

Louisiana Property and Casualty Insurance Commission Full Commission Meeting

Tuesday, February 5, 2013
Louisiana Department of Insurance
Plaza Hearing Room
1:30 p.m.

Minutes

Commission Members Present: Ted Haik, Jeff Albright, Senator Dan Morrish, Representative Kirk Talbot, Raymond Aleman, Jr. (representing Raymond Aleman, Sr.), Ann Metrailler, J.E. Brignac, Jr., Kathy Otts (representing Paul Buffone), Stephen Campbell, Lou Fey, Michael Guy, Wes Hataway, Ron Henderson, Scott Landry, Lyrica Johnson (representing LTC. John LeBlanc), A.J. Herbert (representing Robert Moorman), and Chris Roy, Jr.

Commission Members Absent: Commissioner Donelon, Senator Eric LaFleur, Representative Greg Cromer, Anne Cassity, Sheriff Greg Champagne, and Earl Taylor.

Commission Staff Present: Terrell Moss and David Evans.

DOI Staff Present: Ed O'Brien, Ileana Ledet, Rich Piazza, and Darie Jordon.

The Louisiana Property and Casualty Insurance Commission (LPCIC) meeting was called to order at 1:40 p.m. by chairman Ted Haik. He welcomed commission members and guest speakers and thanked all those in attendance. Mr. Haik recognized and welcomed new commission member Mr. Louis G. Fey, Jr. as the new representative for the Professional Insurance Agents of Louisiana. Mr. DePascual, who has represented PIA for the past three and a half years, will continue as alternate.

Mr. Evans called the roll and reported a quorum present.

Mr. Joe S. Shumaker, Manager of the Mississippi Windstorm Underwriting Association (MWUA), gave a presentation on his state's residual property insurance plans. The Mississippi Residential Property Insurance Underwriting Association provides fire and extended coverage for one and two family dwellings throughout the state, with the exclusion of wind and hail coverage in the coastal counties. The MWUA provides wind and hail only coverage for residential and commercial properties in the 6 coastal counties.

Mr. Shumaker gave a general history of residual property market "beach" and FAIR plans, noting that there are 36 such plans in the U.S. His presentation focused on Mississippi's "beach" plan, the MWUA, from inception in 1972 to current status and challenges. In 2007 MWUA underwent a major reorganization marked principally by moving from member insurers, who shared annually in MWUA's profits and losses, to assessable insurers who are assessed

proportional to their direct written premium when MWUA runs a deficit. Mr. Shumaker further detailed the assessment process, rate making, reinsurance, coverage limits and underwriting requirements, post Katrina growth in exposure as further defined by territory and type, efforts to encourage the voluntary market, and wind mitigation incentives (premium credits and retrofit grant program).

Discussion followed concerning: coverage limit issues (current limit \$1million on the structure, but which can be blanketed for commercial); unique additional funding mechanism (for each property policy issued by a non-admitted insurer a 3% policy fee on the total policy premium is collected from the policyholder); clarification of assessable insurers; premium rate analysis and filing (no annual rate analysis required, to be reviewed at least every 3 years, no cap on rates, filing requires Commissioner's discretionary approval); federal and state subsidies to fund reinsurance for 4 years following Katrina; wind mitigation inspection process; and claims adjustment/payment (claims adjusted by independent adjusters under contract administered by a TPA using MWUA's policy management and claims systems. MWUA issues all claims settlement payments.).

Mr. Robert W. Groves, Secretary/Manager of the Alabama Insurance Underwriting Association (AIUA), gave a presentation on his state's beach plan. AIUA offers both full coverage and wind/hail only insurance coverage in the coastal areas of Baldwin and Mobile counties to residential and commercial property owners unable to obtain coverage in the voluntary market. Alabama has no FAIR plan. By law, all insurers licensed to write property and casualty coverage in Alabama are AIUA members and subject to assessment in the event of catastrophic loss unless otherwise exempt.

Mr. Groves provided details on AIUA's structure, funding, reinsurance and assessment program, policy profile, claims handling, producer compensation, and the dramatic and continuing policy count growth post Ivan and Katrina, as well as changes that will be implemented June 1st. These changes include an increase in the number of rating territories to better reflect risk and to allocate the cost of reinsurance, "by-peril" rating which will be disclosed on the policyholder's declaration page, and plans to make more policyholder services available online. The rate changes will result in an average decrease of 9.4%. Mr. Groves expressed concern that the average deductible and preference for actual cash value settlement coverage might make it difficult for the typical policyholder to restore his property.

Discussion included whether "by-peril" rating disclosure would result in greater understanding or confusion to the policyholder, producer compensation, coverage limits, rate making, and whether Mr. Groves had observed a similar decrease in rates in the voluntary market, which he had not.

With no further discussion, at 3:15 pm Mr. Haik called for a motion to adjourn this meeting of the LPCIC, which was offered by Mr. Albright with all members in favor.



MISSISSIPPI WINDSTORM UNDERWRITING ASSOCIATION

Joe Shumaker

RESIDUAL PROPERTY MARKET OVERVIEW AND UPDATE

BEACH PLANS



FAIR PLANS



HISTORY OF FAIR PLANS

RIOTS IN THE 1960'S

- **1965 - WATTS (LOS ANGELES), CA**
- **1967 - DETROIT - NEWARK**
- **1968 - NEW YORK - CHICAGO - WASHINGTON
- BALTIMORE**

**TOTAL ESTIMATED LOSS—OVER \$1 BILLION(2010 \$'s) -
132 PEOPLE KILLED**

- **INSURERS ANNOUNCE THEY WILL NO LONGER WRITE IN “RIOT-PRONE” AREAS**
- **PRESIDENT JOHNSON ESTABLISHES A NATIONAL ADVISORY COMMISSION – CHAIRED BY GOVERNOR KERNER -IL**

KERNER COMMISSION REPORT

- **DECIDES THAT A WELL-FUNCTIONING PRIVATE INSURANCE SYSTEM IS THE WAY TO PAY INDIVIDUALS FOR LOSSES CAUSED BY DISORDER**
- **PRESIDENT JOHNSON ESTABLISHES THE HUGHES PANEL**

HUGHES PANEL REPORT-FINDINGS

- **SERIOUS AVAILABILITY PROBLEMS IN THE PROPERTY INSURANCE MARKET - RIOTS AGGRAVATING THE SITUATION**
- **INSURANCE NECESSARY FOR HOMEOWNERS AND BUSINESSES TO REVITALIZE CITIES**
- **WHERE PROPERTY INSURANCE IS AVAILABLE, COSTS ARE PROHIBITIVE.**

HUGHES PANEL-RECOMMENDATIONS

- ESTABLISH **FAIR ACCESS TO INSURANCE PLANS** (FAIR PLANS) IN ALL STATES
- **PLANS INSPECT ALL PROPERTIES**
- **NOTIFY APPLICANT OF DEFICIENCIES AND IMPROVEMENTS TO MAKE PROPERTY INSURABLE**

CONGRESS PASSES HOUSING BILL IN 1968

- **STATES DETERMINE IF FAIR PLAN IS NEEDED**
- **IF PLAN MEETS FEDERAL REQUIREMENTS
INSURERS IN STATE ELIGIBLE FOR FEDERAL
RIOT REINSURANCE**
- **27 STATES AND DC CREATE PLANS**

FAIR PLANS

- **ALL P&C INSURERS MUST BE MEMBERS**
- **SHARE IN UNDERWRITING RESULTS**
- **RIOTS WERE OVER AS PLANS WERE BEING CREATED**
- **FEDERAL RIOT REINSURANCE PROGRAM ENDS IN 1987**
- **NO PLAN HAS BEEN ELIMINATED**

BEACH PLANS

- **AVAILABILITY PROBLEM IN SE US DUE TO HURRICANES**
- **NO FEDERAL INVOLVEMENT**
- **SET UP IN A MANNER SIMILAR TO THE FAIR PLANS**
- **ESTABLISHED IN - NC,SC,FL,AL,MS,LA AND TX**
- **TODAY THERE ARE 36 RESIDUAL PROPERTY PLANS IN UNITED STATES**

MISSISSIPPI'S RESIDUAL PLANS

- **MISSISSIPPI INSURANCE UNDERWRITING ASSOCIATION (MIUA) 1972 FOLLOWING CAMILLE**
- **CHANGED TO MWUA IN 1987 (wind & hail only)**
- **REORGANIZED BY HB1500 IN 2007 FOLLOWING HURRICANE KATRINA (no longer have Member Companies)**

MISSISSIPPI'S RESIDUAL PLANS (CONT'D)

- Mississippi Rural Risk Underwriting Association (MRRUA) established by 1987 Legislature (Residential Property Class 9 & 10)
- MRRUA changed to MRPIUA by Legislature in 2003 making it available to all protection classes (One and Two Family dwellings only)

Statutes: 83-34-1 through 83-34-39

- Before March 22, 2007 (pre-HB 1500), MWUA had member companies.
 - All companies admitted to and actually writing property insurance in Mississippi.
 - These member companies shared in MWUA's profits and losses.
 - Member companies could reduce their share of the profits and losses by voluntarily writing wind insurance in the 6 Coast counties.

What did HB 1500 do?

- Changed member companies to assessable insurers.
 - No longer any profit sharing required, so MWUA can develop and grow its funds in non-event years.
 - Previously returned profits annually.
- Requires a fee to be collected on all property policies issued by non-admitted insurers.
 - Fee is currently 3% of total policy premium for property coverage.
 - MSLA collects fee for MWUA.

What did HB 1500 do? (cont'd)

- Expanded Board of Directors to include a third agent, 2 Coast business leaders, and the State Treasurer.
 - Appointments are now made by the Governor, Lt. Governor, and Commissioner.

BOARD OF DIRECTORS

- 3 agents with at least 10 years experience
 - 2 must be residents of the Coast
 - 1 must not be a resident of the Coast
- 5 assessable insurers
 - Insurers that are authorized to write and engaged in writing property insurance within Mississippi on a direct basis.
- 2 Coast business leaders
- The State Treasurer
- **11 Board Members**

What did HB 1500 do? (cont'd)

- Assessments to the assessable insurers are triggered when MWUA determines it will have a deficit in excess of the funds that are immediately available.
- In any given year, the assessments cannot exceed the greater of 10% of the deficit or 10% of the aggregate statewide direct written premiums for property insurance in the prior calendar year.
- Assessments are recoupable through surcharges on all admitted and nonadmitted property and casualty policies in the state excluding medical, WC and self insured segments.

What did HB 1500 do? (cont'd)

- The Commissioner shall approve a rate that is at least adequate to fund annual reinsurance above a self-insured retention of \$100,000,000 that is sufficient to cover at least the PML for a 100 year storm, increasing by 5 years every 2 years.
- From fiscal year 2007 through fiscal year 2010, MWUA received \$20 million per year (\$80M) to help assist MWUA in paying for reinsurance.
- This in addition to \$80M from Katrina Funds

Plan of Operation

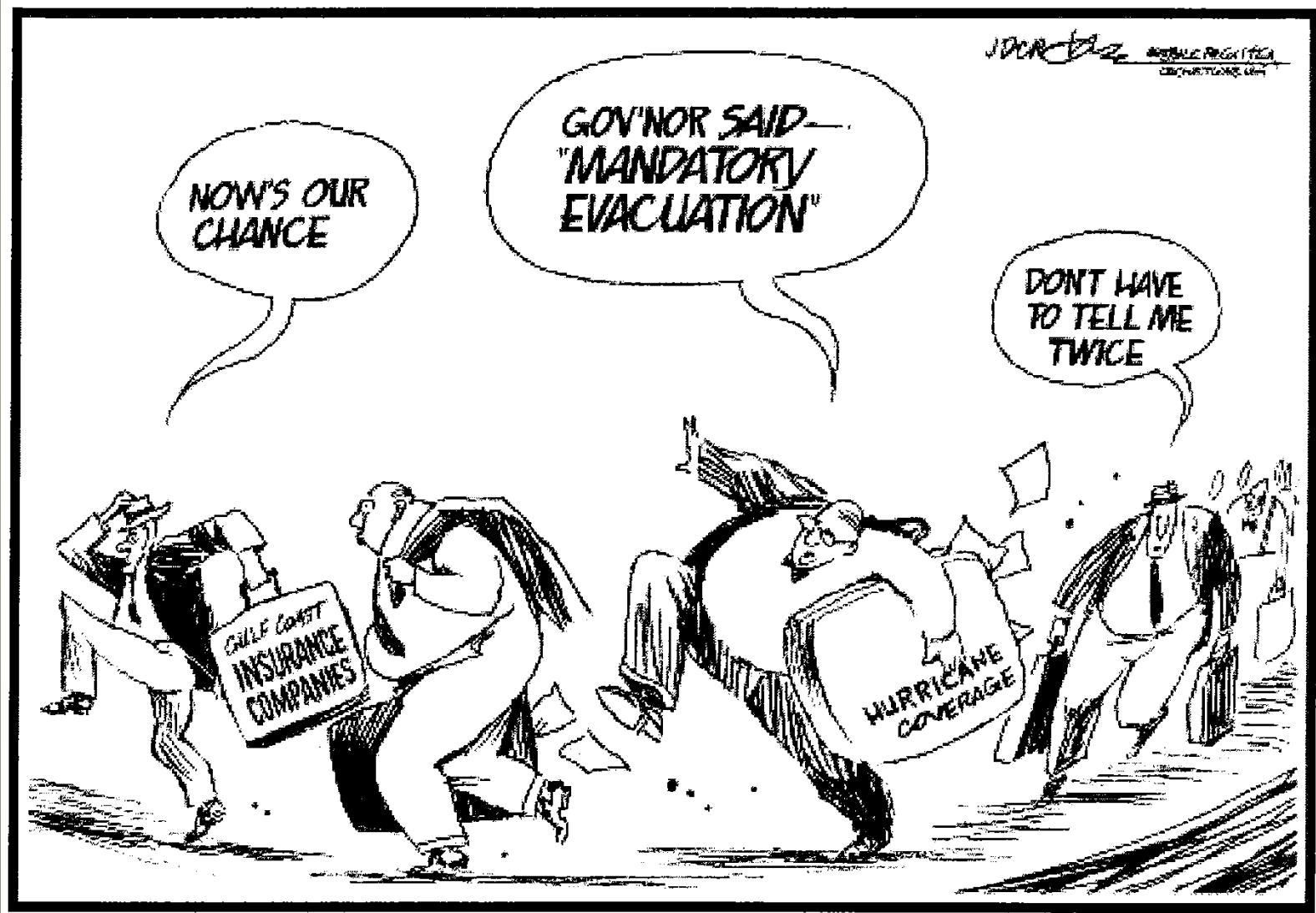
- Required by Section 83-34-13 to address certain issues:
 - Incentives/penalties to encourage voluntary market
 - Deductible options w/rate reductions
 - Geographic zones for rating
- Must be approved by the Commissioner.
- Outlines relationship between MWUA and assessable insurers

Plan – Key Provisions

- Encouraging the voluntary market is important to the Board.
 - Plan reduces recoupment based on insufficient voluntary writings.
 - To receive 100% of its assessment back, a company must have voluntary writings that equal at least 10% of its total statewide property premiums.
 - Recoupment is reduced pro rata and is forfeited if less than 1% voluntary coastal writings

What Causes Residual Market Growth?

CARRIER EVACUATION

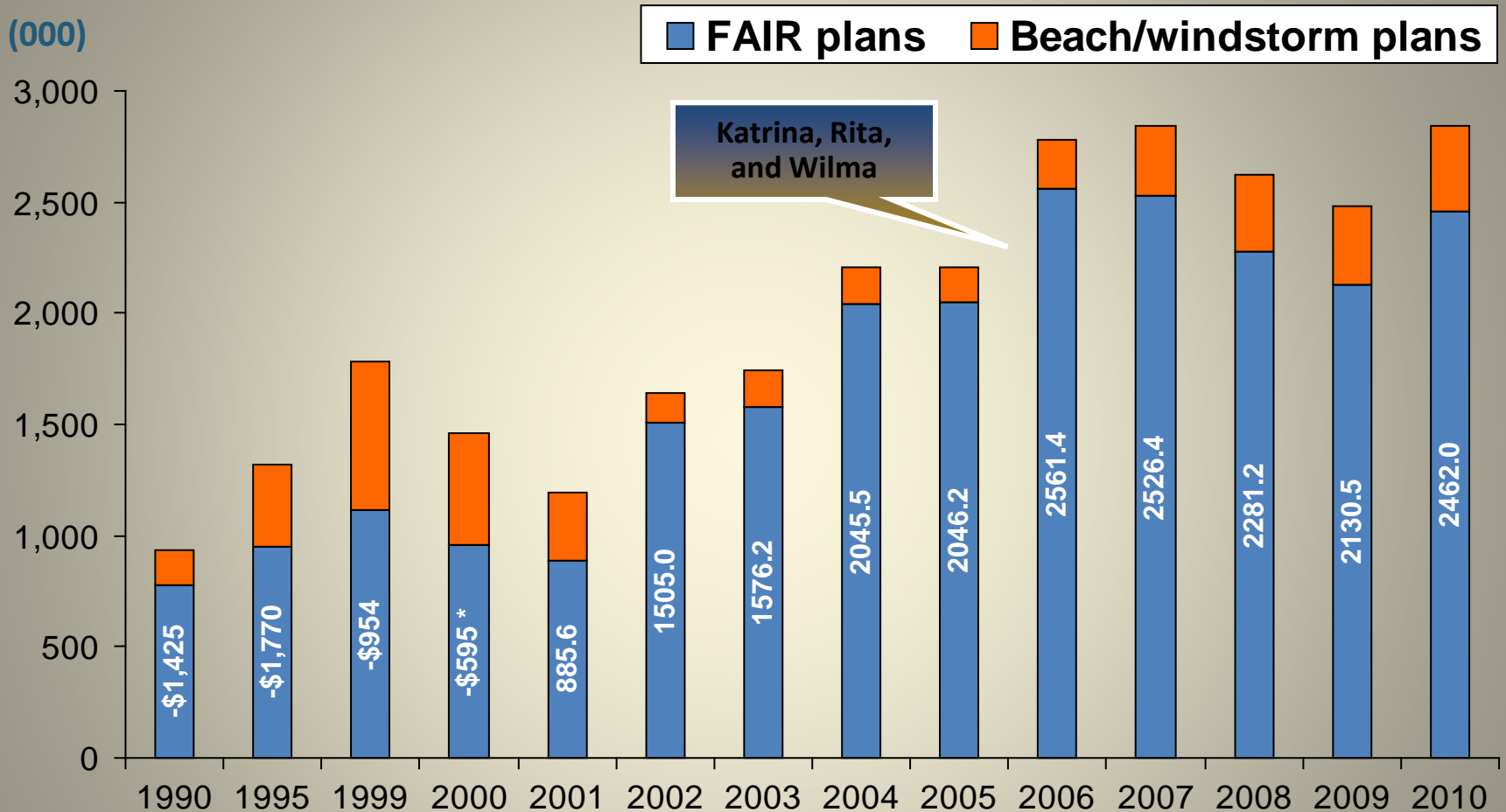


FAIR and Beach Plan Written Premium - Top 10 States

(Dollars in Thousands As of December 2011)

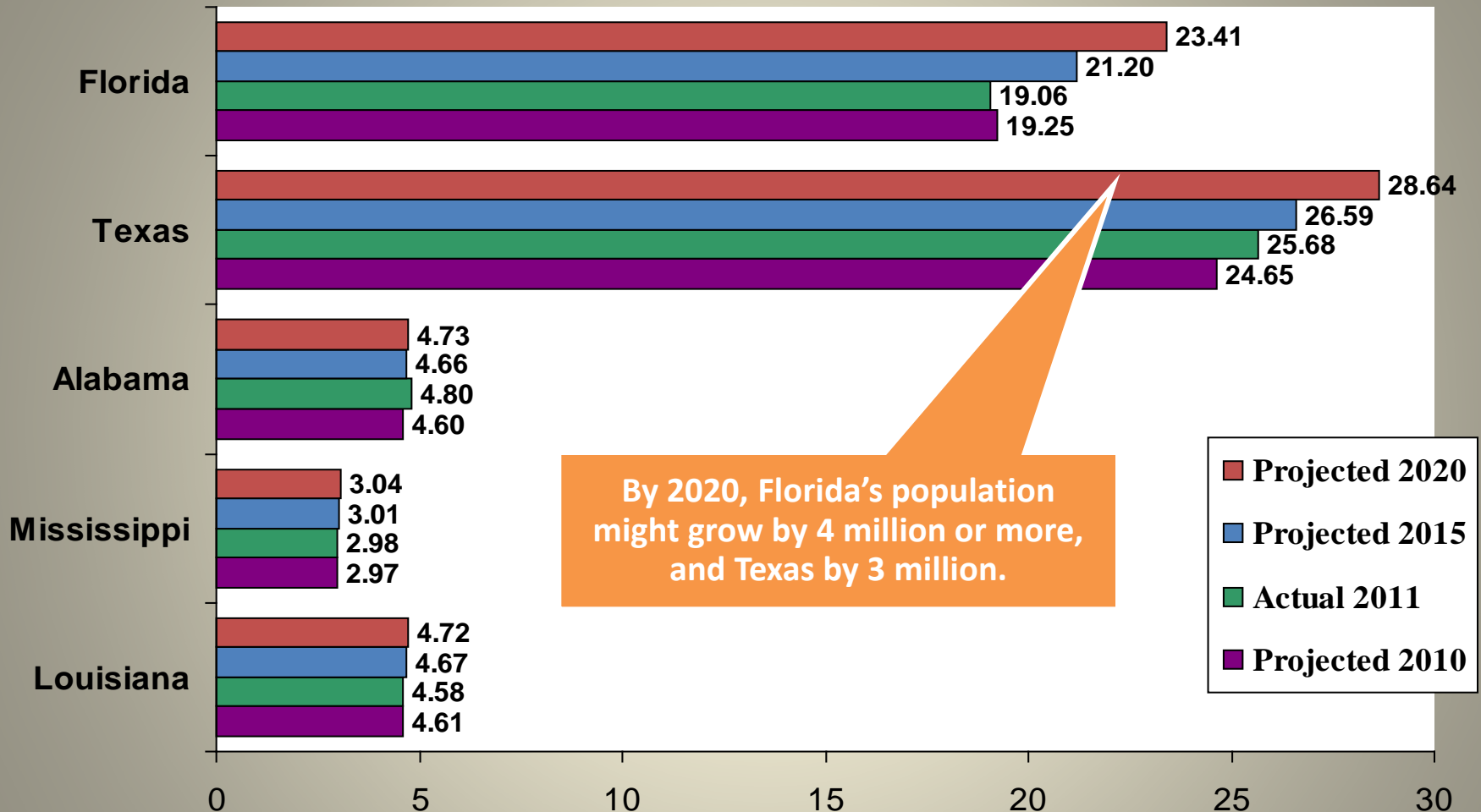
Rank	State	2012 Premium	2011 Premium	2010 Premium	Policy Count	Exposure (In Billions)
1	Florida		\$3,084,342	\$2,604,265	1,503,744	460.7
2	Texas		\$407,482	\$385,550	265,970	67.4
3	North Carolina		\$333,000	\$305,885	189,190	68.6
4	Massachusetts		\$282,182	\$283,010	215,570	77.6
5	Louisiana		\$197,175	\$209,946	160,998	23.9
6	South Carolina		\$97,433	\$97,127	48,086	17.4
7	Mississippi	\$75,500	\$79,558	\$79,082	46,546	7.1 7.0
8	California		\$64,208	\$65,304	141,819	41.3
9	Alabama	45,000	\$38,553	\$37,769	18,865	3.3 5.2
10	New York		\$35,254	\$35,735	58,950	14.2

U.S. Residual Market: Total Policies In-Force, 1990-2010



In the decade of the '90s, the number of residual market policies in-force grew by 850,000. In the decade of the '00s, it grew by 700,000. In the first year of the current decade, in-force policies grew by 400,000. Maybe another half million by 2019?

Gulf Hurricane-Exposed States: Population (7/1/2011) and Growth Projections to 2020*



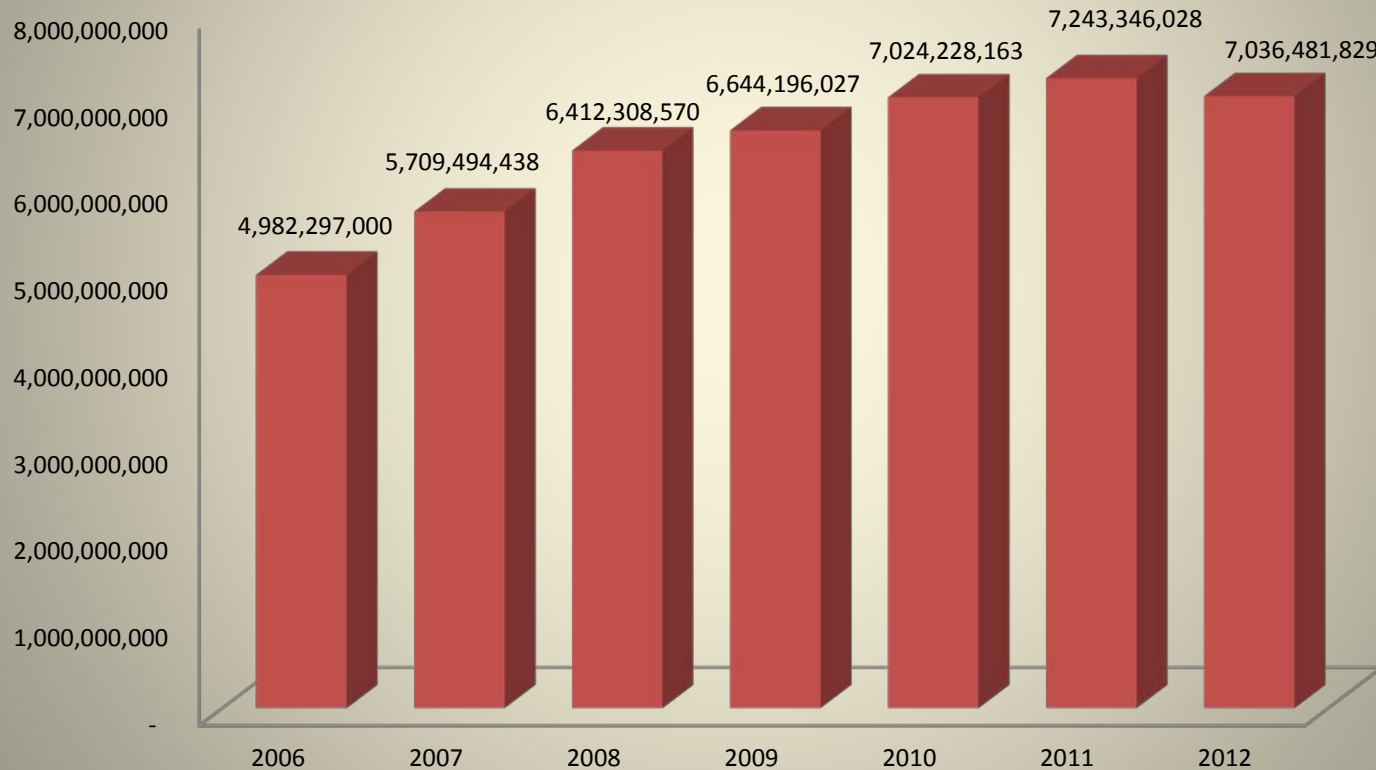
Projecting populations is tough. In 2005 the Census Bureau's 2011 projections **overestimated** the Florida population (by $\frac{1}{4}$ of a million) and **underestimated** the Texas population (by 1 million).

*Latest growth projections were published in April 2005 and were based on the 2000 census.

Source: U.S. Census Bureau, accessed at <http://www.census.gov/population/projections/PresTab1.xls>

MWUA Historical Limits in Force

**Limits in Force
(as of 10/31/2012)**

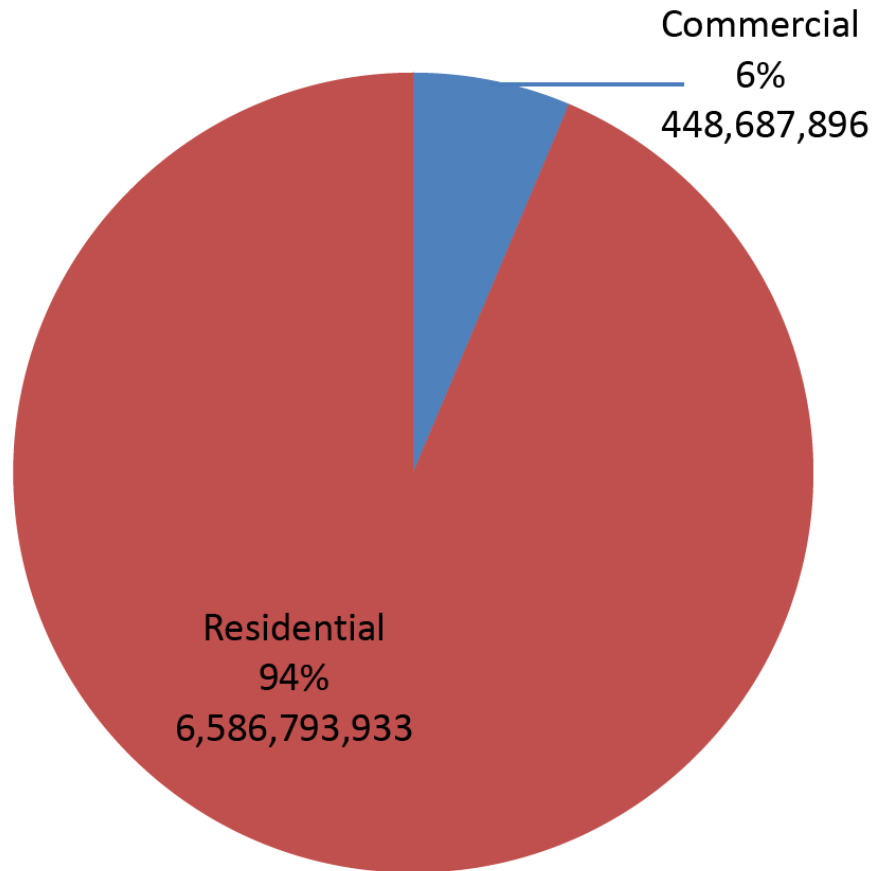


Katrina 2005 Limits were 1.8B

MWUA

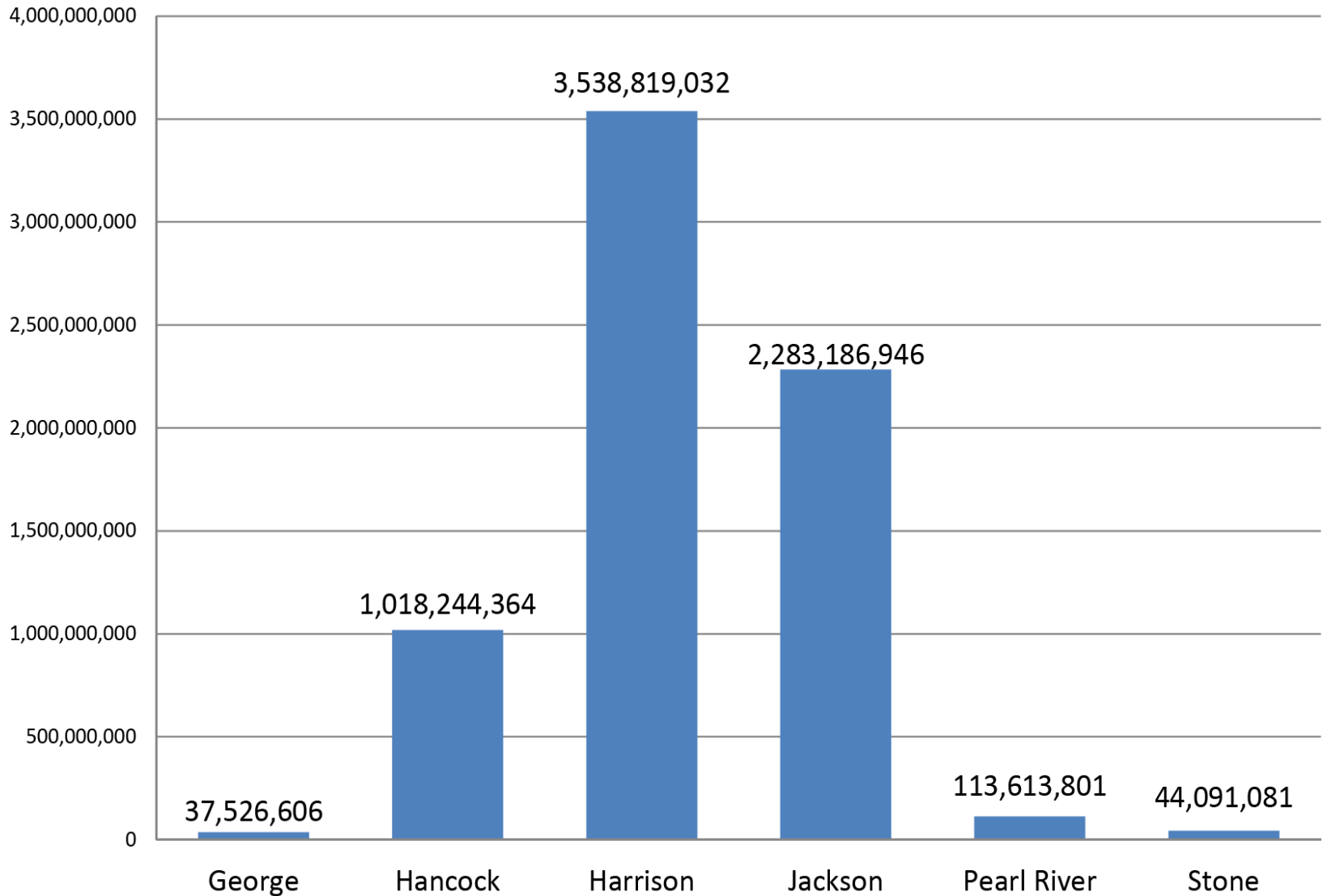
Limits by Occupancy

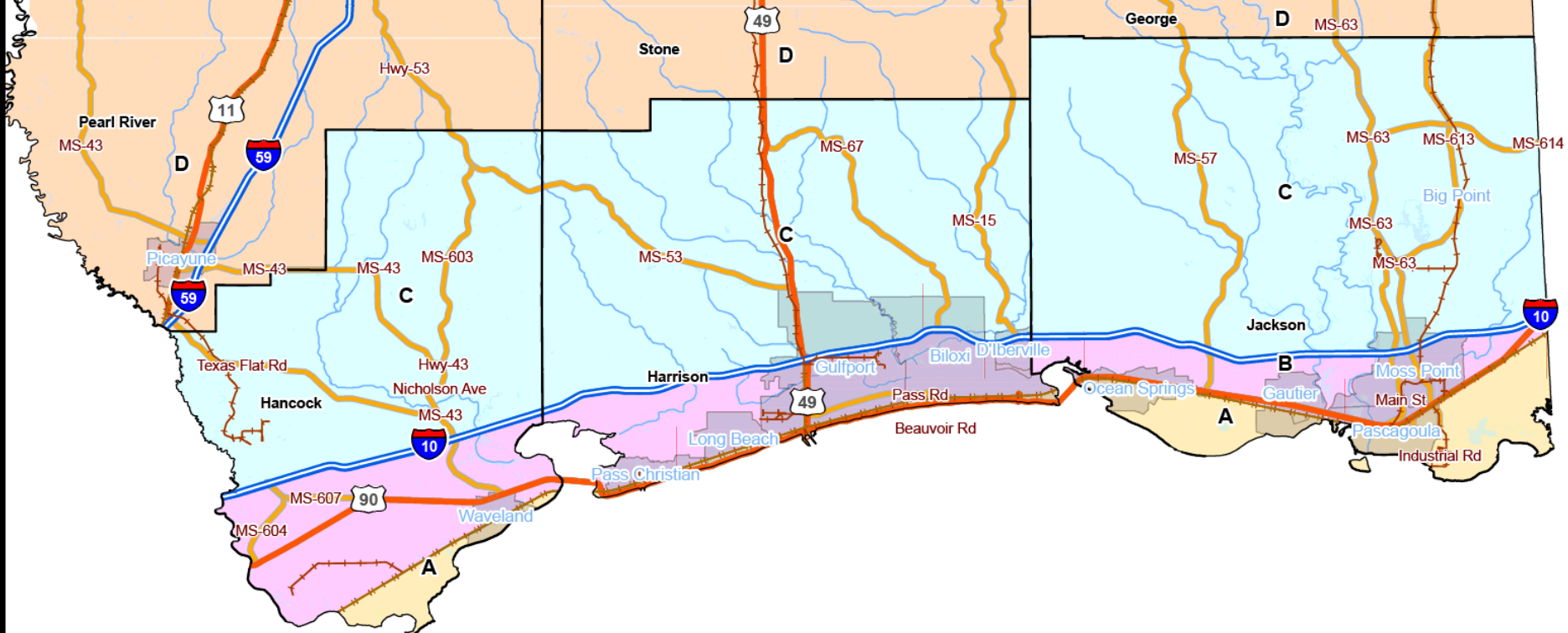
(as of 10/31/12)



Limits by County

(as of 10/31/12)



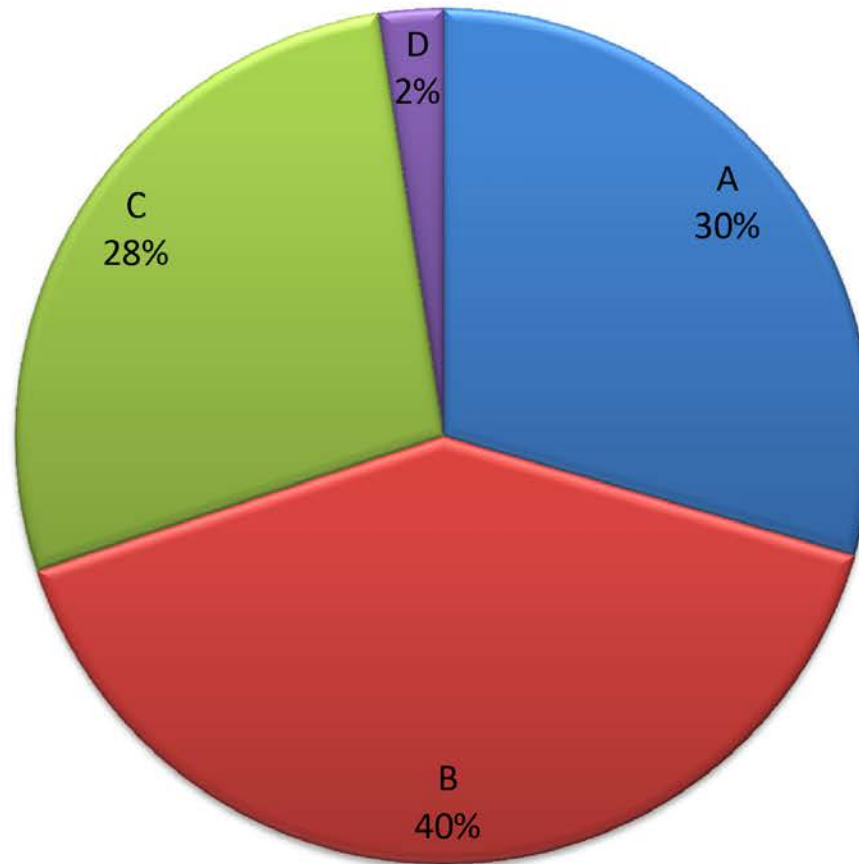


LEGEND

- TERRITORY D
- TERRITORY C
- TERRITORY B
- TERRITORY A

Limits by Rating Zone

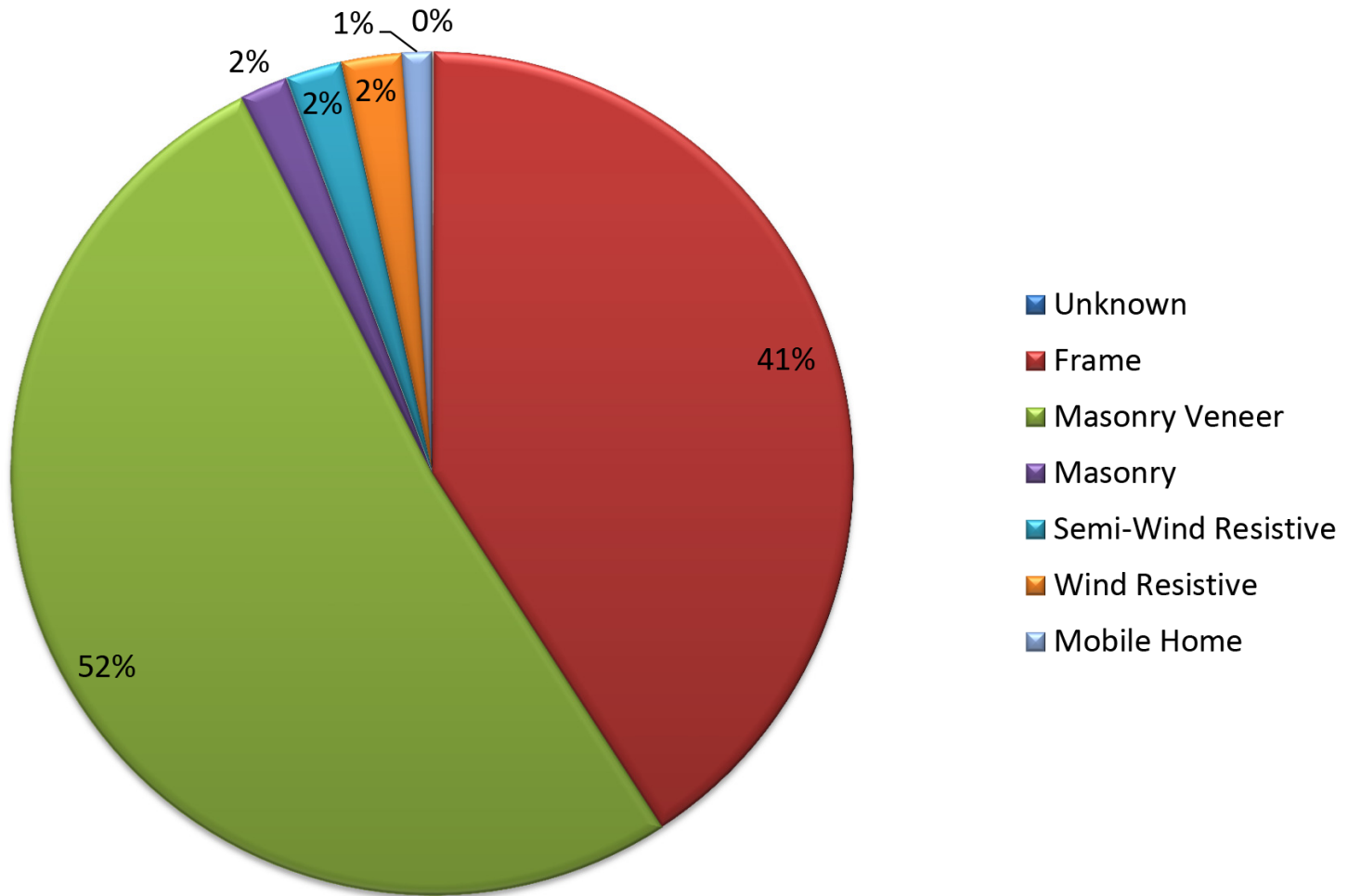
(as of 10/31/12)



MWUA

Limits by Construction

(as of 10/31/12)



Underwriting and Policy Highlights

1. Max. Bldg limits =1million (Residential & Comm)
2. Dwellings allowed additional \$250K contents
3. Blanket coverage provided for Commercial risks
4. Proof of flood coverage for any risk in A or V zones
5. Optional Named Storm Deductibles
6. Fully earned Premium for Unapproved Cancellations

¹ "Named Storm" means a storm system that has been named by the National Hurricane Center of the National Weather Service.

(c) Optional Named Storm¹ Deductible for Dwelling, including Farm Dwelling (One through Four Family and tenant occupied multi-unit dwelling complex) Mobile Homes and Manufactured Homes and commercial properties:

*Note: (Section III 6. Renewals B) Deductible may only be changed at the renewal of that policy.

5% Form Miss No 6012-5 (10-07)	.87
10% Form Miss No 6012-10 (10-07)	.78
15% Form Miss No 6012-15 (10-07)	.71
20% Form Miss No 6012-20 (10-07)	.65

Underwriting and Policy Highlights (Cont'd)

D. FULLY EARNED PREMIUM: The premium will be fully earned unless the policy is cancelled for one of the following reasons. These cancellations will be cancelled pro-rata.

1. Total Loss
2. Property is sold
3. Coverage is placed in the "Voluntary Market"
4. Business has ceased operations

For policies that cancel for any other reason the full policy premium is considered earned and must be paid before the policy can be renewed or a new policy is issued for the same insured at same location.

Claims Overview

1. MWUA Claims Manager
2. Claims Administrator – Boulder Claims
 - Since 2007
3. Multiple contracts with IA's, scalable POD's
4. Isaac best test of Cat plan since Katrina
5. Isaac resulted in 3,014 claims
 - 2,951 have been closed
 - Approx. \$8.5M in losses and LAE

HOW DO WE GET CARRIERS BACK IN THE COAST MARKET?

- ADEQUATE PRICE FOR PRODUCT BEING DELIVERED
- IMPROVE RISK AND REDUCE LOSSES
 - MITIGATION
 - LAND USE PLANNING
- MAINTAIN A BUSINESS FRIENDLY ENVIRONMENT
 - FAIR COURTS
 - STABLE STATE REGULATORY SYSTEM

HOW DO WE GET CARRIERS BACK IN THE COAST MARKET?

ADEQUATE PRICE FOR PRODUCT BEING DELIVERED

- How do MWUA rates affect adequate price for the private market?
- Customer market resistance
- Federal and State grants to the MWUA
- The status of rate analysis

HOW DO WE GET CARRIERS BACK IN THE COAST MARKET?

IMPROVE RISK AND REDUCE LOSSES

- WHAT IS WIND MITIGATION ?
 - WIND RESISTANT NEW CONSTRUCTION
 - WIND RESISTANT RETROFIT
- Fortification - Julie Rochman, IBHS

HOW DO WE GET CARRIERS BACK IN THE COAST MARKET?

HOW DOES MWUA PROMOTE WIND MITIGATION ?

- BCEGS
- WIND RESISTANT BUILDING CREDITS
 - RETROFIT
 - NEW CONSTRUCTION

HOW DO WE GET CARRIERS BACK IN THE COAST MARKET?

- Building Code Effectiveness Grading Schedule
- BCEGS creates demand for building code and enforcement
- BCEGS develops classifications of 1 thru 10 for a community based on the adequacy of its building code and the effectiveness of its enforcement of that code.

HOW DO WE GET CARRIERS BACK IN THE COAST MARKET?

CLASS		1	2	3	4	5	6	7	8	9
COUNTIES										
HANCOCK HARRISON JACKSON		.30	.25	.25	.20	.20	.15	.15	.10	.10
PEARL RIVER STONE GEORGE		.15	.10	.10	.08	.08	.06	.06	.03	.03

HOW DO WE GET CARRIERS BACK IN THE COAST MARKET?

MWUA RETROFIT WIND BUILDING CREDITS

Group A Roof System/ Surface (17% credit)

Group B Opening Protection (6% credit)/Engineered (8%)

Group C Site Hazards (5% credit)

IBHS Fortified for Safer Living and Existing Homes

New Fortified for Safer Living Home = 40% credit

IBHS Bronze = 17%

IBHS Silver = 25%

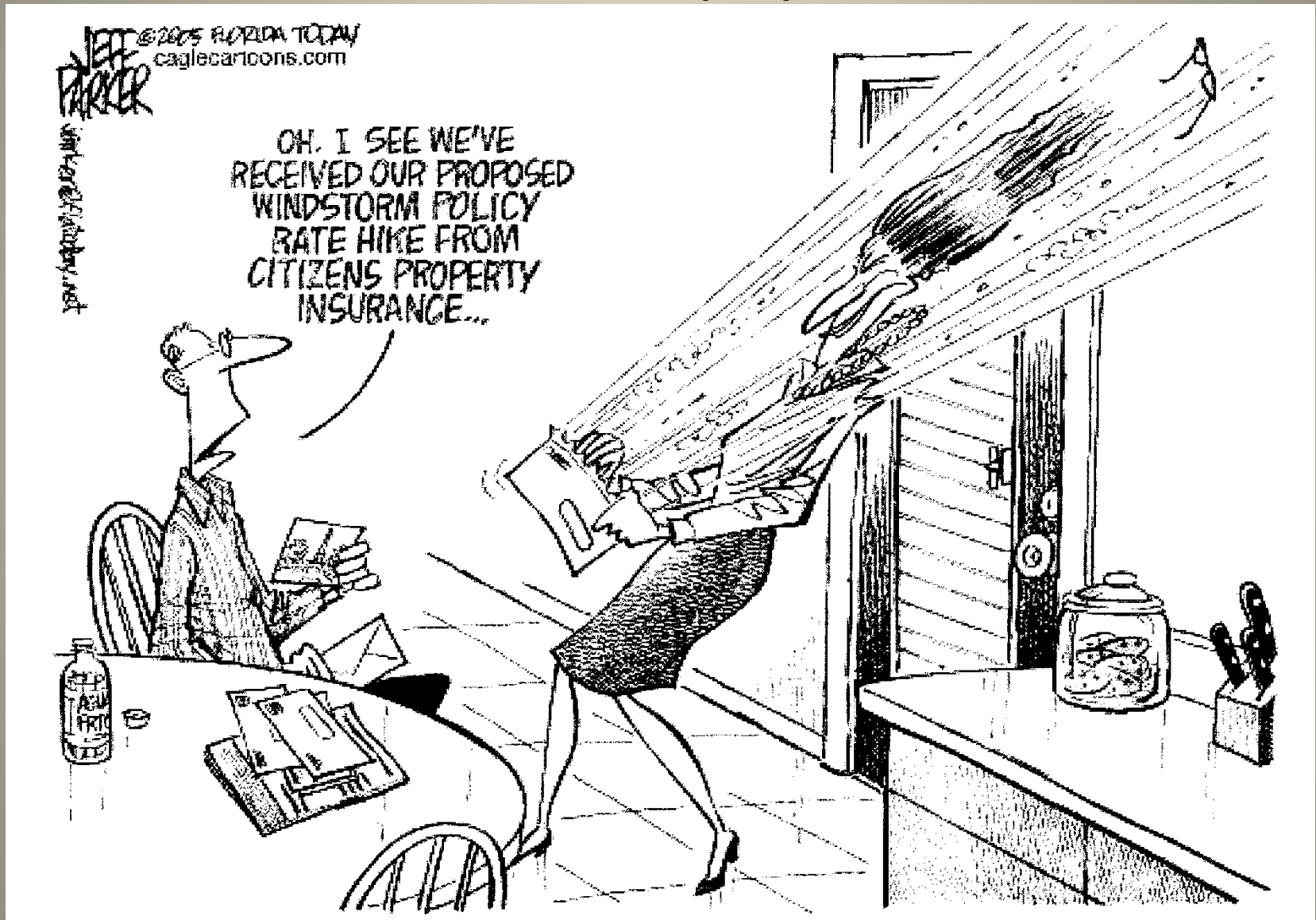
IBHS Gold = 30%

HOW DO WE GET CARRIERS BACK IN THE COAST MARKET?

IMPROVE RISK AND REDUCE LOSSES

- OTHER WIND MITIGATION EFFORTS
 - WIND MITIGATION COUNCIL
 - WIND MITIGATION GRANT PROGRAM
 - HB 1410 - REQUIREMENT FOR WIND MITIGATION CREDITS
 - Effective July 1, 2013
 - COASTAL LIASON IN 2013

Rates - the primary factor in determining Growth or Depopulation



PREMIUM HISTORY OF EXAMPLE HOUSE

Frame Construction

\$100,000 value

\$1000 non-named storm deductible

5% named storm deductible

Located south of I-10 in Biloxi – Rating Zone B

Built after 2000 - BCEGS score 4



WIND POOL RATES

- PRIMARY DRIVER IS THE COST OF REINSURANCE

MWUA REINSURANCE \$815 million

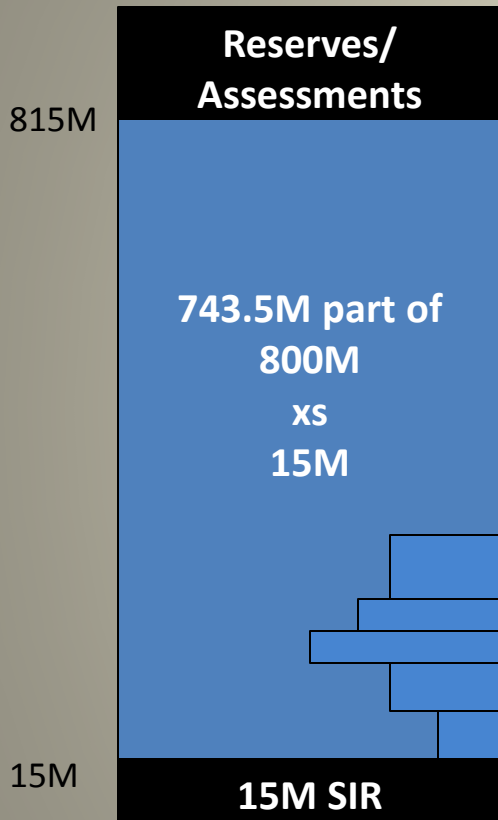
too much? too little? just right?

\$800 million = 110 PML – blended cat models

How big will the next storm be?



2012 Reinsurance Placement



	2012 Placement
SIR	\$15,000,000
Program Exhaustion	\$815,000,000
MWUA Co-Insurance (2 nd Event Covers in Place)	\$56,500,000
Total Limits Purchased	\$743,500,000
Limits in force at 10/31	\$7,243,346,028

Mississippi Windstorm Underwriting Association

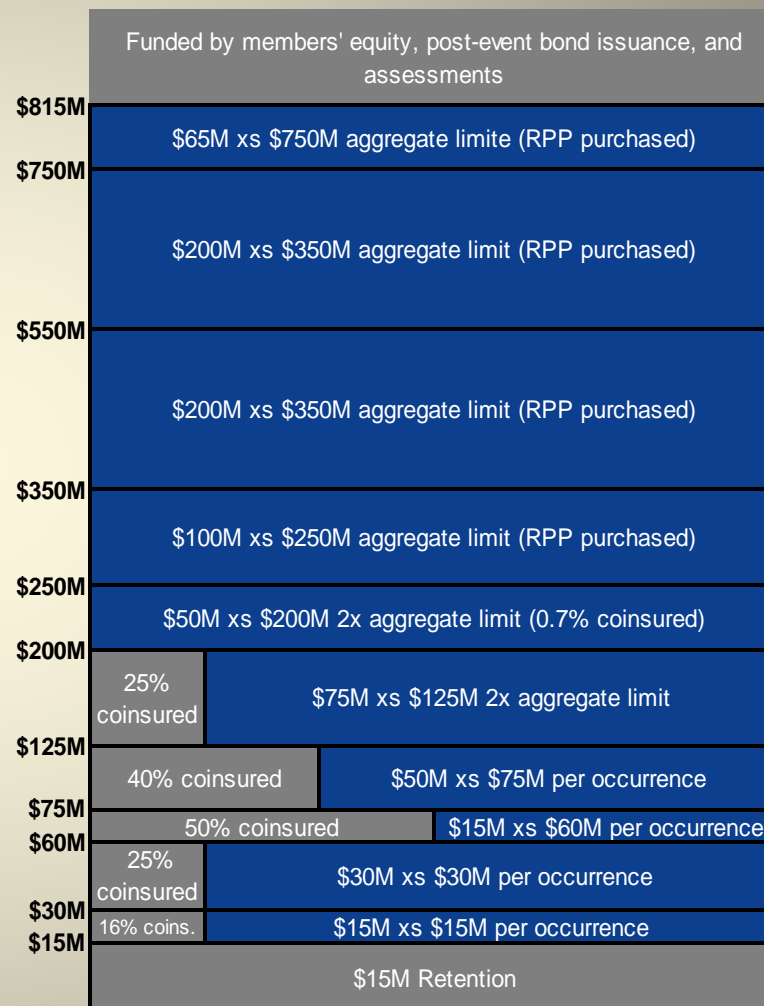
Overview of Risk Financing Structure

Key Figures

- Members' Equity: \$156.05M (as of 12/31/10)
- Reinsurance Program
 - Retention: \$15M
 - Exhaustion: \$815M
- Return Periods*
 - 100 year PML: \$650M
 - 250 year PML: \$1.13B

(Total Retention \$71.5M inclusive of \$15M SIR)

2012 Risk Financing Structure



*Return Periods are a blend of RMS v11 stochastic and historical views and AIR v13 WSST standard view based on limits in force as of 10/31/11.
 Source(s): MWUA website (<http://www.msplans.com/mwua>), GC Broking Team

WHERE DOES THE MONEY COME FROM TO PAY LOSSES?

MWUA RESERVES \$200 million approx.

MWUA REINSURANCE \$815 million approx.

 MWUA Self Insured \$71.5 million

Temporary loan from carriers

Bonds to be repaid by **surcharges on policyholders**

THANKS FOR YOUR ATTENTION!!

QUESTIONS ???

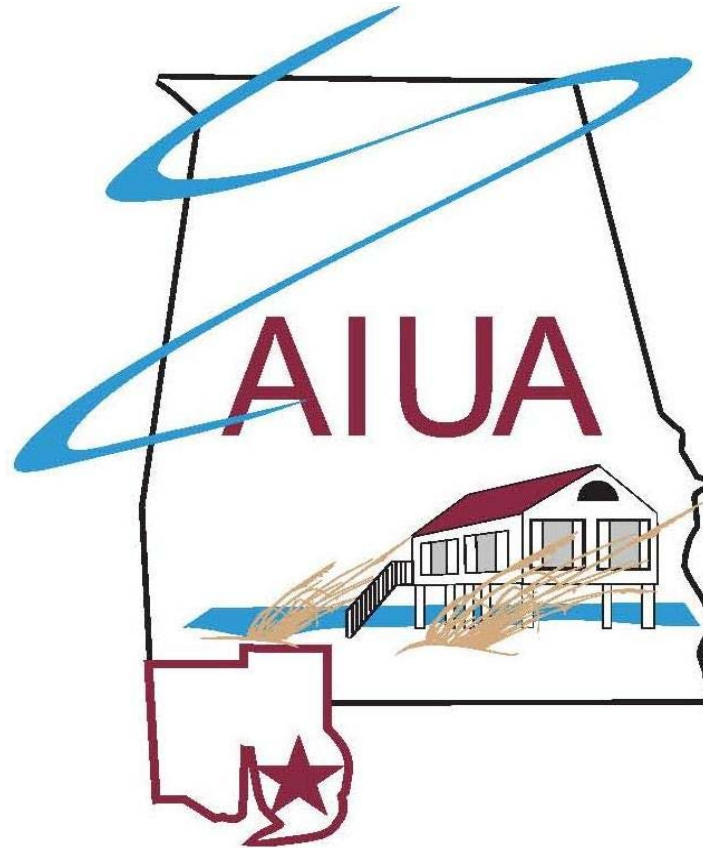
CONTACT INFORMATION

WWW.MSPLANS.COM

PHONE: (601) 981-2915

FAX: (601)981-2924

Alabama Insurance Underwriting Association



■ **Established in 1971 by order of Commissioner of Insurance regulation 482-1-052-.02**

482-1-052-.02 Purpose- A Plan known as the Alabama Insurance Underwriting Association is hereby established as a result of a demonstrated need to provide an equitable method whereby adequate fire and extended coverage insurance may be made available in the “Beach Area” of Alabama. The Plan shall provide for the establishment of a “Pool” of all licensed insurers writing fire and extended coverage insurance in Alabama, for the purpose of insuring those eligible risks not written on a voluntary basis.

Recommendations of the various segments of the property insurance industry shall be taken into consideration in the promulgation of the plan. The Plan of Operation and the Articles of Agreement, along with any revisions thereto, shall be submitted to and approved by the Commissioner before the effective date thereof. A copy of the approved Plan of Operation and Articles of Agreement, together with any approved revisions thereto, will be maintained for public inspection in the Department of Insurance

■ Codified by Legislative Act 2008-392

- Act # 2008-392 signed by Governor Riley on May 16, 2008
 - Effective November 1, 2008
 - Codifies existing A.I.U.A. Plan of Operation
 - Authorizes A.I.U.A. Board of Directors to retain surplus, borrow money, issue bonds

■ Purpose of AIUA

- Provide essential property insurance in eligible coastal areas of Baldwin and Mobile counties to owners of insurable property who are unable to obtain coverage in the voluntary market.

■ Who are Association Members?

- All licensed insurers writing P&C coverage insurance in Alabama
- Current Members
 - 485 Companies
 - 329 Exempt from participation
 - 306 write no P & C in AL
 - 156 Companies are subject to assessments ranging from .0001% up to 19.5546%
 - 69 Companies report voluntary written premium in eligible areas
 - 23 voluntarily write sufficient coastal property to be exempt from AIUA assessments

■ How is Association Administered?

- Board of Directors
 - Member companies elect 9
 - Commissioner of Insurance appoints 2
- Board appoints a Manager
- Board/Manager determine Plan of Operation
 - Scope
 - Rules
 - Forms
 - Rates
- Commissioner of Insurance approves Plan of Operation
- Manager implements/administers Plan

■ How is Association Funded?

- Written Premiums
- Operating Budget developed annually by AIUA Manager
 - Board approves Operating Budget
 - NOTE: AIUA operating expense (excluding reinsurance) is under 20% and that includes the 3.6% premium tax AIUA pays each year.

■ How are Losses paid?

- Earned Premiums
- Member Surplus
 - Approximately \$50M
- Line of Credit*
 - \$35M
 - Temporary funding while awaiting receipt of assessments
- Assessments from Member companies (Catastrophe funding)
 - Assessment based on Participation Percentage as calculated by AIUA
- Reinsurance

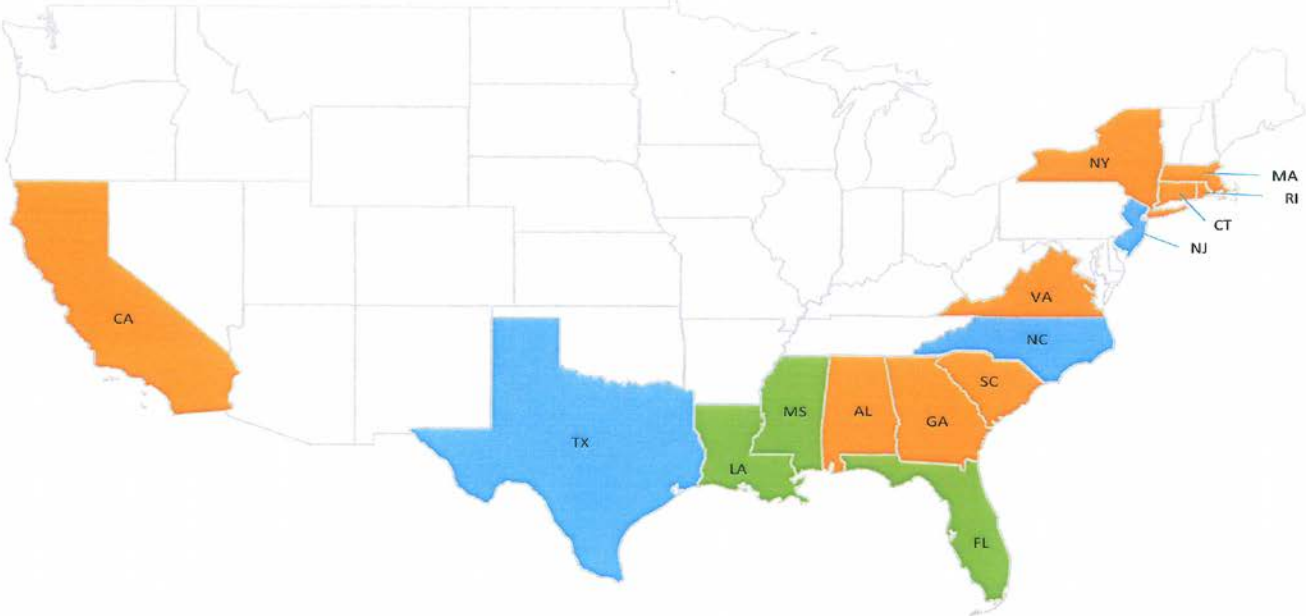
■ Assessments

- In the event of a CAT:
 - Review initial loss reserves
 - In conjunction with Reinsurance Broker, analyze Expected Loss
 - Recommend Initial Assessment
 - AIUA Board Approval
 - Assess Member Companies
 - Participation Percentage
 - Unlimited \$\$\$ Amount
 - Initial Assessment limited to \$2M per Company
 - 20 days to remit
 - Penalty for failure to remit
 - Never had any company unwilling or unable to remit

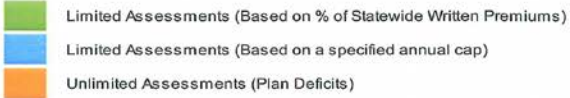
Assessments

NAIC	companyname	percent	A.M. Best Rating
5	ALFA INSURANCE GROUP	19.5546%	A+
3548	TRAVELERS INSURANCE GROUP	15.9639%	A+
8	ALLSTATE INSURANCE GROUP	15.7361%	A+
280	AUTO-OWNERS GROUP	7.8352%	A++
20966	COTTON STATES MUTUAL INSURANCE CO.	6.0567%	A+
361	AMERICAN MODERN INSURANCE GROUP	2.1376%	A+
21482	FACTORY MUTUAL INSURANCE CO	1.8669%	A+
91	HARTFORD INSURANCE GROUP	1.8488%	A
25127	STATE AUTO PROPERTY & CASUALTY INSURANCE CO.	1.7304%	A
12	CHARTIS U.S. (FKA AMERICAN INTERNATIONAL GROUP	1.5917%	A
140	NATIONWIDE INSURANCE GROUP	1.3708%	A+
18058	PHILADELPHIA INDEMNITY INS. CO.	1.3581%	A+
303	GUIDEONE INSURANCE	1.1556%	A
253	HARLEYSVILLE INSURANCE GROUP	1.1173%	A
35300	ALLIANZ GLOBAL RISKS US INSURANCE COMPANY	1.1107%	A+
111	LIBERTY MUTUAL GROUP	1.0537%	A
	Above listed Companies would be responsible for over 80% of any assessment----->	81.49%	

Assessment Mechanism for Member Companies



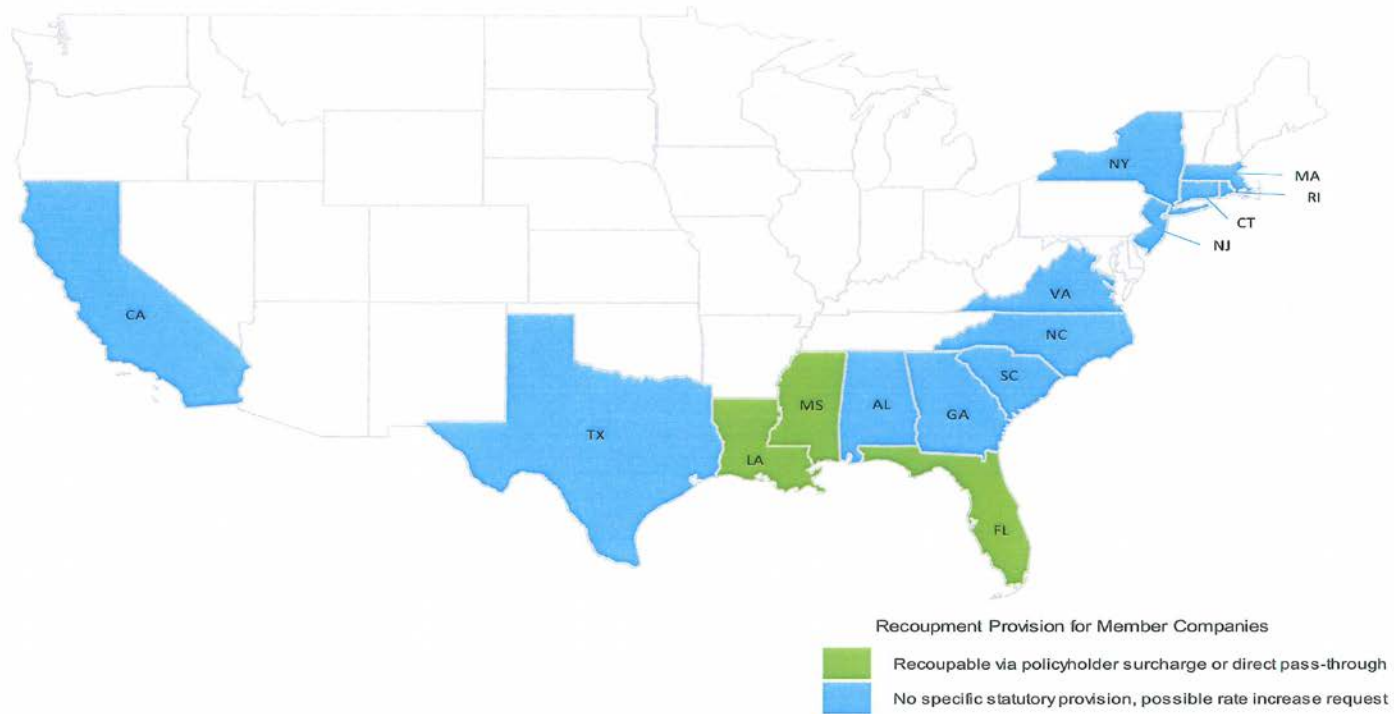
- TWIA cap is \$800m of maximum bonding liability a year. TX FAIR Plan unlimited
- NCIUA cap is \$1b a year. NC FAIR Plan unlimited
- Limits assessment of member companies to \$35 million. Reimbursement for losses in excess of \$35 million provided by New Jersey Development Fund
- CA FAIR Plan unlimited; CEA has limited assessments based on a specified annual cap



Proprietary & Confidential



Assessment Recoupment Provision for Member Companies



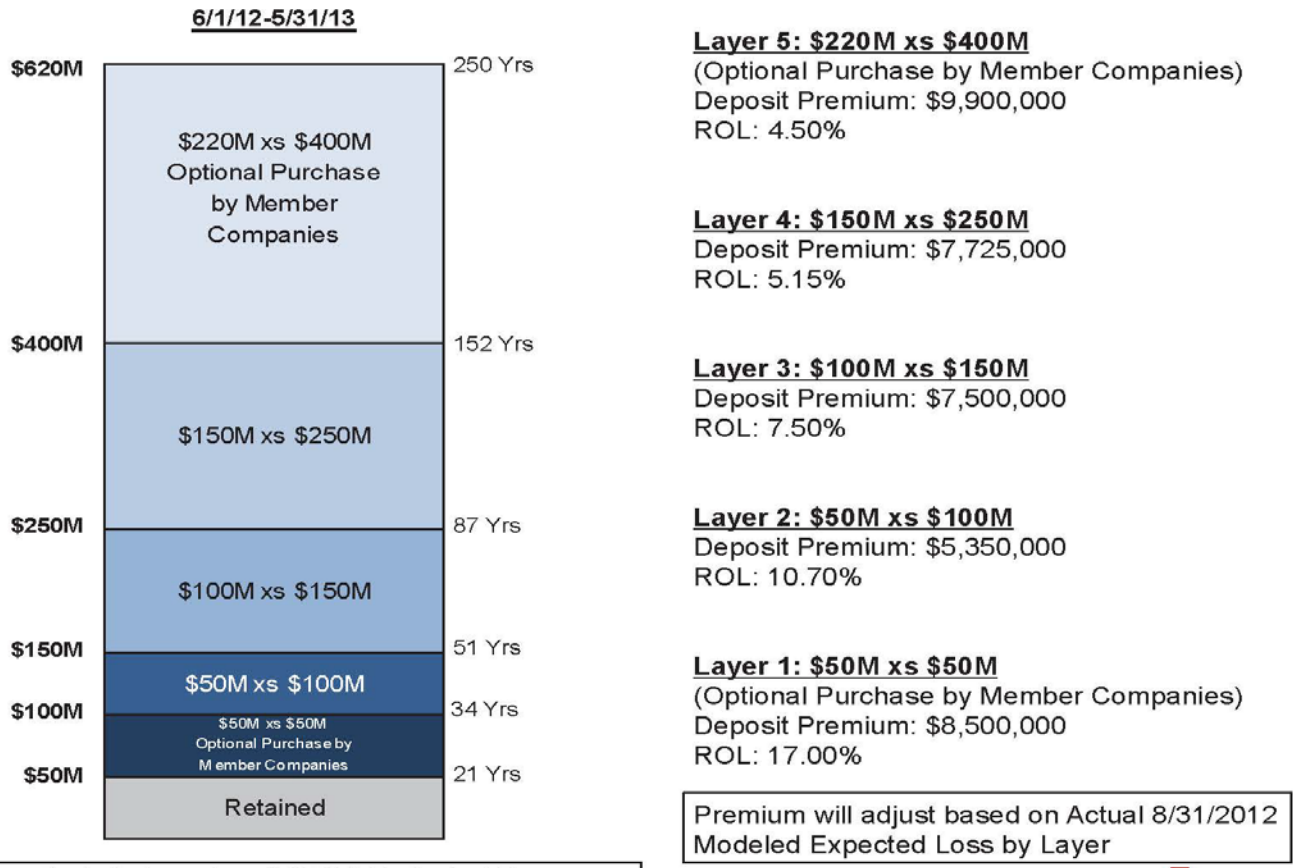
- TX status reflects recoupment provision for TWIA only. Member assessments from TX FAIR are recoupable via policyholders premium surcharges

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Reinsurance Structure



Return Periods based on 8/31/12 Projected Exposures

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■ How Are Claims Handled?

- Written Agreements in place to ensure that sufficient number of claim adjusters will be available to handle a 100% “hit” to AIUA policyholders.
 - All Adjusters must be licensed in Alabama
 - All Adjusters must have a minimum of 2 years experience
 - All Adjusters must be FEMA “flood certified”
 - All Adjusters must be registered with AIUA
- Pilot Catastrophe Services
- Allied American Adjusters
- Fountain Group
- Coggin Claims Service
- Shaffer-Wood & Associates

■ Claims

- AIUA Claims System
 - AIUA/Pilot CiC Claims Platform
 - AIUA licenses use of Pilot CiC Claims Processing Software
 - AIUA Policy Data Fully Integrated into Pilot CiC program
 - Updated daily
 - All Authorized Claim Vendors/Adjusters must use Pilot CiC program to process AIUA claims

■ Claims

- AIUA Claims Call Center
 - Pilot Catastrophe staffs AIUA Claim Call Center
 - Located in Hudson, OH
 - Back up office in Mobile, AL
 - 24/7 during and after CAT
 - Pilot takes first notice of loss (FNOL)
 - Verifies valid policy
 - Documents policyholder contact info
 - Assigns severity grade to loss based on insured's description of loss
 - Initial Loss Reserves Established
 - Reports Loss to AIUA electronically via Pilot CiC and e-mail notification

■ Claims

- AIUA Claims Department
 - Assigns Claim to Claims Vendor
 - Individually
 - Bulk
 - Claims Vendor assigns to an authorized adjuster
 - Must attempt initial contact with claimant within 24 hours
 - Scopes loss and makes reserve recommendation
 - Documents ALL damage (covered and non-covered)
 - Completes Loss Adjustment Process and submits reports with recommendations electronically via Pilot CiC and E-mail
 - Claim Review
 - Pilot Claims Supervisors review claim to determine:
 - Adjusted in accordance with AIUA Rules/Procedures
 - Properly documented
 - Submits to AIUA Claims Mgr with recommendations
 - AIUA Claims makes final decision
 - AIUA Claims Mgr reviews claims \$15,000 or more
 - AIUA Claims Staff reviews claims less than \$15,000
 - Pay claim
 - Deny claim

■ New Business

● New Applications

- Plan Year 2007-2008 – 3,321 (277/mo)
- Plan Year 2008-2009 – 5,613 (468/mo)
- Plan Year 2009-2010 – 6,910 (568/mo)
- Plan Year 2010-2011 – 7,725 (643/mo)
- Plan Year 2011-2012* – 6,598 (599/mo)

* September 2012

■ Renewal Retention

- Plan Year 2006-2007 – 90.0%
- Plan Year 2007-2008 – 86.0%
- Plan Year 2008-2009 – 87.0%
- Plan Year 2009-2010 – 88.0%
- Plan Year 2010-2011 – 87.0%
- Plan Year 2011-2012 - 91.0% (September 2012)

■ Average Monthly PIF Increase

- Plan Year 2007-2008 – 128
- Plan Year 2008-2009 – 326
- Plan Year 2009-2010 – 371
- Plan Year 2010-2011 – 369
- Plan Year 2011-2012 - 297 (as of September 2012)

■ Growth Forecast 2012 - 2013

- Modified Straight-line Average using “City” level data
 - Apply Confidence Factor of .90 to Premium Forecast
 - Adjust For Rate Indication
- PIF – 30,394
- WP- \$47.1M (Budget based on \$45M)
- TIV - \$5.2B

■ Average Limits & Deductibles

Personal Lines

Hurricane:	Coverage A	Coverage C Contents or Personal	Total	Deductible (Named Storm)	Percent of Cov A			Avg Premium
	Home	Property			Dec 11	Dec 10	Dec 09	Dec 11
Zone 1	159,552	27,820	187,372	10,048	6.3%	6.0%	5.7%	3,539
Zone 2	167,452	31,620	199,072	10,075	6.0%	5.9%	5.6%	2,274
Zone 3	124,830	27,901	152,731	6,853	5.5%	5.2%	4.6%	1,360
Zone 4	143,447	34,362	177,809	7,056	4.9%	4.8%	4.4%	1,096

US \$ in Ones

- Potential to offer lower deductibles at actuarially sound rates
- In-depth Deductible Relativity study completed by Aon Benfield

■ Policy Types

- 99.6% Residential
 - 66% Owner Occupied – Primary
 - 12% Owner Occupied – Seasonal/Secondary
 - 15% Tenant non-Seasonal
 - 7% Tenant – Seasonal
- 81% of the Residential Property insured by AIUA is occupied by residents who live and work in Baldwin and Mobile counties

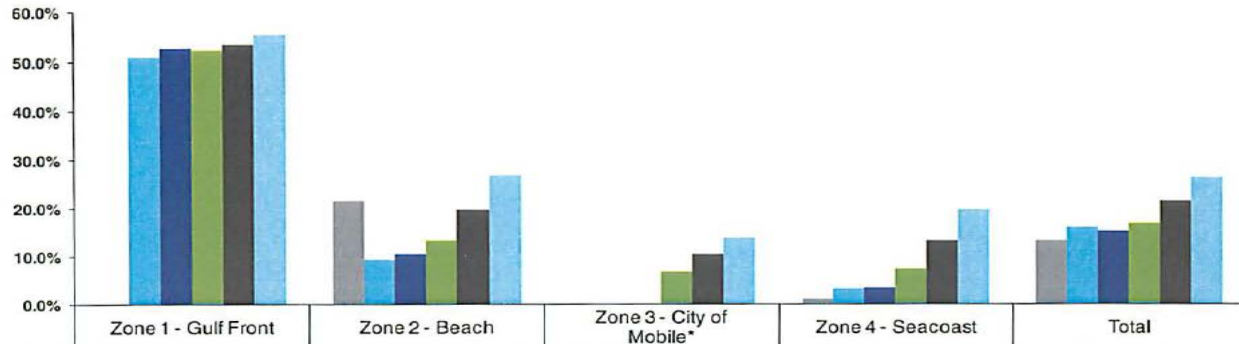
■ Policy Types

- 91% Actual Cash Value Loss Settlement
 - Depreciation
 - No Additional Living Expense Coverage
- 9% Replacement Cost Loss Settlement

Estimated AIUA Market Shares by Zone

Estimated AIUA Market Share Of Admitted Market By Zones

AIUA Premium as a % of Total Premium in the Wind Pool Zones
 (Total Premium in the WP Zone
 = AIUA DWP + Reported and Admitted Insurers DWP in the WP Zone)



	Zone 1 - Gulf Front	Zone 2 - Beach	Zone 3 - City of Mobile*	Zone 4 - Seacoast	Total
Based on DWP in 2006		22%		1.1%	13%
Based on DWP in 2007	51%	9%		3%	16%
Based on DWP in 2008	53%	11%		3%	15%
Based on DWP in 2009	52%	13%	7%	7%	17%
Based on DWP in 2010	53%	20%	10%	13%	22%
Based on DWP in 2011	55%	27%	14%	20%	26%

2011 Premium Distribution				
	AIUA	Admitted & Reported DWF	Total	AIUA Market Share of Admitted Market
Zone 1 - Gulf Front	16,874,148	13,566,898	30,441,046	55%
Zone 2 - Beach	13,250,223	36,118,975	49,369,198	27%
Zone 3 - City of Mobile	6,297,345	39,445,956	45,743,301	14%
Zone 4 - Seacoast	9,225,281	37,809,778	47,035,059	20%
Total	45,646,997	126,941,607	172,588,604	26%

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■ AIUA Rating Zones

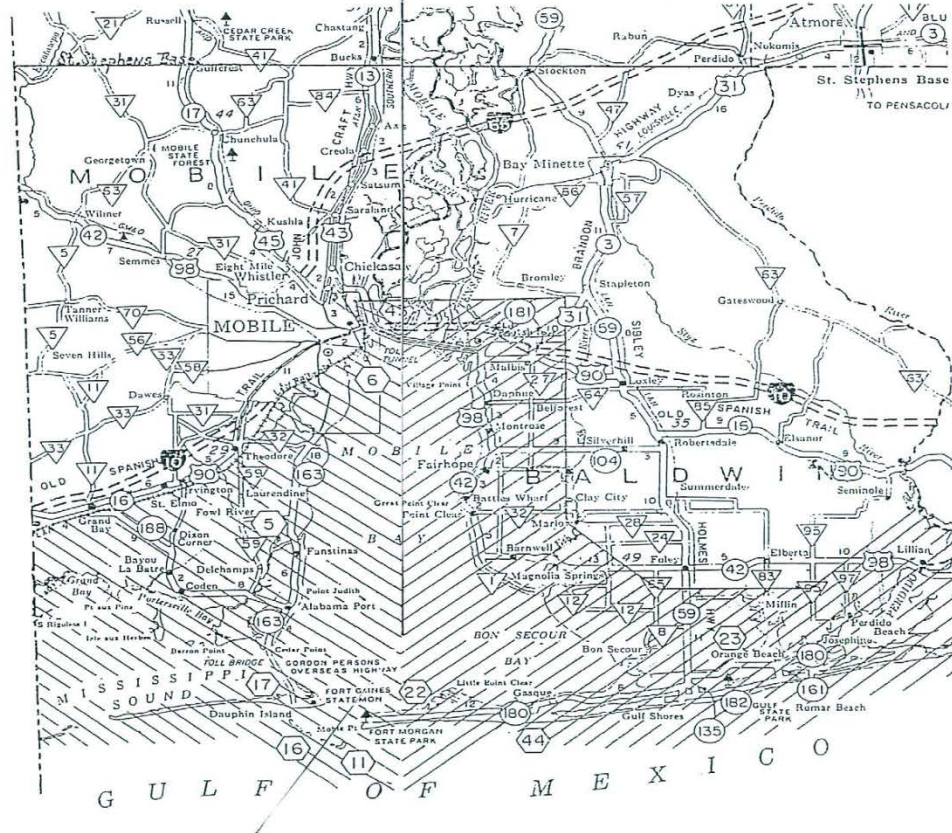
- AIUA historical records indicate that the original wind pool boundaries were developed around 1966 by Mr. Marvin H. Haynie, a building inspector with the “Rating Bureau” (a.k.a. Insurance Services Office), who was tasked to create the boundaries “at his discretion”.

Extended Coverage

Extended Coverage 12

DIAGRAM SHOWING SUB-DIVISION OF SEACOAST COUNTY.—
MOBILE

Note 1—All risks located in shaded area shall carry "Beach" rate.
Note 2—All risks located in remainder of Mobile County South of the 31st parallel of latitude (commonly known as St. Stephen's base line) shall carry "Seacoast, Except Beach" rate.



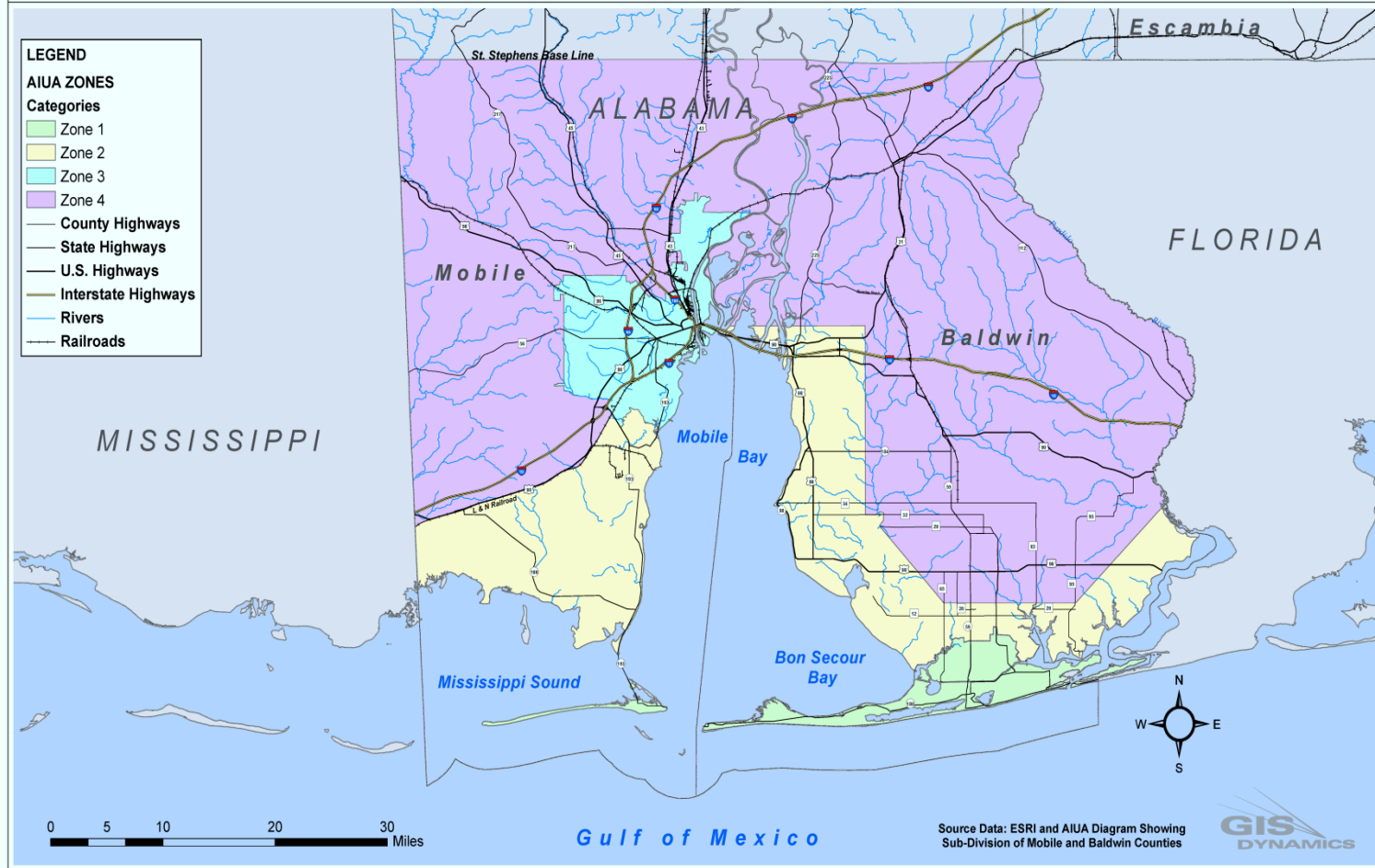
New Page.
Issued April 15, 1962.
Place Following Page 12.

Indicates Revision.
Issued April 15, 1962.
Replacing Page 12.

Alabama E.C. Manual
(34)

Current AIUA Rate Zones

AIUA Rating Zones - Mobile and Baldwin Counties, AL

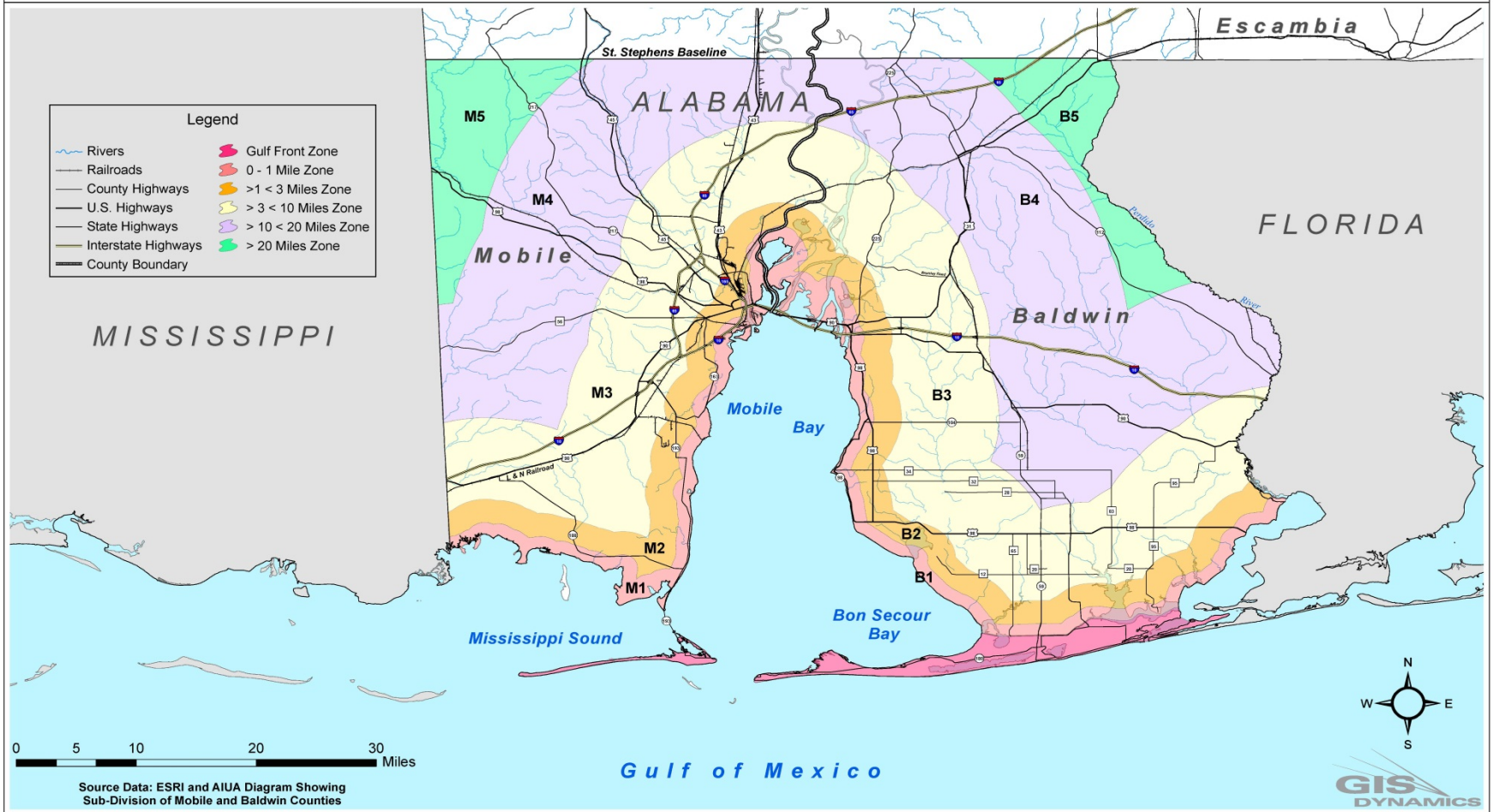


■ New AIUA Rate Zones

- Expected Loss is viewed in the same manner as viewed by AIUA reinsurers.
 - Expected Loss in Baldwin County is not the same as Expected Loss in Mobile County.
- Allocate reinsurance costs and operating costs to the policy level.
 - Aggregate costs into zone boundaries defined by distance to coastline.
 - Gulf Front
 - Dauphin Island, *Gulf Shores and *Orange Beach
 - *Areas South of the North Bank of the Inter-coastal Waterway
 - 0-1 Mile, >1<3 Miles, >3<10, >10< 20, and >20 for each county.

New AIUA Rate Zones

AIUA Rating Zones - Mobile and Baldwin Counties, Alabama



■ AIUA Change History

June 1 2007*

	Fire	EC	Over-All*
Gulf Front	0.0%	15.0%	
Beach	0.0%	0.0%	
Seacoast	0.0%	-5.0%	
All Territories Combined	0.0%		24.0%

* Changed Mandatory Deductible from 2% to 5% = estimated rate impact of 13.7% plus premium impact of 10.3%

June 1 2008

	Fire	EC	Over-All*
Gulf Front	0.0%	10.0%	
Beach	0.0%	0.0%	
Seacoast	0.0%	-5.0%	
All Territories Combined	0.0%		8.0%

* Estimated rate impact

July 1 2009

	Fire	EC	Over-All
Zone 1 (Gulf Front)	0.0%	9.9%	
Zone 2 (Beach)	0.0%	-3.3%	
Zone 3 (Mobile)	0.0%	5.0%	
Zone 4 (Seacoast)	0.0%	0.0%	
All Territories Combined	0.0%		5.5%

July 1 2010

	Fire	EC	Over-All
Zone 1 (Gulf Front)	0.0%	15.0%	
Zone 2 (Beach)	0.0%	15.0%	
Zone 3 (Mobile)	0.0%	15.0%	
Zone 4 (Seacoast)	0.0%	15.0%	
All Territories Combined	0.0%	15.0%	14.3%

August 1 2011

	Fire	EC	Over-All
Zone 1 (Gulf Front)	-46.9%	11.0%	6.8%
Zone 2 (Beach)	-46.9%	-14.3%	-15.6%
Zone 3 (Mobile)	-46.9%	-14.3%	-14.5%
Zone 4 (Seacoast)	-46.9%	-16.4%	-18.2%
All Territories Combined	-46.9%	-3.6%	-6.2%

■ AIUA Rate Change – 2013

- Amend AIUA Rate Zone boundaries to create eleven (11) rating territories with boundaries based on distance to coast.
- Implement “By Peril” rating with separate base rates, rating factors and deductible options for:
 - Fire
 - All Other Extended Coverage Perils Except Wind/Hail/Hurricane
 - Wind/Hail Except Hurricane
 - Hurricane

■ AIUA Rate Change – 2013

- Base Deductible for Wind/Hail/Hurricane to be set at 5% in all AIUA rating zone.
- Offer 1%, 2%, 5%, and 10% Wind/Hail/Hurricane deductible options in all AIUA rating zones.
 - Require that deductible selection for Hurricane must be equal to deductible selection for All Wind/Hail Except Hurricane
 - If 5% Hurricane deductible is selected, then 5% All Wind/Hail Except Hurricane is required also.
- Deductible options for Fire and Extended Coverage Perils Except Wind/Hail/Hurricane to be set at \$500, \$1,000 and \$2,500 with actuarially appropriate factors.
 - Require that deductible selection for Fire must be equal to deductible selection for Extended Coverage Perils Except Wind/Hail/Hurricane
 - If \$500 Fire Deductible is selected, then \$500 Extended Coverage Perils Except Wind/Hail/Hurricane is also required.

■ AIUA Rate Change – 2013

- Hold all rating factors other than Zone Factors and Deductible Factors at current level.
- Cap rate changes at 35% for increases and decreases.
 - This will result in an approximate over-all rate decrease of 9.0%.
- Capped at +35%: 389
- Capped at -35%: 5,305
- Dwelling insureds getting an increase: 8,168 (32.0%)
- Dwelling insureds getting a decrease: 17,395 (68.0%)
- Average increase for those getting an increase = +11.3%
- Average decrease for those getting a decrease = -22.5%
- Make no change to commercial rates, zone or deductibles.
- Changes to be implemented on all new and renewal policies with an effective date of June 01, 2013

■ AIUA Rate Change – 2013

**Alabama Insurance Underwriting Association
Analysis of Rates - Effective January 1, 2013
Summary of Proposed Rate Changes
Dwelling**

<u>Proposed Zone</u>	<i>Policies with Decrease</i>		<i>All Policies</i>	<i>Policies with Increase</i>	
	<u>Number</u>	<u>Average Chg</u>	<u>Average Chg</u>	<u>Number</u>	<u>Average Chg</u>
South of Intracoastal Waterway	1,696	-10.2%	0.1%	2,833	6.3%
Zone 1 Baldwin	2,288	-14.9%	-14.8%	5	27.7%
Zone 1 Mobile	200	-13.3%	13.9%	670	22.1%
Zone 2 Baldwin	1,356	-24.5%	-20.8%	93	32.5%
Zone 2 Mobile	648	-13.2%	5.5%	1,418	14.1%
Zone 3 Baldwin	1,237	-29.1%	-2.1%	1,705	17.4%
Zone 3 Mobile	6,064	-25.8%	-19.9%	1,444	4.8%
Zone 4 Baldwin	951	-22.9%	-22.9%	0	0.0%
Zone 4 Mobile	2,855	-27.6%	-27.6%	0	0.0%
Zone 5 Baldwin	18	-34.0%	-34.0%	0	0.0%
Zone 5 Mobile	82	-32.6%	-32.6%	0	0.0%
All Zones Combined	17,395	-22.5%	-9.0%	8,168	11.3%

■ Other Changes at AIUA

- AIUADirect
 - www.AIUADirect.com
 - Permit policyholders, consumers to make inquiries directly to AIUA

■ Questions and/or Comments

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