

# **Louisiana Property and Casualty Insurance Commission Homeowners Ad Hoc Committee Meeting**

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**Wednesday, February 9, 2011  
Louisiana Department of Insurance  
Plaza Hearing Room  
10:00 a.m.**

## **Minutes**

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**Commission Members Present:** Manuel DePascual, Senator Dan Morrish, Raymond Aleman, Sr., Lee Ann Alexander (via conference call), Chris Haik, Ted Haik, Ann Metrailler, Robert Moorman and Nick Gautreaux

**Commission Members Absent:** Commissioner Donelon, Jeff Albright, Representative Page Cortez, Senator Eric LaFleur, Representative Nickie Monica, Carrie Pena and Stephen Schrempp

**Commission Staff Present:** Terrell Moss, David Evans and Katie Walsh

**DOI Staff Present:** Denise Brignac, Ed O'Brien, Lori Cherry, Alison Jones Ferguson, Larry Steinert, Rachelle Carter and John Lamke

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Chairman DePascual called the meeting to order at 10:10 am. He welcomed the Commission members and guests to the meeting and thanked them for their attendance.

Ms. Walsh called the roll, reporting that a quorum was present.

Chairman DePascual recognized Senator Morrish as Vice Chair of the Louisiana Property and Casualty Insurance Commission's (LPCIC) Homeowners Ad Hoc Committee and congratulated him on being appointed Chair of the Senate Insurance Committee. He stated that the Homeowners Ad Hoc Committee was being convened in place of a sub-committee to narrow the focus on the wind mitigation issues raised at the October meeting of the LPCIC and to further discussion on the subject.

Guest speakers Barry Gates, Vice President of Product Management at Bankers Insurance Company, and Donald Griffin, Vice President of Personal Lines at the Property Casualty Insurers Association of America, presented information on wind mitigation experience in Louisiana and in other states. Invited guest speaker Mary Frances Fournet, Vice President of Product Management at American Strategic Insurance Corporation (ASI) was unable to attend due to a prior commitment, but sent a prepared statement on ASI's wind mitigation experience in Louisiana contrasted with Florida.

Other speakers asked to join the discussion were: Ray Kothe, Chairman of the Louisiana State Uniform Construction Code Council (LSUCCC); Randy Noel, Board Member and Immediate Past Chair of the LSUCCC; William Hatchett, Partner of Wind Mitigation Surveyors; and from the Department of

Insurance – Ed O’Brien, Deputy Commissioner of the Office of Property and Casualty (P&C); John Lamke of the Office of Consumer Advocacy; and Rachele Carter, Director of P&C Policy Forms.

The Committee members were asked to review a summation of the challenges of wind mitigation in the state discussed in last October’s meeting.

Mr. Gates noted the importance of wind mitigation. Any time there is a breach of a home’s envelope, there will be damage. Features such as roof shape, wind resistant glass, bracing, and straps merit premium discounts, which serve to motivate homeowners to change. Mr. Gates stated that Louisiana had done a good job of learning from Florida’s experience by implementing an effective statewide building code, but refraining from fixed mandated wind mitigation premium credits. Florida’s credits have proven too high and have helped drive some of the larger insurers from the state. The credits have been applied to some homeowners that did not warrant them, which has resulted in a massive re-inspection process with many homeowners experiencing a reduction in their premium credit. Approximately 64,000 of the 70,000 homes re-inspected will have a premium increase because of this.

Mr. O’Brien read Ms. Fournet’s statement into the record. Of ASI’s over 33,000 Louisiana homeowner’s policies, over 25,000 receive some type of discount for wind mitigation. The discounts range from 2% to 47%. Ms. Fournet emphasized that Florida erred in forcing insurers to give specific discounts for specific wind mitigation measures. These discounts exceed the discounts reinsurers apply to the homeowner insurers’ reinsurance premiums. Ms. Fournet praised Louisiana for learning from Florida’s experience and implored Louisiana to continue to regulate insurer solvency and to enforce the statewide building code, but allow the insurance industry to “respond to the changes in housing stock. A competitive market will reward those homes which are built to code through lower premiums.”

Mr. Griffin also commended Louisiana for learning from Florida and avoiding what have proven to be its mistakes. He encouraged Louisiana to go forward slowly. It takes time for the insurance industry to acquire experience and adjust. Research into the structural features and materials that provide the best wind mitigation is ongoing. He suggested that one of the hindrances to greater pursuit of wind mitigation measures by consumers may be the term “mitigation” itself and that the emphasis should be on building and construction. Consumers must be made aware that wind mitigation provides premium savings, but more importantly protects lives and lifestyles. According to Mr. Griffin, every dollar invested in wind mitigation now saves \$4 after a disaster.

Mr. Griffin identified the cost of wind mitigation as the problem from all perspectives. He suggested that this could be addressed and consumers motivated by matching grants and tax breaks. Mr. Griffin defined 5 things that lead to successful wind mitigation: strong building code; independent inspections; enforcement of building code for each home built; low or no interest loans; and required periodic re-certification of inspectors.

Extensive discussion between members, panelists, and speakers began and is summarized as follows:

- **What is wind mitigation?**
  - > In general, wind mitigation is the construction designs, techniques, and building materials that reduce wind damage to structures and for which homeowners receive an insurance premium credit.



wind mitigation measures by writing in these coastal areas at reflective rates, homeowners will retrofit.

> It takes time:

- *Rates:* Insurance is all about spreading the risk and determining where a profit can be made. Industry looks back at 5 years of experience in setting its rates.
- *Hurricane Models:* How are they developed and how do insurers use them to determine where to write?
- *Analogy:* It took years to convince vehicle occupants to wear their seat belts.

● **The statewide Building Code**

> Louisiana gets high marks from the insurance industry for its swift action following Hurricanes Katrina and Rita in adopting, implementing, and enforcing its mandatory statewide building code embracing the 2006 edition of the International Residential Code and International Building Code. In so doing, Louisiana's building code includes wind mitigation standards.

> Issues:

- *Code Council Authority and Lack of Dedicated Funding:* Recently the authority of the Code Council to enforce the state's building code has been challenged in at least one southern jurisdiction. The state's current budget challenges appear to have left the Code Council without funding potentially jeopardizing the building code's administrative and inspection/enforcement functions.
- *Conflicts within the building codes:* There are occasional conflicts between the International Building and Residential Codes and the Code enforced by the State Fire Marshall. These may take legislative action to resolve.
- *Lack of insurer feedback:* The Code Council has the power to amend Louisiana's building code based on experience; however, there is no good mechanism established for insurers to report wind experience to the Code Council nor does it appear that insurers maintain claims data specific enough to be of value in setting building code standards.

● **Alternative models or solutions?**

- > Texas: The residual wind insurer requires homes built after 1988 to be inspected and certified to qualify for coverage.
- > South Carolina: Tax-free savings account to pay hurricane deductible.
- > A Louisiana catastrophe fund: Is it possible and practical for Louisiana to insure its own hurricane risk? With the aid of a federal backstop? Federal action does not appear likely given current deficit concerns. There are concerns whether Florida's cat fund can cover its risk, much less the capacity of a smaller state like Louisiana.

At 12:33, with no further business to discuss, Mr. DePascual made a motion to adjourn the meeting and Senator Morrish seconded.