

Insurance in Coastal Alabama

Alabama Department of Insurance
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Today's agenda

- Some terms you need to know ...
- How we got from “There” to “Here”
- How the ALDOI reviews rates and policies
- How the complaint process works
- How to shop for insurance



A few terms ...

- **Coastal Alabama** – Primarily, Baldwin and Mobile counties below the 31st Parallel (the Alabama-Florida line).
- **Guaranty Fund** – The state-mandated fund paid into by insurers to cover losses of insolvent insurers in order to provide some coverage for citizens' claims.
- **Captive insurer** – A special type of insurance company set up by a parent company, trade association or group of companies to insure the risks of its owner or owners. Subject to less regulation, has a lower tax rate, and does not have guaranty fund coverage.



More terms ...

- **Reinsurance** – The insurance that insurance companies buy to lay off some of their exposure. Generally, the reinsurer covers all losses above a predetermined amount.
- **X-wind** – A property insurance policy that excludes wind and hail coverage.

More terms

- **Admitted company** – A company that is licensed to do business in Alabama and is subject to rate and policy regulation and guarantee fund protection under state law.
- **Non-admitted/surplus lines company** – A company that is allowed to do business in Alabama when there is lack of a market from admitted companies. Not subject to rate and policy review, nor has guarantee fund protection.



More terms

- **Models** – One of the major drivers of the price of insurance. Computer generated forecasts of potential damage from different levels of storms. Previously, rates were based solely on experience.
- **Hard market** – When it is difficult to find affordable and available insurance due to company/stockholder demand for higher profits and fewer losses.
- **Soft market** – When it is easy to find affordable insurance due to company/stockholder demand for increased market share.



Rate review by ALDOI

- The Department's actuaries and rate analysts review all filings to ensure that companies' rates are actuarially justified at the territory level as well as statewide.
- The review takes into account rate requests for wind coverage and non-wind perils.
- "Actuarially justified rates" cover average expected hurricane loss over a period of time (often, 100 years). Translated, the rates usually generate a profit in non-hurricane years, but certain losses in years with storms.



AIUA – “Beach Pool”

- After Hurricane Camille, insurers pooled together to form Alabama Insurance Underwriting Association (AIUA) – commonly known as the Beach Pool.
- By law, all property insurance companies must participate unless they write a disproportionate share of the market in the Beach Pool area.

Beach Pool basics

- Intended to be the “insurer of last resort” in Coastal Alabama, but has grown exponentially since Ivan.
- Governed by a board of representatives of the top 10 insurers by market share in the state, plus two consumer representatives (one from Baldwin County, one from Mobile County). The consumer representatives serve one-year terms, appointed by the Commissioner of Insurance



How the Beach Pool works

- If a consumer cannot find a policy in the regular “admitted” market, then licensed agents in Alabama can contact the Beach Pool for a policy to be underwritten.
- The Beach Pool offers “wind-only” coverage and a limited homeowners policy.
- Once a policy is issued, the consumer pays the Beach Pool its premiums as he or she would to an insurance company.

How the Beach Pool works

- If there are claims, the Beach Pool uses the premiums collected to pay for them.
- If the premiums are exhausted – as typically they are after a major event – insurers are assessed a pro rata share, based on their market share, to cover claims.
- If there are no major events, the Board can either divide the money according to market share, or establish a reserve fund for future storms.



How the Beach Pool works ...

- There have been numerous assessments of the companies after hurricanes -- \$20 million after Ivan and \$10 million after Katrina.
- Under the current plan, companies that write an excess share of the market in Coastal Alabama are not subject to assessments.
- As the market shrinks, avoiding assessments is becoming increasingly rare.



The Alabama Homeowners Market

- We have what we call the Big Four – the four largest players in the Alabama marketplace
 - State Farm
 - Alfa
 - Allstate
 - Farmers

The Alabama Market

Pct. of Premium Allocation	2003	2004	2005	2006	2007	2008
Earned Premium (000)	768,517	855,764	949,861	1,029,029	1,099,761	1,156,278
Incurred Losses	66%	139%	92%	64%	57%	63%
Loss Adjustment Exp.	10%	10%	11%	8%	8%	8% (est.)
Overhead Expense	28%	28%	27%	28%	28%	28% (est.)
Combined Ratio	104	177	130	100	93	99
Profit	-4%	-77%	-30%	0%	7%	1%
Market Share of "Big Four"	68%					
Surplus Lines Market Share	1.6%					
Premium Growth over 10 Years	111%					
10-Year Return on Net Worth	-5.7%					

The homeowners market nationally...

% Allocation of Premium	2003	2004	2005	2006	2007	2008
Earned Premium (ooo)	N/A	N/A	N/A	N/A	N/A	N/A
Incurred Losses	59%	66%	73%	48%	52%	N/A
Loss Adjustment Expenses	10%	10%	11%	8%	8%	N/A
Overhead Expenses	14%	14%	13%	14%	14%	N/A
Combined Ratio	97	103	111	85	88	N/A
Profit	3	-3%	-11%	15%	12%	N/A
Market Share of 4 Largest	44%					
Surplus Lines	0.9%					
Premium Growth	109%					
10 Yr. Return on Net Worth	5.4%					

A look at State Farm in Alabama...

...28 percent of market share

Percentage of Premium Allocation	2003	2004	2005	2006	2007	2008	2003-07 cumulative
Earned Premium (000)	232,676	259,768	286,493	306,286	318,799	330,548	1,404,022
Non-catastrophic losses							
Catastrophic losses							
Total Incurred Losses	63%	103%	88%	62%	57%	60%	74%
Loss Adjustment Expense	8%	8%	8%	8%	8%	8%	
Overhead Expense	29%	28%	24%	26%	25%	25%	
Combined Ratio	100	139	119	95	89	92	
Profit	0%	-39%	-19%	5%	11%	8%	

A look at Alfa in Alabama...

... 19.5 percent market share

Percentage of Premium Allocation	2003	2004	2005	2006	2007	2008	2003-07 Cumulative
Earned Premium (000)	159,818	179,308	201,162	213,647	226,399	229,767	980,334
Non-catastrophic losses							
Catastrophic losses							
Total Incurred Losses	82%	179%	101%	79%	64%	76%	99%
Loss Adjustment Expense	5%	6%	5%	4%	4%	4%	
Overhead Expense	28%	26%	25%	28%	32%	32%	
Combined Ratio	114	210	131	112	99	111	
Profit	-14%	-110%	-31%	-12%	1%	-11%	

A look at Allstate in Alabama ...

... 12 percent of market share

Percent of Premium Allocation	2003	2004	2005	2006	2007	2008
Earned Premium (000)	81,532	93,606	113,948	126,605	135,437	141,438
Incurred Losses	51%	158%	83%	54%	48%	58%
Loss Adjustment Expense	12%	12%	12%	12%	12%	12%
Overhead Expense	24%	24%	23%	24%	24%	24%
Combined Ratio	87	194	118	90	84	94
Profit	13%	-94%	-18%	10	16	8

A look at Farmers in Alabama...

... 6 percent of market share

Percentage of Premium Allocation	2003	2004	2005	2006	2007	2008
Earned Premium (000)	21,368	23,288	29,117	39,389	53,389	66,126
Incurred Losses	63%	124%	147%	20%	54%	60%
Loss Adjustment Expense	9%	9%	9%	9%	9%	9%
Overhead Expense	33%	33%	33%	33%	33%	33%
Combined Ratio	104	166	189	62	96	101
Profit	-4%	-66%	-89%	38%	4%	-1%



Back to the Beach Pool ...

- The size of the Beach Pool from its inception until Hurricane Ivan was basically static.
- The significant growth of the Pool began about 16 months after Hurricane Ivan and four months after Hurricane Katrina.
- It's been growing at a rapid rate since.



Beach Pool policies in force

Dec. 2004	Dec. 2005	June 2006	Sept. 2006	Dec. 2006	Mar. 2007	June 2007	Sept. 2007	Dec. 2007	May 2008	Dec. 2008	April 2009	June 2009
2,909	3,244	4,713	5,881	6,571	7,109	7,766	8,649	9,100	9,506	10,757	11,737	12,572

- The Pool has multiplied its number four fold since Hurricane Ivan.
- Even so, many people are still finding insurance because the growth the Beach Pool is still running behind the number of policies that have been dropped or have had wind excluded.
- The primary issue remains affordability.



Total insured value of Beach Pool

Month	Insured Value
December 2004	\$337.4 million
September 2005 (Katrina)	\$383.9 million
December 2005	\$422.8 million
June 2006	\$747.3 million
September 2006	\$1.0 BILLION
December 2006	\$1.15 billion
September 2007	\$1.51 billion
June 2008	\$1.68 billion
December 2008	\$1.85 billion
February 2009	\$1.91 billion
April 2009	\$2 BILLION
June 2009	\$2.16 billion



Beach Pool premiums

Month/Year	Premiums Collected
December 2004 (post-Ivan)	\$5.5 million
September 2005 (Katrina)	\$6.0 million
December 2005	\$6.5 million
June 2006	\$11.9 million
September 2006	\$17.0 million
December 2006	\$19.3 million
September 2007	\$23.2 million
June 2008	\$23.7 million
December 2008	\$24.8 million
February 2009	\$25.3 million
April 2009	\$26.0 million
June 2009	\$26.9 million

Where are the Beach Pool policies?

Municipality	Policies in Force (June 2009)
1. Gulf Shores	2,737
2. Mobile	2,666
3. Orange Beach	1,431
4. Dauphin Island	1,307
5. Fairhope	923
6. Theodore	518
7. Foley	430
8. Daphne	405
9. Grand Bay	242
10. Coden	233

Location of Beach Pool policies by insured value

Municipality	Total Insured Value (June 2009)
1. Gulf Shores	\$462.8 million
2. Mobile	\$416.5 million
3. Orange Beach	\$260.1 million
4. Dauphin Island	\$241.2 million
5. Fairhope	\$181.2 million
6. Theodore	\$90.8 million
7. Daphne	\$78.1 million
8. Foley	\$76.2 million
9. Coden	\$40.2 million
10. Grand Bay	\$36.8 million

Location of Beach Pool policies by premium

Municipality	Premium collected (June 2009)
1. Gulf Shores	\$7.3 million
2. Dauphin Island	\$3.9 million
3. Orange Beach	\$3.7 million
4. Mobile	\$3.1 million
5. Fairhope	\$2.1 million
6. Daphne	\$919,000
7. Theodore	\$821,000
8. Foley	\$633,000
9. Coden	\$515,000
10. Lillian	\$371,000



Next steps

- At future meetings, we will have dialogue with the committee regarding legislation and other steps to help improve the market
- We will continue to assist legislators with consumer issues.
- We will continue our efforts with industry to make sure the market place is protected.



A copy of this presentation ...

- Will be available online tomorrow morning at www.aldoi.gov.