BULLETIN NO. 2013-08

TO: ALL PROPERTY AND CASUALTY INSURERS

FROM: JAMES J. DONELON, COMMISSIONER

RE: WIND MITIGATION CREDITS, WIND EXCLUSION CREDITS, AND DEDUCTIBLE CREDITS FOR RESIDENTIAL PROPERTY INSURANCE

DATE: DECEMBER 12, 2013

BACKGROUND AND PURPOSE

The Louisiana residential property insurance environment has changed significantly since the historic 2005 hurricane season. Louisiana property owners have experienced sharp increases in property rates and have been significantly impacted by revised hurricane models and rising reinsurance costs. Louisiana property owners have also seen marked increases in the use of hurricane deductibles, named storm deductibles, wind/hail deductibles and wind exclusion credits. Additionally, wind loss expectations, in particular hurricane and named storm, have changed since 2005 and in many cases rendered premium credits related to the wind peril inaccurate. Because of the diversity and complexity of wind-related credits being utilized by property and casualty insurers and the increased importance of these credits to Louisiana policyholders, I hereby issue Bulletin No. 2013-08.

For purposes of Bulletin No. 2013-08, “residential property” means fire and extended coverage insurance and homeowners insurance for a one-family or two-family owner-occupied premises and insurance policies written to cover owner-occupied manufactured homes (i.e., mobile homes).

SCOPE

Bulletin No. 2013-08 applies to authorized property and casualty insurers required to submit rates and rating plans for residential property insurance to the Louisiana Department of Insurance (LDI). Bulletin No. 2013-08 does not apply to commercial properties or approved unauthorized insurers, i.e., surplus lines.
RELEVANT LEGAL AUTHORITY AND ACTUARIAL GUIDANCE

La. R.S. 22:1454 allows for the consideration of a wide variety of data and analysis methods when establishing rates and credits for property risks. La. R.S. 22:1454 provides that rates shall not be inadequate or unfairly discriminatory in a competitive market. In determining whether rates are inadequate or unfairly discriminatory under La. R.S. 22:1454, consideration may be given to the following items:

(1) Basic rate factors: Due consideration shall be given to past and prospective loss and expense experience within and outside the state, catastrophe hazards and contingencies, events or trends within and outside the state, dividends or savings to policyholders, members or subscribers and all other relevant factors and judgments. Fines and penalties against an insurer, whether levied by a court or regulatory body, shall not be used by the insurer or considered in any manner in the loss or expense experience for the purpose of setting rates or making rate filings.

(2) Classification: Risks may be grouped by classification for the establishment of rates and minimum premiums. Classification rates may be modified for individual risks in accordance with rating plans or schedules which establish standards for measuring probable variations in hazards or expenses, or both.

(3) Expenses: The expense provisions shall reflect the operating methods of the insurer, the past expense experience of the insurer and anticipated future expenses.

(4) Contingencies and profits: The rates shall contain a provision for contingencies and a provision for a reasonable underwriting profit and shall reflect investment income directly attributable to unearned premium and loss reserves.

(5) Other relevant factors: Any other factors available at the time of the rate filing.

In addition to the statutory considerations provided for in La. R.S. 22:1454, the Casualty Actuarial Society's Statement of Principles Regarding Property and Casualty Insurance Ratemaking states, in part:

Principle 1: A rate is an estimate of the expected value of future costs.

Principle 2: A rate provides for all costs associated with the transfer of risk.

Principle 3: A rate provides for the costs associated with an individual risk transfer.

Principle 4: A rate is reasonable and not excessive, inadequate, or unfairly discriminatory if it is an actuarially sound estimate of the expected value of all future costs associated with an individual risk transfer.
Catastrophe hazard is significant in Louisiana and sound actuarial analysis must underlie ratemaking for property insurance. When applied, the principles outlined above should lead to property premiums, deductible credits, wind exclusion credits and wind mitigation credits that are reasonable, not inadequate and not unfairly discriminatory.

Additionally, the following statutory and regulatory guidance may be helpful when reviewing Bulletin No. 2013-08:

- La. R.S. 22:1483 - Premium discounts, credits, rate differentials, adjustments in deductibles, and other adjustments for compliance with building codes and for damage mitigation.
- Regulation Number 94 - Premium Adjustments for Compliance with Building Codes and Damage Mitigation.
- Bulletin No. 09-01 - The Certification Clause on the Louisiana Hurricane Loss Mitigation Survey Form in Regulation 94.

**FILING REQUIREMENTS**

All property and casualty insurers with residential property programs currently approved by the LDI shall file with the LDI, or include in a future rate filing for residential property insurance in Louisiana, an analysis to determine the actuarial adequacy and appropriateness of approved all-peril deductible credits, wind-only deductible credits, wind exclusion credits and wind mitigation credits. The insurer shall make either an informational filing or a rate filing containing said analysis. Such analysis shall consider catastrophe modeling, geographic variations within the state, logical consistency across the spectrum of approved deductible credits, differences in indicated credits by amount of insurance and other relevant considerations.

Specifically, the filing shall include:

- a detailed description of currently approved all-peril deductible credits, wind-only deductible credits (e.g., hurricane, named storm or wind/hail deductibles), wind exclusion credits and wind mitigation credits with the respective percentage or dollar impact on premium approved for each wind-related credit.
- the rule/formula by which credits are applied to calculate the change in premium due to application of an all-peril deductible credit, a wind deductible credit, a wind exclusion credit, a wind mitigation credit or a combination of these credits.
- an analysis of the adequacy of currently approved all-peril deductible credits, wind-only deductible credits, wind exclusion credits and wind mitigation credits, including:
- a descriptive actuarial analysis of all wind-related credits including detailed quantitative exhibits.
- detailed identification of all models used in the actuarial analysis.
- detailed consideration of the current reinsurance costs underlying the residential property program and a detailed allocation of these costs to Louisiana and sub-Louisiana geography.
- appropriate cost of capital considerations.
- a comparison of current wind-related premium credits with the actuarially indicated and proposed credits for all wind-related deductibles, exclusions and mitigation measures currently approved in Louisiana. [Note: the comparison needs to include "proposed credits" only if a filing intends to revise the currently approved credits.]

EFFECTIVE DATES

Bulletin No. 2013-08 is effective for all insurer property programs within the scope of Bulletin No. 2013-08 beginning January 1, 2014. Each insurer writing residential property shall provide the required analysis in their first rate filing submitted to the LDI after January 1, 2014. If the insurer does not anticipate making a rate filing between January 1, 2014 and December 31, 2014, the insurer must make an informational filing addressing the above filing requirements no later than December 31, 2014.

Questions regarding Bulletin No. 2013-08 should be directed to the LDI, Actuarial Division, at (225) 342-4690.

Baton Rouge, Louisiana, this 12th day of December 2013.

[Signature]
James J. Donelon
Commissioner of Insurance