Multi-state Insurance Technicians Work Group Meeting

March 31, 2016 – New Orleans

1) **Attendance**:
    a. **Angell**, Charles (Alabama DOI); **Birmbaum**, Birny, (Center for Economic Justice); **Browning**, David (Mississippi DOI); **Buchanan**, Kendall (South Carolina DOI); **Burkhalter,** Chris (BWRB Actuaries);); **Case**, Andy (Mississippi DOI); **Fanoe**, Greg (Merlinos, Inc); **Greer**, Doug (Alvarez & Marshal); **Groves**, Bob (Alabama Wind Poll); **Haney**, Derek (Louisiana Citizens); **Hanson**, Dan (GCEC/HHII); **Janssen**, Earl (GECE/HHII); **Kennedy**, Truvander (FDIC); Kurtz, Michelle (GCEC/HHII), **Lee**, Robert (Florida DOI); Murphy, Jim (TWIA, Texas); **Morse**, Scott (New Orleans Homebuilders Association & FEMA Resiliency Work Group), **Piazza**, Rich (Louisiana DOI); **Scourtis**, Peter (Merlinos, Inc); **Shultz**, Michael (New Orleans Realtors Association); **Shumaker**, Joe (Mississippi Rating Bureau); **Smith**, Greg (TWIA, Texas), **Ragas**, Wade (New Orleans Realtors Association, director); Shultz, Michael **Wells**, John (Mississippi DOI); **Gina** (North Carolina Windpool) and one other from North Carolina DOI.
2) **Goals**
    a. Protect Consumers;
    b. Fair, affordable, adequate pricing;
    c. Needed coverage so they can recover quickly from a disaster;
    d. Solvency of insurers;
    e. Assist States in achieving their goal for viable, resilient coastal region that is attractive for business and population expansion by making insurance affordable and attracting and maintaining a stable workforce pre- and post-disaster;
    f. Help create and maintain a competitive, viable insurance market on the coast, but not to the detriment of the other goals above.
3) **Focus** of meeting: Collecting general Frameworks for types of Multi-state Catastrophic Insurance Solutions
4) **Proposed Multi-state Solutions**:
    a. **Alabama-only plan (ACIA) sells Assessable policies in other states as a Non-admitted Carrier**:
        I. Expand AL Wind Pool geographically as a non-profit admitted or surplus lines insurer to write Wind/Hail policies in multiple states either direct to consumers or through independent Agents;
        II. Obtain authorization from State DOI's;
        III. Attempt to achieve federal tax-exempt status;
        IV. Obtain Demotech FSR "A" rating;
        V. Charge policyholders a one-time capital contribution so as to build up capital base;
        VI. Entity purchases reinsurance up to 1-in-250 yr. event excess of 1-in-50 yr. attachment point;
        VII. Establish rates at the actuarial indication excluding cost of capital, passing savings on to policyholders; rates based on AAL + reinsurance cost + overhead expense;
        VIII. Entity acquires line of credit for any shortfall between capital and attachment point, or to cover second event;
        IX. Entity issues post-event bonds as required and assesses policyholders annually to service bond debt.
        X. Needs Capital on top of the Alabama-only supply;
        XI. Distribution in other states must be worked out;
        XII. Various state DOIs must approve the Alabama-only policies in their states; some might be concerned about:
            i. Assessable Policies
            ii. Admitted Market Disruption
            iii. Alabama-only absence from state guarantee funds
        XIII. Assessments against policyholders in other states would be enforced by contract, not levied through property tax office (unless legislation enabled such levies);
            i. Bonds would be less attractive
            ii. Or, Feds might back bonds
        XIV. Can possibly facilitate wind-and-flood or all-perils policies; dealing with flood insurance is Timely today;
        XV. All proposed Multi-state Solutions face the specter of complaints from policyholders in one part of the country complaining about paying for losses in some other part of the country; education of policyholders required.
    b. **Multi-state Reinsurer, Assessable**

I. Requires Paradigm-shift from strategy of depopulating Wind pools to Making Wind pool policies attractive, thus populating Wind pools;
II. Create the Coastal Reinsurance Company (CRC);
III. Formed as a Reciprocal Captive LLC owned by the participating State Wind Pools;
IV. Federal tax liability passed on to its subscribers;
V. Requires at least 2 State Wind Pools to participate;
VI. Board consists of subsets of participating Wind Pools' Boards;
VII. Each participating Wind Pool provides seed capital; target at least $25M combined but preferably amount of net CWP;
VIII. Obtain authorization from State DOI's;
IX. AL Wind Pool or some other participating State could serve as TPA for CRC;
X. Each participating State Wind Pool selects the reinsurance limit, attachment point, and desired QS % within the layer that it desires to purchase from CRC.;
XI. CRC could provide only 1st layer, fully retained, or provide all layers up to 1-in-250 year event and retrocede higher layers to standard reinsurers;
XII. Retained layer within CRC priced for AAL and overhead expense excluding cost of capital;
XIII. Each participating State Wind Pool's reinsurance cost would be based on their contributing AAL;
XIV. Reinsurance cost savings should be passed on to each State Wind Pool's policyholders, or retained to increase surplus, or used for some other consumer benefit such as providing mitigation grants to policyholders;
XV. A State Wind Pool's selection of a 100% QS with $0 retention would accomplish the same purpose of merging the State Wind Pools without requiring statutory changes.
XVI. Create a joint reinsurance treaty between CRC and the various State Wind Pools, with all State Wind Pools' reinsurance premiums being used collectively to cover the other States' reinsurance losses;
XVII. Utilize a reinsurance trust to permit reinsurance credit;
XVIII. If funds are insufficient to cover retained layer losses, CRC would purchase post-event bonds and assess all participating Wind Pools to cover annual debt service;
XIX. Could possibly expand CRC to reinsure other voluntary insurers;
XX. Potential Assessments are less likely and smaller than those faced by individual state-only assessable plans such as "A" above, the Alabama-only plan;
XXI. Can activate Collective Bargaining and Collective Geographic Spread-of-Risk negotiations with Reinsurers for extra Reinsurance needs;
XXII. Does not need Legislative nor DOI approval to implement;
    i. Contractual agreements among Wind Pool managers;
    ii. Tax exemptions gained without legislation through Reciprocal or Captive structural designs;
XXIII. Seed money is provided by the participating Wind pools;
XXIV. Can possibly facilitate wind-and-flood or all-perils policies; dealing with flood insurance is Timely today;
XXV. Requires some states to change law or policies regarding lowering Wind Pool costs to policyholders; (some Wind pools cannot or will not pass savings on to policyholders);
XXVI. All proposed Multi-state Solutions face the specter of complaints from policyholders in one part of the country complaining about paying for losses in some other part of the country; education of policyholders required.
XXVII. Multi-state Re-insurer can Morph into Multi-state Merged Wind Pools which can Morph into a National All-Catastrophic-Perils insurance entity.

c. **Multi-state Merger of Wind pools**

I. Requires Paradigm-shift from strategy of depopulating Wind pools to Making Wind pool policies attractive, thus populating Wind pools;
II. Properly done, significantly better Price and Security for the Consumer than Multi-state Reinsurer alone;
III. Other State Wind Pools merge with the AL Wind Pool, each participating State obtaining Board seats;
IV. Obtain non-profit, tax-exempt status for this new multi-state Wind Pool;
V. Obtain Demotech FSR "A" rating;
VI. Each participating State Wind Pool contribute capital equal to its NWP or retention;

VII. Entity purchases reinsurance up to 1-in-250 yr. event excess of 1-in-50 yr. attachment point;
VIII. Establish rates at the actuarial indication excluding cost of capital, passing savings on to policyholders;
IX. Rates based on AAL + reinsurance cost + overhead expense;
X. Entity acquires line of credit for any shortfall between capital and attachment point, or to cover second event;
XI. Entity issues post-event bonds as required and assesses policyholders or State Wind Pools annually to service bond debt;
XII. Can possibly facilitate wind-and-flood or all-perils policies; dealing with flood insurance is Timely today;
XIII. Requires legislative changes in each state or Congressional enabling legislation;
  i. Educating legislators of value of accepting risk in other states required;
  ii. Legislation involving money is more difficult;
  iii. Multi-state Compact would be easier for legislators to process than changing laws in every state, because it would be a single document to which legislatures assent;
XIV. Board make-up needs thought;
XV. Can be structured in two general ways:
  i. A single-entity created that displaces state Wind pools
  ii. Wind pools in all states contractually associated, all with a $0 Retention
  iii. Maximizes the amount of premium dollars available to the parts of the coast that suffer a catastrophic loss.
XVI. Multi-state Merged Wind Pools can Morph into a National All-Catastrophic-Perils insurance entity.

d. **National Catastrophic All-perils Mechanism:**
I. Properly done, Geographic spread of Risk and Multiple Perils offers policyholders the best prices and security.
II. Requires Paradigm-shift from strategy of depopulating Wind pools to Making Wind pool policies attractive, thus populating Wind pools;
III. Can be accomplished in at least two ways:
  i. Morph Multi-state Wind pools into National plan;
  ii. Formation of a national entity.
IV. Morph multi-state: Expand the CRC to include inland states and to include Wind, Flood, Earthquake, and Wildfires;
V. Morph multi-state: Require all insurers to cede 100% of their catastrophe premium to CRC;
VI. Explore development of a federal backstop to CRC;
VII. Attractive to Congress if it removes Flood from Fed responsibility;
VIII. Requires additional Seed Money;
IX. Federal involvement:
  i. Plays no role
  ii. Provides funds as a Gift in the event of a "Blow-out" Loss;
  iii. Loans funds, which are paid back by Policyholders;
  iv. Guarantees bonds sold by National insurer
  v. Serves as a Reinsurer at low or no cost.

e. Buker Plan – Tiered, partially-refundable premiums
I. Insurance companies divide the Catastrophic premium into two parts:
  i. True Coast Premium is based on long-term, arithmetic-moving-average historical losses, plus routine cost of business and profits;
  ii. Cat Projected Surcharge is based on the difference between Cat Model AAL (average annual loss) and the True Cost Premium.
II. If total catastrophic losses in the first year do not exceed the arithmetic-moving-average historical losses, all companies refund the Surcharge;
III. If total catastrophic losses exceed the arithmetic-moving-average historical losses, companies do not refund the Surcharge, they apply it to the losses;
IV. Companies with policies in parts of the Gulf and Atlantic coastlines that do not suffer catastrophic losses send their collected Surcharges to the companies that had policies in the loss area – across company and state lines;

V. If the one-year surcharge does not cover the losses that exceed the arithmetic-moving-average historical losses (not all losses in the event, just those above historical average), a second or more annual surcharges can be collected until the excessive losses are paid.
VI. Company surpluses should not be taxed.

f. **Expand the Florida Plan**
   I. Florida might add too much risk if smaller states form the nucleus of the Multi-state plan;
   II. All states should be included when feasible; (comments in Green occurred at the Grassroots meeting on April 1)

g. **Collective Bargaining and Geographic Spread of Risk negotiating strategies <u>alone</u>:**
   I. Can be done without forming the Multi-state Reinsurer;
   II. Weakens as Cost of Capital increases;
   III. Hindering formation of Multi-state Reinsurer risks not having it in place when Cost of Capital increases or other need for it arise.

h. **Mitigation:**
   I. Funding for grants to homeowners -- federal and state
   II. Multi-state Education plan – worked with Smart Home
   III. Building codes
   IV. Devise ways to achieve positive cost-benefit ratios for existing homes

i. **Litigation Reform**
   I. Mandatory arbitration
   II. Multi-state Work Group should focus primarily on Frameworks that make a significant difference in premiums and security.

5) **Next Meeting**
   a. Date: Circa week of May 16, 2016
   b. Agenda: Explore Collective Bargaining, Multi-state Re-insurer, Mitigation, Litigation-reform, and the estimated Dollar-difference and Security to the Consumer from each of the Solution Frameworks offers.
   c. Invite Reinsurance Brokers.