State of Connecticut
Insurance Department

A Report on the Availability of Homeowners Insurance along the Connecticut coastline

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Executive Summary

On June 30, 2006, the Insurance Department approved Andover Insurance Company's underwriting guidelines which required homeowners living within ¾ of a mile from the coast to install permanent "Hurricane/Storm Shutters" on their homes or face non-renewal of their policy. (Appendix 1.) After hearing concerns from the public and legislators regarding this decision, the Insurance Department, at the direction of the Governor, imposed a 90-day moratorium on the implementation of Andover's underwriting guidelines and on all pending coastal homeowners' insurance filings. The Department then undertook a study to determine whether there was adequate availability of homeowners' insurance along the coastline. (Appendix 2.)

As part of this study, the Department held a public informational forum on September 21, 2006 in Groton where the Department heard concerns among coastal residents about the availability of homeowners' insurance (Appendix 3.) At that forum, Southeast area residents expressed concerns about the cost of installing shutters and expressed doubts about the catastrophe models accurately reflected the reality of storm experiences in the area. Additionally, concerns were expressed about how carriers were defining the coast and its application to rivers and tidal estuaries. Agents relayed anecdotal evidence that insurance carriers are not writing homeowners insurance policies along the coast in violation of their filed underwriting guidelines.

In order to determine whether there is adequate availability of homeowners' insurance in Connecticut's coastal communities, the Department undertook a number of actions:

- Issued a data call to homeowners' insurance companies in Connecticut in order to have a broader understanding of the types of coastal guideline filings that are being used by admitted market homeowners' writers. (Appendix 7.)

- Reviewed the laws relating to insurance regulation and alternative market programs in Connecticut and in other states. (Appendix 8.)

- Interviewed representatives from the admitted insurance companies, excess and surplus lines companies[1] and brokers, reinsurance companies and brokers, the Reinsurance Association of America, insurance agents, a catastrophe modeler, a rating agency and representatives from the real estate industry.

- Solicited input from legislators and the public.

- Analyzed several studies related to the catastrophe insurance markets. (Appendices 4 and 5.)

- Analyzed a recent study on rating agencies. (Appendix 6.)

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[1] Excess and surplus lines companies write risks that admitted market carriers are not willing to accept. Coverage under these policies can be as comprehensive as an admitted market policy, however, they are considerably more expensive and are not covered by the Connecticut Insurance Guaranty Association.

Historical Context

In the time period after Hurricane Andrew in the 1990's, national insurance carriers began managing their coastal exposures through increased pricing and stricter underwriting initiatives and reduced their writings of homeowners' insurance in markets where they had an over concentration of risk. As the larger national insurers reduced their homeowner coastal exposures through tightened underwriting and increasing rates, smaller companies and mutual companies filled the void in Connecticut and became an attractive option for homeowners needing to insure their coastal properties. At the time, mutual companies offered competitive rates, modest deductibles, and less restrictive underwriting guidelines, which kept the Connecticut homeowners' insurance market stable for close to 15 years. Today, however, small stock and mutual companies have begun tightening underwriting guidelines due to increases in reinsurance costs, the need to maintain strong ratings and to reduce their exposures along the coast.

The 2004 and 2005 hurricane seasons were the most active in recorded history. Along with inflicting terrible human suffering, Hurricane Katrina, with $40.6 billion in insured losses, is the most costly catastrophe in U.S. history. The led to changes in the way the insurance industry and reinsurance industry underwrites and accepts risk.

Findings

There are three main factors contributing to potential admitted market homeowners' insurance availability problems within certain distances from the coast. They are (1) more conservative review of companies by rating agencies, (2) the cost and reduced availability of reinsurance, and (3) enhanced and more detailed catastrophe models. The combination of these factors presents a complex problem for regulators and for the coastal homeowners' insurance market.

Finally, after a detailed analysis of carrier's underwriting guidelines, reviews of several studies, laws and alternative markets, and meetings with stakeholders, the Department believes that there is an availability problem for homeowners insurance within the admitted markets for homes located within 1000 feet of the coast. However, the excess and surplus lines markets are writing new policies in these areas. Excess and surplus lines policies are more expensive and lack critical consumer safeguards such as protection by the Connecticut Insurance Guaranty Association and a review of policy forms, rates, and underwriting rules by the Insurance Department. For those homes located within 2,600 feet (or approximately one-half mile) of the coast, there appears to be an open admitted market. However, that market is getting tighter and needs to be addressed before the situation worsens.

Administrative Actions and Legislative Recommendations

The Department will take the following actions to address the problems identified above.

1. The Department is establishing new filing review guidelines to evaluate insurers' coastal homeowners' insurance underwriting rules filed with the Department.

These review guidelines will balance consumer choice with an open and competitive homeowners' insurance market.

- Companies can no longer require permanently installed storm shutters as the sole means of mitigation for writing new or renewal business.

- For newly written business within 2,600 feet of the coast, consumers will be allowed to use a variety of loss mitigation measures recommended by the Institute for Business & Home Safety. (Appendix 10.) Acceptable means of loss mitigation include: plywood shutters or impact resistant glass. Carriers may also apply a hurricane deductible. If both loss mitigation measures and deductibles are imposed, companies are required to reduce a consumer's premiums and/or deductibles. Companies can refuse to issue new policies for consumers who fail to take appropriate mitigation measures.

- For properties located over 2,600 feet from the shore, the Department will review, on a case-by-case basis (i) loss mitigation methods and (ii) hurricane deductibles which shall not exceed two percent. If a company uses a combination of mitigation measures and deductibles, there should be a reduction in the consumer's premium and/or deductible.

- For renewal business, the Department will no longer allow companies to non-renew policyholders for failing to undertake mitigation measures. Companies must offer policyholders choices at renewal: consumers can implement loss mitigation measures or be offered a deductible. As with new business, if a consumer implements mitigation measures and takes a deductible, companies are required to reduce a consumer's premiums and/or deductibles. If a consumer opts not to take either option, companies can then non-renew that policy.

- The Department will use the Insurance Services Office methodology to determine coastal exposures along rivers and estuaries. This applies a basic "angle of impact measurement" to understand where the highest winds and damage will occur. (Appendix 9.)

The Department will be directing that all companies with pending coastal guidelines withdraw them and re-file with the Department to be in compliance with the criteria established above. Companies whose current guidelines for renewals do not offer the option of a hurricane deductible in lieu of mitigation or their new business guidelines do not comply with the Department's new evaluation criteria will also be directed to re-file their underwriting guidelines.

2. Request that the Governing Board of the FAIR Plan create a Coastal Market Assistance Plan (C-MAP) similar to that which has been implemented in New York. (Appendix 11.)

3. Submit legislation to give the Department authority to disapprove excessive rates pertaining to personal risk insurance in a competitive market and to increase the protections under the Connecticut Insurance Guaranty Association.

4. Enhance the Department's investigatory capabilities.

Resolution of Consumer Complaints and Inquiries

The Department's Consumer Services Division has received 41 complaints from consumers since August concerning coastal coverage issues. Of these 41 complaints, 16 were directly related to problems securing homeowners' insurance because of their proximity to the coast. In these cases, the Department worked with the consumer or agent to secure insurance and was successful in its efforts in 14 of these instances. Of the two instances where the Department could not help the consumer, one consumer had problems related to a commercial policy and the other was non-renewed for reasons other than the property's proximity to the coast.

A majority of the telephone inquiries and written complaints received by the Department reflected varying levels of concern regarding the Department's approval of the Andover filing and were not related to any particular problem the constituent had securing homeowners' insurance coverage.

The Department will offer a toll free telephone number dedicated to consumers who cannot find homeowners insurance solely because of their geographic location.

A. Factors Contributing to Changes in Homeowners' Insurance Market

- *Historical Context*

Of the ten costliest catastrophes in American history (in terms of insured losses), eight have been caused by hurricanes.[2] (Appendix 12.) The 2004 and 2005 hurricane seasons were extremely active. Hurricane Katrina in August 2005 became the costliest hurricane in American history, with $40.6 billion in insured losses along with unthinkable human suffering. In light of these substantial losses, insurers have been more carefully evaluating the critical factors that impact their desire to write (and the availability of) homeowners' insurance.

Before the 2004 and 2005 hurricane seasons, the defining catastrophic event for the insurance industry had been Hurricane Andrew in 1992. As a result of Hurricane Andrew, insurers, reinsurers, catastrophe modelers, and rating agencies became more cautious in their analyses of coastal risks. Previously, the insurance industry relied on 20-30 years of historical catastrophe experience to estimate future catastrophic losses. After Hurricane Andrew, which resulted in $15 billion in insured losses and the insolvency of 11 insurers,[3] the industry learned that using such limited experience had its shortcomings. Historical insurance data did not reflect current exposures such as changes in land use, population densities, building codes, and construction practices. All of these serve to diminish the relevance of historical insurance claim data when trying to predict future catastrophe losses. The use of catastrophe models after Hurricane Andrew led to increases in rates and more restrictive underwriting guidelines, including requirements for loss mitigation techniques such as storm shutters, pre-drilled plywood window coverings, and roof tie-downs.

In the time period after Hurricane Andrew, national insurance carriers began managing their coastal exposures through increased pricing and stricter underwriting initiatives which reduced their writings of homeowner's insurance in areas where they had an over concentration of risk. As the larger national insurers reduced their homeowner coastal exposures through tightened underwriting and increased rates, small companies and small mutual companies filled the void in Connecticut and became an attractive option for homeowners needing to insure their coastal properties. At the time, these companies offered competitive rates, modest deductibles, and less restrictive underwriting guidelines, which kept the Connecticut homeowners' insurance market stable for close to 15 years.

In August and September 2005, Hurricanes Katrina, Rita, and Wilma ripped through the Gulf Coast. The small companies and mutual companies that had filled the void in the coastal

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[2] Insurance Information Institute, *Catastrophes: Insurance Issues*, http://www.iii.org/media/hottopics/insurance/xxx/?table_sort_748346=5
[3] Id.

Connecticut homeowners' insurance market after Hurricane Andrew became burdened with additional costs through increased reinsurance rates. As a result, the small companies and small mutual companies are doing today what the large, national carriers did after Hurricane Andrew. They are trying to mitigate their risks and lower their overall coastal exposures.

Based on its study, the Department has found that insurers are focusing on three major factors when developing their underwriting guidelines. These are the cost and availability of reinsurance, a more stringent review of companies by rating agencies, and enhanced and more detailed catastrophe models.

- *Reinsurance*

Insurance companies purchase reinsurance so they can pay claims, remain solvent and increase the number of new policies written. Global losses in the reinsurance market,[4] increased coastal populations, increased property values and the likelihood of demand surges[5] are changing the reinsurance industry's appetite for risk throughout the Northeast. As a result, reinsurance rates have increased substantially. "Rate increases in the United States and Mexico averaged 76 percent and 129 percent, respectively, compared to a 2 percent increase for the rest of the world."[6] Increases in reinsurance costs trigger the use of more restrictive underwriting guidelines by insurance carriers. In order for companies to obtain the necessary amount of reinsurance at reasonable costs, companies undertake actions to mitigate risks and lower their overall coastal exposures.

- *Rating Agencies*

It appears that more rigorous rating agency analysis is a key driver behind the current market changes towards more restrictive underwriting guidelines. Rating agencies analyze the insurance marketplace and issue in-depth reports and financial-strength ratings of insurance companies to any interested party**.** A variety of interested parties (e.g. reinsurers, investors, banking institutions, consumers, policyholders, stockholders, agents) analyze the reports along with the company and/or group rating as a tool in assessing the financial strength of the company and/or group. Interested parties pay close attention to the financial strength rating, in which this rating may dictate what line of business a company is eligible to write. Therefore, insurers are sensitive to their financial strength ratings as a higher rating allows them the choice of more flexibility in product lines along with potential increase in reinsurance capacity along with a potential cost savings regarding their reinsurance costs. On the other hand, a low rating makes reinsurance more difficult to obtain or at higher prices and may cause a company to further restrict its writings in catastrophe prone areas. Changes to the rating agency criteria have increased pressure on insurance companies to take more conservative approaches in evaluating and mitigating their catastrophe exposures. These "[r]ating agency methodology changes, coupled with [catastrophe]

[4] Reinsurers paid for 50% of the cost of Hurricane Katrina, compared to less than 33% of losses in previous years. Guy Carpenter, *The World Catastrophe Reinsurance Market: Steep Peaks Overshadow Plateaus*, 2006 at p. 1. (Appendix 5.)

[5] "Demand surge" is the cost associated with increased labor, repair and supply needed to rebuild after a severe storm.

[6] Guy Carpenter, *The World Catastrophe Reinsurance Market: Steep Peaks Overshadow Plateaus,* 2006 at p. 1. (Appendix 5.)

model changes, had a significant impact on the amount of capital and/or reinsurance protection needed to achieve a given rating."[7]

As stated above, financial strength ratings given to insurance companies by the rating agencies are used by a variety of interested parties. The rating can also impact the agent's ability to sell a company's product. An agent's professional liability insurance requires the companies through which an agent offers coverage to maintain a minimum financial strength rating. If the rating falls below a certain level, the agent may be required at renewal to rewrite the policy with a company that has a stronger financial rating.

- *Catastrophe Models*

A catastrophe modeler uses computer software to simulate the cost of natural catastrophe losses to an insurer. The risk depends on four basic sets of data, some of which are provided to the modeler by the user – in most cases the insurer or reinsurer. They are:

- "Hazard: Where, how often and with what intensity do events occur?
- Vulnerability: What is the extent of damage [based on a storm's potential strength at a particular location]?
- Value distribution: Where are the various types of insured objects located and how high is their value?
- Insurance conditions: What portion of the losses are insured?"[8]

Models are one of many tools that insurers, reinsurers, and rating agencies use to assess the risk of a potential natural disaster to a specific geographic area. Many insurers employ the use of multiple models and average their results together to determine their exposures. It appears that rating agencies, as well as the insurance and reinsurance industries, are taking an extremely conservative view in their use of modeling data.

To summarize, (1) a more conservative view of company capital requirements by rating agencies, (2) increases in reinsurance rates, and (3) changes to the catastrophe models are key components to the tightening of the homeowners' insurance market in coastal areas of Connecticut. The Department has no statutory or regulatory authority over these entities except as they relate to the solvency of domestic reinsurers.

B. Coastal Homeowners' Insurance Availability

As mentioned above, the Department issued a data call to all homeowners' insurance carriers writing in the State of Connecticut. The findings below represent responses from 70 companies reflecting 96% of written premium market share for homeowners' insurance.

The following chart represents a summary of the results of the Department's coastal underwriting survey.

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[7] Guy Carpenter, *Rating Agency Updates*, 2006 at p. 1. (Appendix 6.)
[8] Swiss Re, *Natural Catastrophes and Reinsurance*, 2003 at 16. (Appendix 4.)

COASTAL SURVEY RESULTS

	New Business	**Renewal Business**
Mitigation Mandatory* ➢ No options given to consumer	59% (30 companies)	5% (10 companies)
Mitigation or Deductibles ➢ Options given to consumers	13% (22 companies)	45% (35 companies)
No mitigation or deductible required	10% (12 companies)	46% (25 companies)
Other	14% (6 companies)	

* Shutter requirement is the predominant underwriting condition, however, companies may use other conditions such as roof type, whether a flood insurance policy is in place, and whether the house meets building code standards**.**

To assist readers in interpreting the data, the Department offers the following summaries and conclusions. Since companies treat new business different from renewal business, each category will be addressed separately.

NEW BUSINESS

NEW BUSINESS SUMMARY

I. Mandatory Mitigation (no options given to consumers)

- 59% of the written premium in the market, represented by 30 companies, mandate mitigation within certain defined distances from the coast. The majority of these companies' restrictions are for dwellings within 2,600 feet of the coast.

- Of the 30 companies with mandatory mitigation requirements, 14 require permanently installed shutters made of aluminum or steel; 16 permit plywood as an acceptable form of shutter.

II. Mitigation or Deductibles (options given to consumers)

- 13% of the market, represented by 22 companies, offer options to consumers, regardless of distance from the coast.

- Of the 22 companies offering options, eight companies require permanently installed shutters made of aluminum or steel.

III. <u>No Mitigation or Deductibles Required</u>

- 10% of the market, represented by 12 companies, have no mitigation or deductible requirements for coastal properties.

IV. <u>Other</u>

- 14% of the market, represented by six companies, have underwriting restrictions that do not clearly fall into the categories listed above.

<u>NEW BUSINESS CONCLUSIONS</u>

- 59% of the market imposes mandatory mitigation requirements of some type.

- The remaining 36% of the market are offering a choice – mitigation or increased deductibles or no requirements at all.

RENEWAL BUSINESS

<u>RENEWAL BUSINESS SUMMARY</u>

I. <u>Mitigation Mandatory</u> (no options given to consumers)

- Five percent of the market, represented by 10 companies, mandate mitigation for policies within defined distances to the coast (distances vary by company).

- Of these 10 companies requiring mitigation, eight require permanent installation of aluminum or steel shutters; two accept plywood shutters.

II. <u>Mitigation or Deductibles</u> (options given to consumers)

- 45% of the market, or 35 companies, offer options to consumers – either mitigation or increased deductibles regardless of distance to the coast.

III. <u>No Mitigation or Deductibles Required</u>

- 46% of the market, represented by 25 companies, have no mitigation or deductible requirements for coastal properties.

<u>RENEWAL BUSINESS CONCLUSIONSs</u>

- Only five percent of the market requires mandatory shutters for renewal business.

- The remaining 91% of the market is offering a choice or imposing no requirements at all.

Interviews with Agents

To supplement the information gathered through the data call, the Department interviewed a number of producers who sell homeowners insurance policies to coastal residents. The Department learned that (a) the lack of a defined coast makes it difficult for agents to find coverage for some coastal residents; (b) it is very difficult to find admitted market homeowners' insurance coverage for those living within 1,000 feet of the coast and this trend is progressing inland; and (c) some companies are verbally communicating to agents that they are not writing coastal properties in violation of their approved underwriting guidelines.

Given that the Department has no regulatory authority over rating agencies and catastrophe modelers and limited authority over reinsurers and surplus lines carriers, the Department will focus its recommendations on the admitted insurance market and producers.

A. Administrative Actions

1. Develop Coastal Filing Review Guidelines

To provide transparency in the Department's decision making process for approval of homeowners' insurance underwriting rules filed by insurers in accordance with Conn. Gen. Stat. § 38a-689, the Department will establish coastal filing review guidelines in accordance with the parameters set forth below. Consumer choice is the lynchpin to the filing review guidelines. To summarize, companies can no longer require permanently installed storm shutters as a prerequisite to new or renewal business. They must offer consumers choices – choices in the types of loss mitigation controls they accept and choices in deductibles.

These guidelines were developed based on the Department's analysis of the survey results, its expertise and judgment, as well as input from and interviews with producers. As has been discussed, the Department finds that there are problems in the admitted homeowners' insurance market within 1,000 feet of the coast. Based on the filings currently pending with the Department, many companies are looking to expand their underwriting guidelines restrictions inland up to 2,600 feet and beyond. These guidelines seek to address the current problem within 1,000 feet of the coast and the emerging problems in distances further from the shore.

In light of the following guidelines, the Department will require that all companies with pending coastal guidelines withdraw and re-file their underwriting guidelines with the Department consistent with the parameters set forth below. Companies whose existing guidelines do not comply with the Department's criteria for new and renewal business will be required to re-file their proposed guidelines and supply the Department with the appropriate supporting actuarial data.

a. Defining the Coast

Based on the data collected from the carriers, companies are making efforts to manage their coastal exposures in excess of 2,600 feet from the coast. As a matter of practice, it becomes very difficult to regulate coastal exposures considering the many rivers and other inland bodies of water that flow into Long Island Sound and that there is not a generally accepted definition for property and casualty insurance purposes.

The Insurance Services Offices (ISO), a well-known source of property and liability insurance risk information, has established a method to determine coastal exposures as they relate to rivers and other inland bodies of water. Essentially, ISO takes an “angle of impact measurement” to understand where the highest winds will occur along rivers and, consequently, the most damage, is likely. (Appendix 9.)

The Department realizes that this approach may need refining, however, it believes it can use this methodology as a basis for reviewing how far inland coastal guidelines should be applied.

b. New Business Located within 2,600 Feet from the Coast

For new business located within 2,600 feet of the coastline, the Department will require companies to allow consumers to use any number of Institute for Business & Home Safety (IBHS) recommended window protection measures, such as shutters, plywood and impact resistant glass as methods of loss mitigation. (Appendix 10.) Companies must provide an option to permanently installed shutters. Since certain types of plywood shutters are recommended by the IBHS for protection from severe winds, carriers must offer this as an option to policyholders. Companies can refuse to issue new policies if homeowners fail to undertake appropriate mitigation measures, including the use of plywood shutters.

In addition, companies may apply an actuarially justified hurricane deductible to properties located within 2,600 feet of the coast. Currently, the Department requires companies to supply actuarial data based on their own exposures when necessary.

If a company uses a combination of mitigation measures and deductibles, there should be a reduction in the consumer’s premium and/or deductible to reflect the company’s reduced exposure to loss.

c. New Business Located over 2,600 Feet from the Coast

The survey data submitted by the companies does not indicate that property owners located over 2,600 feet from the coast are having significant problems finding homeowners’ insurance coverage. The Department will review (i) mitigation methods and (ii) hurricane deductibles not to exceed 2% for properties located over 2,600 feet from the coast on a case by case basis. Companies will be expected to justify to the Department the need to implement deductibles with actuarially sound data.

If a company uses a combination of mitigation measures and deductibles, there should be a reduction in the consumer’s premium and/or deductible to reflect the company’s reduced exposure to loss.

d. Renewal Business

The Department will no longer allow companies to non-renew policyholders solely for failing to undertake mitigation efforts. In addition, companies must offer their current policyholders options at renewal: consumers can either implement loss mitigation measures or be offered a deductible supported by actuarial data. If the consumer opts not to take either option, companies can non-renew that policy. As with new business, if a consumer undertakes mitigation measures, there should be a reduction in premium to reflect the company's decreased exposure to loss.

2. *Enforcement Actions*

In response to anecdotal reports from agents that carriers are declining business based solely on the geographic location of the property, the Department has undertaken and will aggressively investigate such allegations by conducting targeted market conduct exams to examine the communications between the agent and the company. If the Department has reliable evidence that any carrier has violated the Connecticut Unfair Insurance Practices Act ("CUIPA"), Conn. Gen. Stat. Section 38a-815, et seq., or the regulation on the Availability of Insurance on Real Property Regardless of Location, Conn. Agencies Regs. Section 38a-824-1, et seq. based on its communications with its agents, it will undertake enforcement actions pursuant to the appropriate provisions of the law.

In addition, the Department will require that carriers print the contact information for the Department's Consumer Affairs Division on all non-renewal notices.

3. *Request that the FAIR Plan Implement a Coastal Market Assistance Plan*

Currently, homeowners have two options if they are unable to find homeowners' coverage in the admitted market. They can purchase coverage through an excess and surplus lines carrier or purchase a dwelling fire policy through the FAIR Plan.[9] The Department recommends adding another option for consumers to ensure that an adequate "safety net" is available to them. Specifically, the Department will facilitate the creation of a Coastal Market Assistance Plan (C-MAP). The C-MAP will be a viable alternative for those homeowners who cannot afford loss mitigation measures and deductibles, or do not want an excess and surplus lines policy, but who want more coverage than the FAIR Plan currently offers. In the Department's view, a C-MAP may alleviate the narrow admitted market homeowners' insurance availability problems within 1,000 feet of the shore and the emerging problems within 2,600 feet of the shore. The C-MAP, would be administered by the FAIR Plan and is based on a program that has been used in New York for over a decade. (Appendix 11.) If there are not enough participating companies to make the C-MAP a workable solution, the Commissioner will request that the FAIR Plan offer a full homeowners' insurance policy.

The Department has asked the Governing Board of the FAIR Plan to develop a plan of operations for the C-MAP using the New York C-MAP as a starting point. It is the Department's hope that the C-MAP will be available to consumers with 90 days.

4. *Conduct Additional Consumer Outreach Opportunities*

The Department will establish a toll free number for consumers to call with inquiries and complaints about the availability of homeowners' insurance along the coastline.

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[9] For more information on the Connecticut FAIR Plan, see Appendix 8.

B. Legislative Recommendations

1. Disapprove Excessive Rate Increases

Coastal homeowners will see relief from restrictive underwriting practices as a result of the recommendations outlined in this report. However, in order to appropriately reflect catastrophe exposures, coastal homeowners' insurance rates will likely increase. To ensure that rate increases are not excessive, the Department will request that the legislature give it the authority to disapprove excessive personal lines insurance rates in a competitive market.

2. Increase the Amount of Covered Losses under the Connecticut Insurance Guaranty Association

The Department will ask the legislature to approve an increase in the amount of the Connecticut Insurance Guaranty Association from $300,000 to $500,000 to reflect increasing home values.

Conclusion

In the time period after Hurricane Andrew, national insurance carriers retreated from the homeowner's insurance market. They experienced significant losses in the wake of Hurricane Andrew and turned their attention to more profitable lines of insurance. In response, small companies and mutual companies became attractive for homeowners needing to insure their coastal properties. At the time, small companies and mutual companies offered competitive rates, modest deductibles, and other underwriting guidelines, which kept the homeowners' insurance market stable for close to 15 years. During the particularly active hurricane seasons of 2004 and 2005, the small companies and mutual companies bore a disproportionately large portion of those costs through increased reinsurance rates. As a result, the small companies and mutual companies are doing today what the large, national carriers did after Hurricane Andrew. They are trying to mitigate their risks and lower their overall coastal exposures.

Now, based on changes to the wind models and rating agency criteria, in addition to increases in reinsurance costs, these companies may face continuing financial pressures if they do not change the way they do business. In a competitive marketplace, this means they must (1) restrict underwriting, (2) increase rates, or (3) a combination of both to maintain their solvency so they can pay claims after a large storm.

In the Department's view, the recommendations contained herein balance the need for consumer choice with the need to maintain the solvency of the insurance industry and a vibrant, competitive market place. The Department looks forward to working with the Governor's Office, the Legislature, the insurance industry and the public to implement these recommendations.