

Louisiana Property and Casualty Insurance Commission

Annual Report 2012 – 2013



**Louisiana Department of Insurance
James J. Donelon, Commissioner**

Louisiana Department of Insurance

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Introduction: State of the Market

Over the past year the economy of Louisiana has strengthened and the insurance market has continued to grow. As evidence, Louisiana Citizens Property Insurance Corporation (Citizens) is often used as a benchmark of success in comparison to other residual markets. The continuing depopulation of Citizens signals the overall health and recovery of the voluntary market.

The state has benefited from major fortifications in the New Orleans area after Hurricanes Katrina and Rita, as tested by the sustained buffeting of Isaac. Coastal restoration remains a priority as initial projects are rebuilding marshes, known for effective storm mitigation. The major restoration will be an enduring process for generations.

Homeowners and auto insurance still present challenges, but availability is evident. New companies continue to enter the homeowners market and the auto market is highly competitive, but rates remain high. According to the NAIC 2010 data, Louisiana has the second highest homeowners insurance premium in the country with an average premium of \$1,546. The countrywide average is \$909. The average base rate increase for homeowners insurance in Louisiana was 4.8 percent in 2012, following increases of 4.4 percent in 2011 and 4.9 percent in 2010. Consumers need to take advantage of all incentives and monies available for wind mitigation for their homes and businesses in order to reduce rates. Unfortunately, the state has remained at number one for several years in combined average premium rate for auto, which is \$1,295. The countrywide average is \$907. It is possible to shop around for the best rates to meet one's circumstances and means. Recent improvement in seat belt usage and reductions in fatality crashes is encouraging.

The workers' compensation market remains competitive. Legislation continues to enable and streamline improvements in medical cost factors and the implementation of these changes should help reduce premiums and improve outcome. Recent rate filings that are based on previous experience do not reflect the changes, but show promise in years to come.

The purpose of the Commission is to exchange information to better understand the challenges Louisiana faces with regard to property and casualty insurance issues while protecting the interests of the consumer and addressing the mutual concerns of the insurance industry.

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I. Brief Legislative History and Purpose

In 1997, the Louisiana Legislature created the Council on Automobile Insurance Rates and Enforcement (CAIRE) to undertake a comprehensive study and provide oversight and recommendations aimed at enforcement of those laws and programs that affect automobile insurance rates. CAIRE researched and studied many ideas that have been beneficial in the area of lowering automobile insurance rates.

Due to CAIRE's thorough studies of law enforcement and automobile insurance issues in the state, the Louisiana Legislature expanded CAIRE's realm of study in 2001 to include not only automobile insurance but also homeowners insurance and workers' compensation insurance, thus forming the Louisiana Property and Casualty Insurance Commission (Act 187 of the 2001 Regular Session). The Louisiana Property and Casualty Insurance Commission (LPCIC, or Commission), which consists of three ad-hoc committees (Automobile, Homeowners and Workers' Compensation) has been given the task of reviewing and examining the availability and affordability of property and casualty insurance in the state of Louisiana.

II. Membership

During the 2003 Regular Legislative Session, Act 590 amended and changed the makeup of the LPCIC. The Act also designated the ad-hoc committee memberships.

The amended Commission membership consisted of a 22-member panel. A representative of law enforcement or his designee is now selected jointly by the superintendent of the Louisiana State Police, the secretary of the Department of Public Safety and Corrections, the president of the Louisiana Association of Chiefs of Police and the president of the Louisiana Sheriffs' Association. Representatives of two national trade organizations and one state organization were added to the membership.

During the 2007 Regular Session, Act 459 abolished the Louisiana Insurance Rating Commission effective January 1, 2008, therefore eliminating their representative from the LPCIC. Act 459 provided an additional appointee for the Commissioner of Insurance. Revised Statute 22:15 is now renumbered as R.S. 22:2171 by Acts 2008, No. 415, §1, effective January 1, 2009.

Effective August 1, 2012, Act 317 of the 2012 Regular Session provided the addition of representatives to the Commission membership. The new members are the Deputy Commissioner of Consumer Advocacy-Louisiana Department of Insurance (LDI) and a representative of the Louisiana Surplus Lines Association. The Commission now consists of 23 members.

The Commission is composed of members of the Legislature, designees from the Office of the Governor, Insurance Commissioner, Attorney General, assistant secretary representing the Office of Motor Vehicles, Louisiana Workforce Commission, Louisiana Highway Safety Commission, Louisiana District Attorneys Association, along with representatives of the Independent Insurance Agents/Brokers of Louisiana, Professional Insurance Agents of Louisiana, Property Insurance Association of Louisiana, Louisiana Workers' Compensation Corporation, Property Casualty Insurers Association of America, Louisiana Association of Fire and Casualty Companies, and consumers.

Louisiana Property and Casualty Insurance Commission Members as of December 2012:

Jeff Albright

Independent Insurance Agents & Brokers of Louisiana

Lee Ann Alexander

PCI Representative

Paul Buffone

LWCC Representative

Anne Cassity

Governor's Designee

The Honorable Gregory Cromer

House Committee on Insurance Chair

Michael Guy

Attorney General's Representative

Lance "Wes" Hataway

Office of Workers' Comp-Louisiana Workforce Commission

The Honorable Eric LaFleur

Senate Committee on Insurance

LTC John LeBlanc

Louisiana Highway Safety Commission

The Honorable Dan Morrish

Senate Committee on Insurance Chair

The Honorable Kirk Talbot

House Committee on Insurance

The Honorable James J. Donelon

Commissioner of Insurance

Staff: Terrell B. Moss, Director - - David Evans, Supervisor/Research Analysis

Raymond Aleman, Sr.

Commissioner's Appointee

J.E. Brignac, Jr.

LAFAC, Inc. Representative

Stephen F. Campbell

Commissioner, Office of Motor Vehicles

The Honorable Gregory Champagne

Law Enforcement Representative

Louis G. Fey, Jr.

Professional Insurance Agents of Louisiana

Theodore "Ted" M. Haik, Jr.

Consumer Representative, House of Representatives

Ron Henderson

Consumer Advocate

B. Scott Landry

Louisiana Surplus Lines Association Representative

Robert Moorman

Property Insurance Association of Louisiana

Chris Roy, Jr.

Consumer Representative, Louisiana Senate

The Honorable Earl Taylor

Louisiana District Attorneys Association

Alternates:

Ann Metrailler, PCI Representative

Manuel DePascual, Professional Insurance Agents of Louisiana

III. Meetings

The Louisiana Property and Casualty Insurance Commission held three public meetings during this reporting period to receive information in order to discuss issues that are affecting the property and casualty insurance market in the state.

Testimony was received from state insurance regulators, representatives of state agencies and associations, insurance industry executives, business leaders, and US government representatives. Comments were also received from the public in attendance.

There was no action taken by the three ad-hoc committees during this reporting period. Agendas from this meeting period are exhibited in Appendix A of this report.

IV. Issues Addressed

Legislation: A compilation of property and casualty legislation enacted during the 2012 Regular Session was presented to the Commission. Review and evaluation of legislation are useful tools in order to produce future action. Individual legislation that was chosen for discussion included the following bills:

Senate Bill 208 (Act 317) adds two new members to the LPCIC, which are the Deputy Commissioner of Consumer Advocacy-LDI, and a representative of the Louisiana Surplus Lines Association.

House Bill 1053 (Act 512) repeals Act 82 of the 2010 Regular Session. This act restores the authority of law enforcement to impound the vehicle if the driver does not have proof of insurance.

House Bill 1195 (Act 221) provides for deductible reimbursement by uninsured motorists.

House Bill 585 (Act 749) relates to the waiver of late fees when an insurance company makes a good-faith effort to timely notify the Office of Motor Vehicles (OMV) of cancellation or issuance of commercial motor vehicle insurance.

Senate Bill 559 (Act 368) requires insurers to electronically report SR-22's and SR-26's to OMV. Electronic reporting will improve the efficiency of data collection and tracking for the high risk drivers who must have this certification of insurance coverage.

House Bill 1130 (Act 824) allows electronic display of proof of insurance, allowing drivers to receive a copy of their insurance identification card on their cell phone.

House Bill 849 (Act 419) provides relative to reinsurance credits and accreditation requirements. This act liberalizes the collateral requirement for offshore reinsurance.

Senate Bill 167 (Act 311) provides for portable electronics insurance policies and recognizes portable electronics insurance as a distinct line of property and casualty insurance. It requires portable electronics vendors to be licensed by LDI in order to sell the insurance policies and sets licensing fees. The act also defines and sets the conditions of sales and cancellations of these policies.

House Bill 595 (Act 271) completes the technical recodification of the Louisiana Insurance Code (Title 22), which was a four year project.

Discussion followed with remarks from Commissioner Donelon recognizing the importance of Representative Talbot's introduction of House Bill 849 (Act 419). He remarked that this action is important to our market as an avenue of relief to spread our property insurance risks worldwide through reinsurance. Commissioner Donelon explained that previously a reinsurer had to post 100 percent collateral but now collateral will be based on a sliding scale. This will be particularly important to the recent carriers that have entered our market who are smaller and need reinsurance.

Florida's Current Claim Environment: Mr. John J. Fleming, III, CEO of Fleming and Hall of Atlanta, Georgia, was invited to address the Commission on Florida's current claim environment. He reported that in Florida, the insurer of last resort has become the insurer of first resort unlike the Louisiana Citizens. Florida Citizens writes approximately 25 percent of all homeowner policies with the total exposure of \$225.2 billion representing 1.4 million policies. Depopulation is a problem in Florida as well. In 2008, almost 400,000 policies were taken out of Florida Citizens; however, according to Mr. Fleming at this point as few as 60,000 policies may be removed in 2012. With an influx of three to five thousand new policies weekly, Florida Citizens' exposure continues to grow.

While the average homeowner policy premium in Florida is only slightly higher than in Louisiana, the claims environment represents a three percent increase in frequency and higher claims payments as well. In Florida water is the primary cause for claims, which results in mold and sinkhole claims. Mr. Fleming reported that the average water claim payment in Florida is \$10,150 compared to \$4,200 in Louisiana.

Mr. Fleming stated that Florida's claims environment began to change after the state's historic hurricane events of 2004. The magnitude of claims delayed adjustments and mounting consumer frustration precipitated a change in the way claims were paid. Instead of being paid actual cash value and reimbursed at replacement cost value once repairs were completed, the new law required replacement cost value be paid up front. In some cases, repairs were never made. An increase in the number of public adjusters and claims followed, which resulted in higher loss ratios.

At the present time, sinkholes are the major cost drivers of non-catastrophic loss in Florida in terms of total exposure and loss adjustment expense. For sinkhole coverage Florida Citizens collects \$30 million in premiums but projects \$500 million in expenses. Claim frequency has increased by a third, and one in five sinkhole claims results in litigation.

Conclusion: While Louisiana faces similarly high homeowners insurance premiums, our state's problems do not seem to be as challenging as Florida's. Louisiana has avoided overreliance on Citizens, its residual insurer, by avoiding competition with the voluntary market. We continue to attract new insurers and successfully depopulate Citizens.

Sinkhole claims have not been a problem in Louisiana if for no other reason than most homeowners' policies exclude losses resulting from earth movement. However, sinkhole development in Louisiana has brought the issue front and center for the affected consumers in Assumption Parish. The sinkhole was discovered in August 2012 and has impacted the communities of Bayou Corne and Grand Bayou. This developing problem and related issues will be monitored by the LPCIC.

Introduction to Guaranty Funds: Mr. John Wells, the director of operations of the Louisiana Insurance Guaranty Association (LIGA), was asked to address the group and discuss guaranty funds and its importance to the state's consumers. He noted that LIGA was established statutorily over 40 years ago to protect consumers by paying the covered claims of insolvent admitted insurers. Mr. Wells emphasized that it must be an admitted property and casualty insurer and that claimants must meet certain criteria to be eligible for payments.

He reported that the claims cap payment has been raised to its current \$500,000 per person and \$500,000 per occurrence. Claims for unearned premium are capped at \$10,000. LIGA's funds to pay these claims come from two main sources: assets from failed insurers and assessments paid by the insurance industry, which are limited to one percent of an insurer's net written premium. No assessment has been made since 2004, and in 2009, \$75,000,000 was returned to insurers as surplus.

A history of service is summarized as follows:

- Handled over 150 insolvent insurers
- Paid losses of over \$640,000,000
- Paid over \$200,000,000 in claim and administrative expenses
- Returned approximately \$40,000,000 in unearned premium payments to policyholders

Among emerging issues Mr. Wells noted that state guaranty funds vary from state to state, however they need to be as uniform as possible to remain a viable state-based but national solution. A trend worth noting has been the movement from personal lines to more commercial claims.

Conclusion: The efficient operation of LIGA firmly establishes it as a safeguard for consumers against insolvent insurers. In addition, increased regulatory tools at the LDI level have resulted in better monitoring of insurers' solvency, enabling issues and concerns to be addressed before they become LIGA's problem.

Louisiana Citizens Property Insurance Corporation Update-August 2012: CEO Richard Robertson announced the continued success of Citizens' depopulation program with few

policies returning after removal. He reported on the status of the continuing class action lawsuits facing Citizens. None of the three suits were settled at the time of this update.

While the overall policy count has decreased, the wind and hail only policies have increased by 10 percent, which Mr. Robertson expressed as a concern. Citizens has adjusted its wind and hail rates effective June 1, 2012. Approximately 75 percent of the commercial policies are wind and hail only. Of the residential policies, around 30 percent are wind and hail only. Mr. Robertson stated that the staff of Citizens will be analyzing and making recommendations to its board to further address this issue including no longer writing wind and hail only policies.

He mentioned that the Legislature had once again required Citizens to suspend the 10 percent surcharge in the coastal parishes. The impact on Citizens is a reduction in its premium income by \$1.2 million a month, since approximately 85 percent of Citizens business is located in these parishes.

Robertson stated that Citizens has a strong reinsurance program this year with \$450 million of coverage after the first \$75 million is paid as retention. An experienced claims executive has been hired to further bolster Citizens staff.

Conclusion: The process of settling the class action lawsuits has depleted Citizens cash, however, Citizens is slowly extricating itself from the 2005 storm cost deficient. With the improved management and strong reinsurance, Citizens is prepared for any foreseeable storm this year.

Greater New Orleans Hurricane and Storm Damage Risk Reduction System (HSDRRS) Overview: Mr. Michael F. Park, Chief-Task Force Hope, US Army Corps of Engineers (Corps), was invited to give a briefing on the work the Corps has completed in and around the greater New Orleans area since Hurricane Katrina. The goal of the Corps was to repair the damage and strengthen the system to withstand a 1-in-100 year storm. This represents the National Flood Insurance Program standard. The challenge was to deliver the \$14.6 billion construction program within budget and on schedule. The overall project was separated into 30 different parts to more easily gain approval on environmental issues so the work would progress.

Mr. Parks stated that the system covers five parishes, 350 miles of levees/flood walls and 78 pumping stations. The flood walls were designed and built to reduce overtopping, based on research and elevations that the Dutch have in place. The interim closure structures in place for Orleans parish included the 17th Street Canal, Orleans Avenue and London Avenue Canals, which were completed in June 2006. The 17th Street Canal and London Canal failures were the cause of flooding in New Orleans proper.

He discussed the Lake Borgne Surge Barrier also described as the “great wall of Louisiana,” with 26 feet elevation. It prevents storm surge from entering the Gulf Intra-coastal Water Way (GIWW) and the Mississippi River Gulf Outlet. The barrier was designed to reduce the

risk of storm damage to some of the area's most vulnerable regions including New Orleans East, metro New Orleans, the 9th Ward and St. Bernard Parish. On August 29 the barrier was closed for the first time to protect the city from Hurricane Isaac.

He reported on the West Closure Complex which includes the largest drainage pump station in the world. There are 11 pumps installed at this complex located near and around the Algiers/Harvey Canal interior for the purpose of preventing direct storm surge in this area. The two sector gates installed at the complex permit navigation on the GIWW and are the largest in the United States.

Another project Mr. Parks described was the St. Bernard Floodwall at the Inner Harbor Navigation Canal tie-in with elevation of at least 32 feet. This surpasses Hurricane Katrina's storm surge recorded at 25 feet at this site. The Corps needed to build two miles of flood wall per month in order to complete the total 23 mile area on schedule for the summer of 2011. The projects for the parish will go a long way in preventing storm surge flooding for St. Bernard residents and businesses.

Mr. Parks further elaborated on other challenges of HSDRRS that were resolved such as the Seabrook Gate Complex which provides storm surge protection for the Lake Pontchartrain area. Only a few projects remain as part of HSDRRS and continue to progress towards completion. The system was most recently tested by Hurricane Isaac. Mr. Parks stated that without the system, there would very likely have been significant flooding from Isaac in St. Bernard and elsewhere in the system.

Discussion from the Commission raised the concerns of the flooding of parishes outside of the system during the hurricane and whether HSDRRS contributed to the problem. The Corps completed an analysis of how the system affected parishes outside of the protected areas and submitted the report for independent peer review. An answer is not expected before six months from submission.

Conclusion: In order to accomplish this monumental task, the level of planning, engineering, and cooperation of the Corps and all stakeholders involved was extraordinary. In both design and construction, the system will not only protect lives and property against flooding from a 1-in-100 year storm, but will significantly reduce the risk from a 1-in-500 year storm. However, complacency should always be avoided because there is always some residual risk from an extraordinary event that exceeds design criteria.

Monitoring Hurricane Inland Storm Surge: Mr. Ben McGee, Supervisory Hydrologist, US Geological Survey (USGS)-Louisiana, addressed the group on the work performed in the state before and after Hurricanes Katrina and Rita. Prior to 2005, most of the storm surge data was collected after the event and based upon high water marks. Lessons learned from Katrina prompted the USGS to develop and implement a new monitoring and documenting system. Using sensors and gages, USGS is able to obtain a complete documented set of inland storm surge data. This new system has been successfully employed 9 times since 2005, including Hurricane Sandy in the northeast.

He reported that the new system has shown that the actual storm surge can be a foot higher than the high water mark previously used for measurement. For example, 43 sensors were deployed at 33 sites to record Rita's barometric pressure, water level, temperature, date and time. As proven by the initial deployment for Rita, the sensors do give a truer picture of what actually happens at any given time throughout the event.

Mr. McGee showed how the data can be used to determine the mitigating effects of coastal marshes. By coordinating the data between sensor stations, nearer the coast and further inland, both the velocity and surge height can be measured. Hard data is now available to scientists and others to further study.

Conclusion: The deployment of the sensor system has more accurately and completely produced documentation of storm surge and inland flooding events. The system allows a proactive approach to these types of events. The data also allows catastrophe modelers, engineers, meteorologists, academics, government officials and planners to accurately test their projections and improve their readiness.

Mississippi Windstorm Underwriting Association (MWUA): Mr. Joe S. Shumaker, manager of the association, was invited to provide an overview of the residual property market in Mississippi. He briefly discussed the history associated with the FAIR Plan and elaborated further on the coastal plan which has evolved into the MWUA. Based on the 2011 written premium, MWUA ranks seventh among the states with residual markets. MWUA is less than half the size of Citizens. Alabama's residual market ranks 9th and is less than half the size of the Mississippi association.

Mr. Shumaker pointed out the major reorganization and legislation that took place in 2007, which changed MWUA from an association of member companies to one of assessable insurers much like Citizens. The legislation also added a fee on all policies issued by non-admitted insurers. The three percent fee is calculated on the total policy premium for property coverage.

The MWUA covers the lower six counties of Mississippi and writes wind and hail only for residential and commercial properties. Commercial represents approximately six percent of the total policies. The area covered is divided into four rating territories based on proximity to the coast.

Underwriting guidelines include:

- \$1 million limits on residential and commercial buildings;
- \$250,000 limit on contents for dwellings;
- blanket coverage provided for commercial risks;
- proof of flood coverage for any risk in A or V zones;
- optional named storm deductibles; and
- fully earned premium for unapproved cancellations.

He stated that for high value risks such as casinos, dioceses, and schools, the blanket coverage is an attractive way to meet their “deductible” while limiting MWUA’s exposure on any single risk. MWUA requires a two percent named storm deductible with options of 5, 10, 15, and 20 percent. To avoid seasonal fluctuations in premium income, MWUA restricts deductible changes and cancellation refunds. In order to improve risks and reduce property losses, MWUA provides wind mitigation credits and is initiating a grant program for retrofitting to qualifying standards. This allows the policyholder to reduce the premium and become more attractive to the voluntary market.

Mr. Shumaker reported that the primary driver of rates is the cost of reinsurance. MWUA is required to self-insure the first \$100 million. Reinsurance is purchased to cover, at minimum, a 100-year storm based on blended RMS and AIR catastrophe models. For the 2012 hurricane season, MWUA purchased \$815 million in excess of \$100 million in reinsurance which provided coverage for a 1-in-125 year storm.

Questions asked by the members centered on fees, rates, subsidies, wind mitigation credits and claim adjustments. Of particular interest was the three percent non-admitted policy fee. Mr. Shumaker clarified that the non-admitted insurers are not assessable and that the fee goes into MWUA’s general fund. He also stated that the rates are approved by the commissioner but MWUA is not required to review or file annually. In the future, the board has chosen to review its rates at least every three years. The rates must be at least adequate to cover the annual cost of reinsurance.

Conclusion: Although MWUA is smaller with less exposure and more restrictive coverage, the challenges are similar to those of Citizens. It is a well-managed association that has pursued innovative funding with success. MWUA has developed its underwriting criteria to cap its exposure while maintaining its premium base. The reinsurance program has provided more stability to the policyholders and strengthened MWUA’s financial posture.

Alabama Insurance Underwriting Association (AIUA): Mr. Robert W. Groves, Secretary/Manager of AIUA, spoke to the group about his state’s wind pool association. He also included a history of the beach plan established in 1971, and its evolution to its present form. Alabama does not have a FAIR plan. AIUA provides property coverage in the eligible coastal areas of Baldwin and Mobile Counties to those who are unable to obtain coverage in the voluntary market. The current members are all licensed insurers writing property and casualty insurance in Alabama. This includes 485 companies with 329 exempt from participation.

The exemptions for those companies are:

- 306 write no property and casualty in Alabama,
- 156 companies are subject to assessments,
- 69 companies report voluntary written premium in eligible areas, and
- 23 voluntarily write sufficient coastal property to be exempt from AIUA assessments.

The plan is funded entirely by written premiums. In case of catastrophic losses, member companies are assessed a percentage of the loss. The initial assessment is limited to \$2 million per company.

He reported that AIUA has a written agreement in place to provide enough claims adjusters to handle a 100 percent hit to AIUA policyholders. Notable adjuster qualifications include a minimum of two years of experience and FEMA flood certification.

Mr. Groves stated that since Hurricanes Ivan and Katrina, AIUA has grown from approximately 3,000 to 27,000 policies today. The forecast is for continued growth. The average deductible is \$10,000 with average coverage of \$160,000. Ninety-one percent of policyholders have actual cash value instead of replacement coverage. His concern is that many claimants will not be able to restore their property under these conditions.

Mr. Groves reported that effective June 1, 2013; new AIUA rating zones for residential properties will be implemented. Eleven rating territories have been created with boundaries based on distance to the coast. The base deductible for wind/hail/hurricane will be set at five percent in all zones, with one, two and 10 percent options available. AIUA is implementing by-peril rating which will be disclosed with monetary breakdown on the declaration page of each policy. There is a wide range of variation in the base rates with the highest at \$5,000 and the lowest around \$1,000, depending on the location. Producers are paid a flat rate of eight percent commission. Mr. Groves suggested that this raises a fairness issue for those policyholders paying the higher base rates.

Mr. Groves indicated that AIUA is implementing an online service to allow consumers more direct access for inquiries. He also noted that the association's board is considering providing a wind and hail only program statewide in response to high wind deductibles and non-renewals of policies that have followed last year's severe tornadoes.

Topics of discussion centered on flood certification of adjusters, producer compensation, policy limits, and by-peril rating and disclosure to the policyholder. Mr. Groves stated that AIUA is moving to by-peril rating in the interest of transparency for policyholders. For each of the perils categorized, the associated rate and deductible will be listed in the policy. Commission members expressed pros and cons on this innovative method, as to whether consumers would be more confused or have a greater understanding of their rates.

Conclusion: Alabama has an effective, efficiently run residual association under the more traditional structure of member insurers. Nevertheless, AIUA has experienced the same dramatic growth post-Katrina. Affordability is an ever increasing concern for consumers. AIUA is trying to refine its rates by increasing its zones and better educating its policyholders with by-peril rate disclosure. The challenges of restoring and encouraging a robust voluntary market and providing reinsurance to cover catastrophic losses are common concerns. It is important for Louisiana to continue to observe and profit from the experiences of other coastal states.

V. Additional Reports

A. Louisiana Citizens Property Insurance Corporation Special Review Committee: The Special Review Committee was formed to address certain issues that threatened to cause Citizens to grow into a principal state insurer instead of the state insurer of last resort, particularly in the wind and hail market. The committee is composed of board members, and industry and producer representatives.

Citizens' staff compiled a list of considerations for the group to discuss at the January 23 meeting. Some of the issues on the list included:

- Coverage
- Rates and territories
- Depopulation
- Producer compensation
- Class action lawsuits
- Policy turnover

Discussion centered on whether Citizens would remain as is, write only full coverage policies, or only write wind/hail policies. The committee decided Citizens would remain as is with full coverage and wind/hail only policies. The consensus was to continue monitoring the wind/hail only policy count.

The committee asked for additional information from the staff on changes to rating territories, rating based on the weighted average of the top carriers in the state, depopulation issues of agent's authorization and agent's ownership versus Citizen's ownership of policies, high policy turnovers, and coverage limits and options.

A determination was made to pursue legislation to bar class action lawsuits against Citizens. The issue of an annual cap on rate increases was raised but was curtailed once it was noted that legislation would be independently filed addressing this issue.

The current level of producer commissions was raised as an issue, and after discussion, a decision was made not to pursue a change in commissions.

It was noted that the legislation that removed the requirements for the FAIR and Coastal Plans to keep separate accounts and records did not address the requirement that deficits must be determined by plan. Further legislation will be needed to correct this technicality.

During the February 20 meeting of the committee, after discussion on the use of geographic territories to calculate rates that more accurately reflect risk, a motion

was made to further research the use of territories in order to move Citizens in that direction. The motion was approved unanimously.

The committee voted to pursue the use of weighted averages in calculating rates as a means to stabilize Citizens' rates. It was approved unanimously.

After discussion, the committee decided not to make any changes in the agents' or Citizens' roles in depopulation. The agent retains the ability to refuse authorization for a policy to be depopulated and Citizens will not attempt to pursue ownership of the policies placed with it.

Following further discussion, three motions were made and approved:

- Citizens will continue to explore ways to expedite depopulation within the confines of the law.
- Citizens will continue to offer enhanced coverage options.
- Further discussion and research needs to occur on the high policy turnover before any action will be taken.

Upon completion of the agenda, additional issues were discussed under new business. Topics considered were requiring flood insurance in certain zones to obtain Citizens' coverage, exemption from assessments for coastal carriers, and taxing surplus lines carriers since they are not subject to assessments.

A motion was made to give consideration to either tax or assess surplus lines carriers, passing with a majority vote of the committee. This action would require legislation.

Conclusion: The committee has thoroughly discussed the considerations presented to them. It is expected that the actions of the Special Review Committee will be brought before the Citizens Board of Directors for further deliberation.

B. National Council on Compensation Insurance (NCCI) - State Advisory Forum 2012: The LPCIC staff regularly attends this informative summit each year in Baton Rouge. The summit provides a look at the countrywide comparisons as well as focusing specifically on Louisiana workers' compensation issues.

NCCI filed and was approved for a 2.5 percent increase in premium based on loss costs. This marks the third year in a row that a modest increase has been requested. Louisiana ranks 37th in the country with \$2.06 in premium rate per \$100 of payroll. North Dakota is at the lowest with \$1.01, and Alaska is the highest with \$3.01.

Average indemnity severity has continued to rise slightly in Louisiana and temporary total disability claims make up a larger portion of indemnity costs than is typical both regionally and countrywide. Medical payments represent more than half of the benefit costs. Medical costs have continued their moderate increase in the state.

Claim frequency is a key cost driver. Lost-time claim frequency increased in Louisiana last year but total claim frequency is lower than the region.

Conclusion: Important legislation that was enacted in 2012 by Louisiana's Legislature will be monitored to determine its impact on the market. The major changes were in dispute resolution procedures and benefits. In addition, the responsibilities of the Louisiana Second Injury Fund will terminate for eligible claims occurring after December 2014. The key costs drivers for both indemnity and medical benefits were similar. The costs continue to rise for both, and generally average higher regionally and countrywide.

General Conclusion: The Commission will continue to bring in local, regional and national experts for reporting and analysis of all issues deemed pertinent to satisfy its statutory responsibilities and examine the insurance market in Louisiana.

No recommendations for legislation were considered during this reporting period for the upcoming fiscal session.

VI. Continuing Study Issues

The Louisiana Property and Casualty Insurance Commission will continue to study various property and casualty issues throughout the year. Continuing to attract insurers to the state will remain a major focus of the Commission. Striving for affordability and availability in a competitive market is a primary concern.

The Commission will continue to monitor:

- State and federal legislation affecting property and casualty insurance.
- The number of uninsured motorists in the state.
- Highway safety issues and enforcement.
- Building code legislation.
- Credit scoring legislation.
- Louisiana Citizens Property Insurance Corporation.

VII. Future Study Issues

The Commission plans to:

- Continue research and report on “real time” verification systems to identify uninsured motorists.
- Research forced placed insurance.
- Research automobile insurance rates regarding low income/higher rates.
- Reinsurance overview.

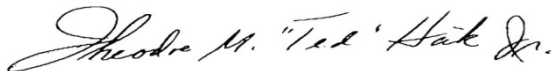
The Commission staff will continue to attend the various meetings across the state that promote and advance all of these issues.

VIII. Final Note

We trust this report will provide additional insight to property and casualty issues in the state.

The members and staff of the Louisiana Property and Casualty Insurance Commission are charged with studying and developing concepts that will promote a healthy, competitive insurance marketplace in Louisiana.

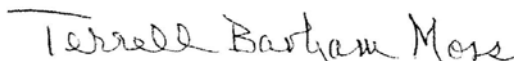
The Louisiana Property and Casualty Insurance Commission is committed to working with the Department of Insurance, the Legislature, the insurance industry and all interested stakeholders to increase the affordability and availability of insurance in the state of Louisiana.



Theodore M. “Ted” Haik, Jr.
Chairman



Jeff Albright
Vice Chairman



Terrell Barham Moss
Director

This report is available on the Louisiana Department of Insurance website
www.ldi.la.gov

IX. Appendix A: Meeting Agendas

August 22, 2012 – Full Commission Meeting:

Agenda

- I. Call to Order**
Ted Haik, Chairman
- II. Roll Call**
- III. Florida’s Current Claim Environment**
John J. Fleming, CEO- Fleming and Hall- Atlanta, GA
- IV. Introduction to Guaranty Funds**
John Wells, Director of Operations-LIGA
- V. LA Citizens Property Insurance Corporation Update**
Richard Robertson, CEO
- VI. Property and Casualty Legislation-2012 Regular Legislative Session**
Ed O’Brien, Deputy Commissioner, Office of Property & Casualty- LDI
LPCIC Legislative Members
- VII. Public Comments**
- VIII Adjournment**

November 14, 2012 – Full Commission Meeting:

Revised Final Agenda

- I. Call to Order**
Jeff Albright, Vice Chairman
- II. Roll Call**
- III. Presentation: Greater New Orleans Hurricane & Storm Damage Risk Reduction System Overview**
Michael F. Park, Chief-Task Force Hope, US Army Corps of Engineers
- IV. Presentation: Monitoring Hurricane Inland Storm Surge**
Ben McGee, Supervisory Hydrologist, US Geological Survey-Louisiana
- V. Public Comments**
- VI. Adjournment**

February 5, 2013 – Full Commission Meeting:

Agenda

- I. Call to Order**
Ted Haik, Chairman
- II. Roll Call**
- III. Presentation on the Mississippi Windstorm Underwriting Association**
Joe S. Shumaker, Manager
- IV. Presentation on the Alabama Insurance Underwriting Association**
Robert W. Groves, Secretary/Manager
- V. Public Comments**
- VI. Adjournment**

X. Appendix B: Legislation Enacted from the 2011-2012 LPCIC Annual Report Recommendations – 2012 Regular Session

- 1. Require electronic reporting to OMV of SR-22's and SR-26's.**
Filed as Senate Bill 559
Act 368
- 2. Increase seat belt fines from \$25 (1st Offense) to at least \$50.**
Related: Filed as House Bill 718
Act 413
Increases seat belt fines by \$20 in Orleans Parish and dedicates increase to indigent defense.
- 3. Support six concepts from the Governor's Task Force on DWI and Vehicular Homicide.**
 - a. Clarify existing Implied Consent law pertaining to multiple testing.**
Filed as House Bill 781
Act 592
 - b. Repeal Act 605 of 1992 [La. R.S. 32:667(H)(1) and (2)].**
Failed
 - c. Require a chemical dependency assessment for first and second offense DWI's.**
Failed
 - d. Clarify that existing law requiring a 45-day "hard suspension" of a driver's license applies to all second offense DWI's.**
Filed as Senate Bill 488
Act 470
 - e. Amend the existing law to exclude parole time from the calculation of the DWI 10-year "cleansing period."**
Filed as Senate Bill 306
Act 547
 - f. Amend Criminal Code as it pertains to DWI, vehicular homicide, vehicular negligent injuring, and First Degree vehicular negligent injuring in regard to the presence of non-prescribed controlled dangerous substances.**
Related: Senate Bill 485
Act 662
For vehicular homicide and third degree feticide, existence of any detectible amount of any non-prescribed controlled dangerous substance in the operator's blood is a condition of the crime.