

## Alabama Coastal Insurance Symposium

Panelists and attendees discussed availability and affordability of property insurance on Alabama's coast during a symposium January 9 hosted by the Eastern Shore Chamber of Commerce. NAMIC southeast state affairs manager Liz Reynolds attended the meeting and prepared the following report.

NBC-15 anchor Greg Peterson moderated the conference, introducing the various speakers, taking questions from the audience, and inserting questions and comments of his own. More than 300 people from all over southwest Alabama as well as some from as far away as Pensacola, Florida, filled a large ballroom at the Marriott Grand Hotel conference center in Point Clear. U.S. Congressman Jo Bonner, who was first to speak, commented that such a large turnout, several years past Katrina now, “speaks volumes ... and illustrates challenges” that still exist regarding coastal insurance.

Congressman Bonner believes that a “crisis” exists, and while he emphasized he “philosophically and fundamentally (doesn’t) believe the federal government should interfere,” he thinks the problem is great enough to warrant his co-sponsorship of federal legislation to expand the National Flood Insurance Program (NFIP) to include coverage for wind. Congressman Bonner went on to outline some of the pros and cons of such an expansion.

At this point, Mr. Peterson asked for questions from the audience, and someone indicated that Congressman Bonner had explained his position on NFIP expansion except for two points:

- 1) Wouldn’t expansion encourage people to “build where they shouldn’t”?
- 2) Wouldn’t expansion encourage insurance companies NOT to sell wind coverage?

The congressman responded that insurance companies are not selling wind coverage in coastal Alabama now. In response to that comment, an audience member stated that she lives on the water and has wind coverage in the private market and that her next-door neighbor has it, too, with a different company.

This exchange prompted Congressman Bonner to ask for a show of hands to answer several questions. Less than 10 people indicated they **cannot** get wind coverage. Less than 10 indicated they support expanding the NFIP to include wind. And about 75 people raised their hands to say they believe expanding the NFIP is a bad idea. After that, Congressman Bonner had no choice but to state “I work for you. The bill is a bad idea.”

The next speaker was Alabama Insurance Commissioner Walter Bell, who offered the keynote address. He used his time on the program in part to educate the audience about the history of insurance regulation in the United States and to emphasize the importance of allowing the free market (except in very extraordinary circumstances) to create solutions when problems occur. He said, “I don’t disagree publicly with congressmen, but I’m the technician...The feds need to stay out of the insurance market as much as possible, in my opinion.” Commissioner Bell believes states are best to regulate insurance companies and provide consumer services. “The past few years would have been even more difficult (following Katrina and other catastrophes) if the federal government had been running the show.”

He noted that the NAIC provides a forum for sharing information among states and that the models created by the NAIC process allow for standardization of regulation without federal intervention. “For now, the preferable system is the one we have, one where states coordinate and cooperate.”

Commissioner Bell then moved on to comments specific to Alabama. He believes better days are ahead, as long as there are no storms in the near future. He pointed out that premium taxes in Alabama are the largest contributor to the general fund and that counties north of Mobile and Baldwin (which are Alabama's only coastal counties) have a robust market. And even along the coast, he is convinced that very few have gone without coverage, based on beach pool data combined with nonrenewal figures. "Prices are just higher than what we've been used to," he said.

Commissioner Bell continued to educate the audience about how insurance works in Alabama, explaining the Department of Insurance has rate and policy approval over the admitted market, but that some folks have obtained coverage through surplus lines, over which he has limited regulatory authority. He gave a brief history of the beach pool and noted that he and the pool's directors have been discussing some "fine tuning." Commissioner Bell acknowledged that the beach pool is "governed by insurance industry representatives," but pointed out that "they are taking the risk."

Commissioner Bell noted that the beach pool has worked well and mentioned three specific improvements he desires and believes would be helpful going forward:

- 1) make participation mandatory
- 2) add at least two independent (of the insurance industry) directors to the board (existing board has agreed to do, with or without legislation, Bell said)
- 3) retain funds not used for losses in a tax-deferred reserve for future catastrophes

In reference to item number 3, Commissioner Bell asked "what about federal tax breaks? Maybe Congressman Bonner can work on that." The commissioner commended state senator Ben Brooks of Mobile (slated to speak later on the program) for working on legislation that includes proposals for improving the beach plan.

Commissioner Bell discussed reinsurance next and commented that costs are dropping, but reinsurers are more careful about the risks they accept. He talked about how reinsurance affects the ability of primary insurers to accept risks and specifically mentioned type of construction and age of buildings as important considerations. Companies are coming in to Alabama, though, and Commissioner Bell wants to encourage that trend. "Market manipulation is the quickest way to disaster," he warned. "Look at what Florida has done...I'd rather see that kind of risk in the insurance companies' hands."

The last issue Commissioner Bell brought up was litigation risk, saying eliminating unknown litigation risk could help companies be better able to manage their risk in general. The litigation risk concern is why Commissioner Bell believes an all-perils policy is the answer, but for the private market, not the government. He said he has talked to some insurers, and they say they could underwrite an all-perils policy, especially if they could build tax-free reserves. "The federal government should give states the proper tools for success," Commissioner Bell stated. "We need stronger building codes...you can't encourage people to build on the coast and then expect insurance to be cheap."

Commissioner Bell concluded his remarks with a few more pearls of wisdom. "We don't have an availability problem, but cost based on the risk of where we choose to live is a contentious issue...Prices are unlikely to go back to pre-Ivan levels...It's best to expand the market and bring in more companies...Having artificially low prices is dangerous...we've got to have stability."

Next on the program was state senator Ben Brooks of Mobile. He told the crowd "I think you're here because there is a serious problem down here that needs to be addressed," but joked that he wouldn't be asking for a show of hands during his talk. Sen. Brooks has pre-filed two bills he believes will provide solutions and tools with which to address coastal insurance concerns in Alabama. SB 3 addresses captive insurance companies and SB 5 creates a new beach pool.

Sen. Brooks respectfully rebutted Commissioner Bell's contention that there is not an availability problem on the Alabama coast, only an affordability problem. "Be careful when you say 'you can get it from someone, so it's available,'" said Sen. Brooks. "Not everyone can afford it" and that makes it unavailable, in effect. He agreed with the commissioner that it's necessary to put together a toolbox to encourage a return to the normal marketplace. "If competition will return, the price will normalize."

Sen. Brooks suggested that audience members take a look at the 2005 Alabama Insurance Issues Task Force Report (on the DOI Web site). He drew his ideas for legislative proposals from the report. He also emphasized that Alabama should look at what other states have done, good and bad, noting "Florida is a disaster waiting to happen." His preference is to follow the path of encouraging the marketplace and singled out South Carolina's recently-passed legislation as a good example of that.

Sen. Brooks echoed Commissioner Bell's suggested beach pool tweaks, saying his bill codifies the pool, adds three non-insurance representatives to the board, and allows the pool to accumulate reserves. He noted that his captive legislation would allow captives to write homeowners business. Sen. Brooks did not discuss the legislation in greater detail, but he did say creating catastrophe savings accounts is another idea he's looking at. "I advocate market-based bills," Sen. Brooks concluded. We should "fix it while the sun is shining."

Tim Russell followed Sen. Brooks and agreed with him that there is an insurance crisis in Mobile and Baldwin counties. Mr. Russell is the President of Baldwin Mutual Insurance Company, former mayor of Foley, Alabama, and a former chairman of NAMIC. He used his time to briefly remind the audience that a federal government role in insurance is not a new idea. "Consider the crop insurance program and how it helps Midwestern (not coastal) states." He also noted past federal involvement in crime coverage for large cities after riots (not coastal), and pointed out that TRIA is another example of federal government involvement.

Mike Cross, executive vice president of Willis Re, spoke next and commended Commissioner Bell for his earlier explanation of how the reinsurance market works. He reviewed reinsurance performance in terms of premiums collected versus claims paid over the last several years and noted "now prices are going down." He also said that reinsurers view Alabama as a good place to do business. Because time was growing short, Mr. Cross suggested audience members who would like additional reinsurance discussion and explanation read Warren Buffet's letter to Berkshire Hathaway shareholders.

Other panel members included Bob Groves, secretary/manager of the Alabama Insurance Underwriting Association (beach pool), and Randy Delchamps, president of Randy Delchamps Real Estate and Development Company. Rather than turning to them for comments, Mr. Peterson used the remaining time for audience questions and introduced Mr. Groves and Mr. Delchamps so that audience members could direct questions to them.

A question for Mr. Groves was about the idea of allowing the beach pool to establish reserves. Mr. Groves said the pool is looking at that now to determine if it could be accomplished without legislation. He did note that the pool is currently \$40 million in the red, "so there is not a lot of 'profit' now available to leave in surplus."

An audience member questioned the validity of her property's inclusion in the "beach area" when she does not believe there is a flood risk because the land is 90 feet above sea level. Mr. Russell stated that coastal America is basically 50 air miles from the ocean, without much consideration for variables. He said that the Insurance Services Office (ISO) establishes the coastal zone and that ISO is "basically owned by insurance companies." Mr. Russell went on to say "in Alabama, I think we have about convinced reinsurers and others that Alabama should not be 'that way' (50-mile coastal zone)."

Another audience member asked if the captives bill was the same as one that was introduced last year, and Sen. Brooks confirmed that it is. It's important to bring back the idea of allowing captives to write single-family

homes, said another audience member, because “there’s no source for insurance of single-family homes in Gulf Shores besides the beach pool.” Commissioner Bell seemed uncomfortable with that characterization, noting that of approximately 15,000 policies that were non-renewed, only 6,000 went to the wind pool. “Even a captive can’t give you a break on premiums,” Commissioner Bell emphasized. “Nothing is going to come along that will create rates 25 percent to 30 percent lower than what you’re paying now.”

Mr. Peterson asked the panel why they do not like Florida’s solution. Commissioner Bell responded by acknowledging that essentially 95 percent of the Florida population is at risk; in Alabama, it’s 12 percent. So “Florida’s is a political solution to a market-based problem.” Mr. Russell added that the 12 percent of the population on the Alabama coast generates about 25 percent of state revenues (tourism). “If we go down, the whole state goes down.”

Mr. Cross returned to the Florida question, bringing up Florida Gov. Crist’s interest in suing the insurance industry. “There’s nothing productive in that,” he said. “The only reason for Alabama to look at Florida is to know how not to do things.”

Another audience member expressed his outrage that he had been cancelled by his company after being with them for two decades. “I can’t find another company to write my wind at an affordable price, and I live close to I-10,” he railed. He added that the reason for cancellation was that he did not have auto insurance with his homeowners’ carrier. Commissioner Bell agreed that situations like that “get under my skin, too,” and shared his own nonrenewal experience. The commissioner does not like requiring customers to tie lines of business together, especially as it was done with little notice and no ability to purchase the additional line of insurance in order to maintain coverage.

Mr. Peterson reviewed written audience questions and posed one that asked about the long-term liability/viability of captives. Commissioner Bell said that premiums for captives must be risk-based in order for them to be viable and to make sure they can cover the losses they are liable for.

Adoption of statewide building codes was brought up in another question. Sen. Brooks was asked if that was part of his legislation. He responded that a bill containing that language last year did not go anywhere, but that he would like to see that happen, at least in Baldwin and Mobile counties. He cited homebuilders’ opposition to the window glazing requirements in the 2006 code as a stumbling block.

Another question from the audience asked about tax incentives for insurance companies to be encouraged to do business in Alabama and to write on the coast. Panelists pointed out that tax incentives are a tough sell because certain political interests are always opposed to that concept.

The idea of “litigation risk” resurfaced with a question asking if the bills filed by Sen. Brooks addressed that concern. Sen. Brooks said that he did not hear that from the companies he talked with during the summer as one of the first tools needed, and because he is a defense lawyer, he believes he would have been made aware of that concern if it was paramount. Commissioner Bell pointed out that Alabama does not have the level of litigation risk that other states have.

A last question was “what steps can consumers take?” Commissioner Bell urged people to contact the DOI if they are having difficulty obtaining coverage, because if there’s really a problem, “we need to put it on our radar screen.” Sen. Brooks encouraged attendees to contact their state legislators and ask for them to support his bills. “I’m gonna fight for these bills if it’s the end of my political career.”