mississippi**, Commissioner **Mike Chaney** is producing his own geographic comparison and market analysis. He told us the data collection should be completed in early April.

While the debate about coastal insurance rates flares up again – it never actually goes away – it's worth pointing out that the Alabama market as a whole is actually quite stable, even after a period in which the statewide loss ratio has far exceeded the national average.

Over the last five years, Alabama homeowners insurers have experienced an average annual loss ratio of 88.6% compared with the national average of 60.2%. The high five-year loss ratio was driven by severe storms in 2009 and 2011. The 2011 Tuscaloosa tornado drove up the statewide loss ratio to 181.3%, even higher than the 146.8% loss ratio after Hurricane Ivan devastated the coast in 2004 and the highest since 1996, when our records begin.

Though it still can be a challenge for some homeowners to buy coverage at the coast, at least a dozen new admitted carriers, including new companies from **Florida** and **Louisiana**, have started writing wind coverage in Mobile and Baldwin counties, and two more applications

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Alabama
Fire Insurers
Groups Ranked by 2013 Premiums Written (000)

Group Name	2013 Premiums	Mkt share	Loss Ratio
American International Group	$24,863	10.8%	31.9%
Farmers Insurance Group	$19,699	8.6%	32.5%
Assurant Inc.	$16,062	7.0%	19.8%
Auto-Owners Insurance Co.	$13,342	5.8%	39.9%
Zurich Insurance Group	$11,646	5.1%	10.9%
Travelers Companies Inc.	$10,910	4.8%	159.3%
Munich-American Holding Corp.	$10,228	4.5%	21.2%
National Security Group Inc.	$7,688	3.4%	37.9%
Liberty Mutual	$7,203	3.1%	31.9%
FM Global	$6,941	3.0%	141.5%
Alfa Mutual Group	$6,746	2.9%	49.8%
Pennsylvania National Mutual Casualty	$6,623	2.9%	35.1%
Alleghany Corp.	$5,595	2.4%	2.1%
USAA Insurance Group	$5,231	2.3%	30.2%
Cincinnati Financial Corp.	$4,695	2.0%	52.1%
Nationwide Mutual Group	$4,652	2.0%	39.3%
XL Group plc	$4,397	1.9%	64.6%
Arch Capital Group Ltd.	$3,743	1.6%	0.2%
AXIS Capital Holdings Ltd.	$3,361	1.5%	79.1%
Baldwin Mutual Insurance Co.	$3,318	1.4%	22.5%
Kemper Corp.	$2,945	1.3%	41.2%
Swiss Re Ltd	$2,666	1.2%	-24.4%
Allianz Group/Fireman's Fund	$2,666	1.2%	185.7%
QBE Insurance (Gen Cas/Unigard)	$2,650	1.1%	18.6%
HDI-Gerling America Insurance Co.	$2,584	1.1%	40.4%
Chubb Corp.	$2,176	1.0%	1.6%
Pennsylvania Lumbermens Mutual Ins	$2,020	0.9%	-13.1%
Statewide Totals	$220,302		52.5%

Data Source: SNL Financial, by permission, and the *Property Insurance Report* Database.
Loss Ratio is incurred losses as a percentage of direct premium earned. The ratio does not include dividends or loss adjustment expense. Single-year data can be skewed by reserve adjustments.

State Market Focus: ALABAMA

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are in the works, Angell said. Some new surplus lines carriers have also started offering coastal coverage, he said. Well over 50 carriers are writing wind coverage in Mobile and Baldwin counties, including leading companies like **State Farm**, **Allstate** and **Farmers**.

More and more companies insist on covering a home customer's automobiles as well. Those that don't require it offer substantial discounts to entice customers to bundle.

The state hasn't experienced significant nonrenewals since **Alfa Insurance**, the state's second largest homeowners writer, dropped more than 70,000 policyholders in 2011.

Statewide, homeowners rates increased 4.5% in 2014 and 6.9% in 2013, Angell said, adding that rates are "moving in the right direction."

Angell also noted that the newly released data from the **National Association of Insurance Commissioners** shows that Alabama residents pay far less than other Gulf Coast residents. In 2012, average premium for homeowners insurance was about 71% higher in Florida, 14% higher in Mississippi, 38% higher in Louisiana and 17% higher in **Texas**. (We will publish average homeowners premium in the next issue of *Property Insurance Report*.)

Carriers have been raising inland rates, which were kept artificially low as insurers sought business away from the coast in the mid-2000s, but even today indicated rates for inland risks are higher than what insurers are requesting, Angell said.

Five companies have decreased rates on the coast, some by double digits. The wind pool increased rates 1.5% last year, but that came after an 11% decrease in 2013 and a 6% decrease in 2011 while staying flat in 2012. The size of the wind pool has been relatively stable. Written premium fell about 3% in 2014 even as policy count rose 6%, Angell said, suggesting that the wind pool is writing less coverage among highly exposed properties near the Gulf of Mexico and more for less exposed policies near Interstate 10.

One more factor is making property risk along the coast somewhat more attractive: As the economy and housing construction pick up, the coastal housing stock is becoming more resilient.

More coastal communities require new con-

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Alabama
Allied Lines Insurers
Groups Ranked by 2013 Premiums Written (000)

Group Name	2013 Premiums	Mkt share	Loss Ratio
Zurich Insurance Group	$15,214	8.0%	-5.8%
FM Global	$13,888	7.3%	84.5%
American International Group	$12,319	6.4%	139.9%
Assurant Inc.	$11,853	6.2%	69.6%
Alleghany Corp.	$10,812	5.7%	6.5%
Travelers Companies Inc.	$9,010	4.7%	278.6%
ACE Ltd.	$8,612	4.5%	-9.9%
USAA Insurance Group	$7,996	4.2%	55.3%
Nationwide Mutual Group	$6,688	3.5%	81.5%
Cincinnati Financial Corp.	$6,082	3.2%	30.8%
Alfa Mutual Group	$5,984	3.1%	42.2%
Munich-American/American Modern	$5,803	3.0%	37.5%
GeoVera Insurance Holdings Ltd	$5,442	2.8%	5.8%
QBE Insurance (Gen Cas/Unigard)	$5,079	2.7%	28.5%
AXIS Capital Holdings Ltd.	$4,221	2.2%	7.2%
National Security Group Inc.	$3,992	2.1%	45.0%
Swiss Re Ltd	$3,713	1.9%	-29.3%
Baldwin Mutual Insurance Co.	$3,584	1.9%	20.0%
IAT Reinsurance (U.S.)	$3,275	1.7%	8.1%
Markel Corp.	$3,272	1.7%	3.2%
Liberty Mutual	$2,711	1.4%	28.0%
Arch Capital Group Ltd.	$2,627	1.4%	-77.9%
State Auto Insurance Companies	$2,443	1.3%	10.4%
Argo Group International	$2,276	1.2%	2.0%
ARX Holding Corp.	$1,956	1.0%	34.9%
Employers Mutual Casualty Co.	$1,881	1.0%	22.4%
HDI-Gerling America Insurance Co.	$1,722	0.9%	125.9%
Statewide Totals	$175,996		38.0%

Data Source: SNL Financial, by permission, and the *Property Insurance Report* Database.
Loss Ratio is incurred losses as a percentage of direct premium earned. The ratio does not include dividends or loss adjustment expense. Single-year data can be skewed by reserve adjustments.

State Market Focus: ALABAMA

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struction to meet the highest levels of fortification based on standards set by the **Institute for Business and Home Safety**. As of December, 1,100 properties nationwide were designated as "fortified," with most of them along the Alabama and Mississippi Gulf Coast, according to **Alex Cary** and **Julie Shiyou-Woodard** of **Smart Home America**. Alabama leads in new construction, and Mississippi leads in mitigation retrofits. The numbers are increasing quickly and are expected to grow even more significantly this year because of builder "buy-in" and several larger builders adopting "fortified" as their standard, said Shiyou-Woodard.

Still, there is still a long way to go, and lacking funding to offer retrofit grants in Alabama, the existing housing stock is not getting upgraded as fast as anyone would like. **Gov. Robert Bentley** has promised to dedicate $100 million in fines from the Deepwater Horizon oil spill to fund a mitigation grant program that, without a budget, exists in name only. It's unclear, however, when that money will be available.

Increasing mitigation efforts is a priority, and regulators are pressing insurers to do more to educate their agents and policyholders about the benefits of fortification; the mandatory insurance discounts that come with achieving an official fortified designation; and the ability to pay for improvements with catastrophe savings accounts, which allow homeowners to accumulate funds free from state tax to pay for improvements and storm deductibles. The accounts hold great promise, but no one is marketing them and no one has any idea how many actually exist.

Smart Home America is launching a campaign with the recently trademarked slogan: "Don't goof when you reroof." Shiyou-Woodard said numerous towns in Baldwin and Mobile counties require homeowners installing a new roof to meet the IBHS Fortified Bronze standard. Unfortunately, she said, many homeowners don't realize that they need a third-party evaluation as the roof goes on in order to qualify for IBHS certification and the mandated insurance discounts. Insurers, agents and building code officials, she said, are "our first responders."

The mitigation discounts are larger than they are in any other state, Angell said. Mitigating to the "silver" level, for example, gets a 45% discount on wind premium and a new home built to the bronze standard earns a 60% discount.

For all the improvements, members of HHII, including the 1,000 or so who gathered for a fish fry last spring and the contingent expected to meet tonight, strongly believe they are paying rates that are unfair. They are pursuing a long-term strategy that they hope will dramatically change the current system so that it is not beholden to hurricane models and global reinsurers. They are working with grassroots groups in coastal states along the Eastern Seaboard and the Gulf Coast to develop a proposal that would create a multistate catastrophic insurance district.

Creation of the district would require an act of Congress. Their idea is for a non-governmental agency that would collect all of the wind and flood insurance premium for properties within a certain distance – perhaps 50 to 70 miles – from the coast, and pay all wind and flood losses for named storms. This approach, according to **Dan Hanson**, a volunteer leader with HHII, would end the conflict between coastal and inland homeowners over rates and subsidies.

Acknowledging that the plan was far from complete, Hanson said he hoped this program could be collecting its first premiums by December 2017.

The idea of a multistate approach to insurance issues is not entirely within the imagination of grassroots consumer groups. The Affordable Homeowners Insurance Commission, which was

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for the decade was 6.4%, pushed upward by a 16.5% profit margin in 2013.

While Hawaii has the biggest profit margin, its small size requires us to expand our search for profit leaders to include the larger markets. And you don't need to look any further than the nation's third-largest market by premium volume, **California**, which is far and away more profitable than any other big state. For the decade ended 2013, California posted and average annual profit of 19.1% and a one-year 2013 profit of 17.1%. That ranks fourth in the nation, and far ahead of **New York**, the next best state among the 10 largest, which posted a 10-year average profit of 15.4%, thanks to a 24.6% profit in 2013.

When we ask property insurers for states that frighten them, New York is often on the list. Clearly that is for what might happen in the future (as predicted by catastrophe models), because even with Hurricane Sandy on the books, the past looks too solid for a rational person to fear.

The nation's biggest market by premium volume, **Texas**, boasts an above-average profit margin for both the decade (9.2%) and in 2013 alone (17.4%).

Given the volatility of the Texas market, and the capital requirements necessary to manage that volatility, Texas' superior profits seem only acceptable at best. But at least they're better than the nation's second-biggest market, **Florida**, which had a gangbuster 2013, with a 33% profit margin that led the nation, but only in service of balancing the long-term results, which shows an average annual loss of 0.5% for the decade. When the huge losses flowing from multiple 2004 hurricanes leave the decadal average, Florida will look much better but will still fall far short of the kind of long-term profit insurers require to handle the volatility endemic to this market. PIR

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Established 1994

Brian P. Sullivan, Editor
Telephone: (949) 443-0330
Email: bpsullivan@riskinformation.com

Leslie Werstein Hann, Managing Editor
Telephone: (908) 574-5041
Email: leslie@hannwriting.com

Patrick Sullivan, Associate Editor
Telephone: (949) 412-5851
Email: bpsullivan@gmail.com

Subscription Information: (800) 633-4931
On the Web: www.riskinformation.com

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established by Bentley in 2011, released a report that included two recommendations promoting the pursuit of a multistate approach to insurance issues.

Another recommendation from the commission called for the establishment of a new **Alabama Center for Insurance Research**. On Jan. 5, **Lars Powell**, a professor of insurance a the **University of Arkansas-Little Rock**, became the first director of the center, which is based at the **University of Alabama**.

Powell told us that the center will serve as a think tank aimed at improving the insurance market in Alabama, with a near-term focus on the hot topic of property insurance.

One research interest is what impact should mitigation have on the price of insurance and the price of reinsurance. To the extent that the center's research can produce answers that give the global reinsurance community a way to limit uncertainty, Powell said, "we would expect prices to come down." PIR