

Coastal Insurance

NC 20

Twenty Counties – One Voice

February 18, 2009

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NC 20

NC 20 is a coalition of public and private interests - individuals, local governments, and businesses of the 20 Coastal Counties of North Carolina.

The Mission of NC 20 is to support the common environmental and sustainable economic development interests within the 20 coastal counties through coordinated communication, information sharing, data collection and monitoring, scientific research, and proactive interaction with legislative and executive decision makers at all levels of government.

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NC Rate Bureau

NC General Statutes – Ch. 58 Article 36-10
Method of Rate Making; factors to consider:

“Rates or loss costs shall not be excessive,
inadequate or unfairly discriminatory.”

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Rate Bureau – factors con't

“Due consideration shall be given to **actual loss and expense experience within this State** for the most recent three-year period for which that information is available; to prospective loss and expense experience within this State; to the hazards of conflagration and catastrophe

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plans

- Beach Plan - NCIUA
- Fair Plan – NCJUA

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Beach Plan - Overview

- 164,000 policies in 18 Coastal Counties
- 2003 - \$17.3 Billion 2009 - \$74 Billion
Exposure
- Reserve Cap increased from \$750 million to
\$1.1 Billion Surplus – with reinsurance \$2.5
Billion
- Surplus Taxable – IRS Ruling?
 - no distribution since 2005

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Types of Insurers

Voluntary Market/Admitted – Companies whose rates, policy forms and conduct are controlled by the Department of Insurance.

A guarantee fund covers the claims in the event an admitted company goes bankrupt.



Rate Changes - Timeline

- Beach Plan/Fair Plan Surcharge Increases
 - Beach Plan/Fair Plan Deductible Changes
 - Per occurrence
 - 2% in all counties except 5% in Bald Head Island
- Board approved Nov. 13th, Filed Nov. 17th,
Approved by Commissioner Nov. 21st

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Major Changes

- Surcharge Increases
- New Deductible Approved

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Statewide HO-3 Policy Rate Changes

December 18, 2008:

“Insurance Commissioner Jim Long today signed a settlement agreement with homeowners insurance companies allowing an overall statewide average increase of 4.05 percent in rates beginning May 1. “

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**North Carolina Homeowners Rate Revision Breakdown by Territory
Effective May 1, 2009**

Counties/Cities Located In This Territory	Territory	Filed %	Ordered %	Filed/NCRB	Ordered
Currituck, Dare & Hyde	7	32.1	6.5	\$2,636	\$2,122
Brunswick, Carteret, New Hanover, Onslow & Pender	8	50.9	17.5	\$3,010	\$2,342
Durham & Raleigh	32	32.9	5.0	\$833	\$663
Cumberland	34	15.6	4.0	\$939	\$850
Winston-Salem & Greensboro	36	13.0	3.0	\$617	\$562
Charlotte	38	3.9	-4.0	\$576	\$529
Gaston, Mecklenburg & Union	39	1.2	-6.0	\$540	\$499
Bladen, Columbus & Robeson	41	22.5	12.0	\$1,150	\$1,059
Anson, Montgomery & Richmond	44	22.2	6.0	\$774	\$676
Bertie, Duplin, Gates, Greene, Hertford, Lenoir, Martin, Pitt, Sampson & Wayne	45	15.4	7.0	\$914	\$853
Caswell, Granville, Person, Vance & Warren	46	9.7	-3.0	\$660	\$587
Edgecombe, Franklin, Halifax, Harnett, Hoke, Johnston, Lee, Moore, Nash, Northampton, Scotland & Wilson	47	13.2	2.0	\$773	\$700
Currituck, Dare, Hyde, & Pamlico	48	105.9	22.0	\$2,564	\$1,519
Beaufort, Camden, Chowan, Craven, Jones, Pasquotank, Perquimans, Tyrrell & Washington	49	28.2	6.5	\$1,596	\$1,327

Examples are based on a frame home valued at \$150,000 and insured under the HO-3 policy,
Protection Classes 1 - 6.

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Effective May 1, 2009**

Counties/Cities Located In This Territory	Territory	Filed %	Ordered %	Filed/NCRB	Ordered
Brunswick, Carteret, New Hanover, Onslow & Pender	52	69.8	29.8	\$2,116	\$1,616
Chatham, Durham, Orange & Wake	53	13.8	2.0	\$693	\$625
Alamance, Davidson, Forsyth, Guilford, Randolph & Yadkin	57	11.2	2.0	\$613	\$560
Alexander, Alleghany, Ashe, Avery, Buncombe, Burke, Cabarrus, Caldwell, Catawba, Cherokee, Clay, Cleveland, Davie, Graham, Haywood, Henderson, Iredell, Jackson, Lincoln, Macon, Madison, McDowell, Mitchell, Polk, Rockingham, Rowan, Rutherford, Stanly, Stokes	60	9.2	-1.2	\$532	\$480

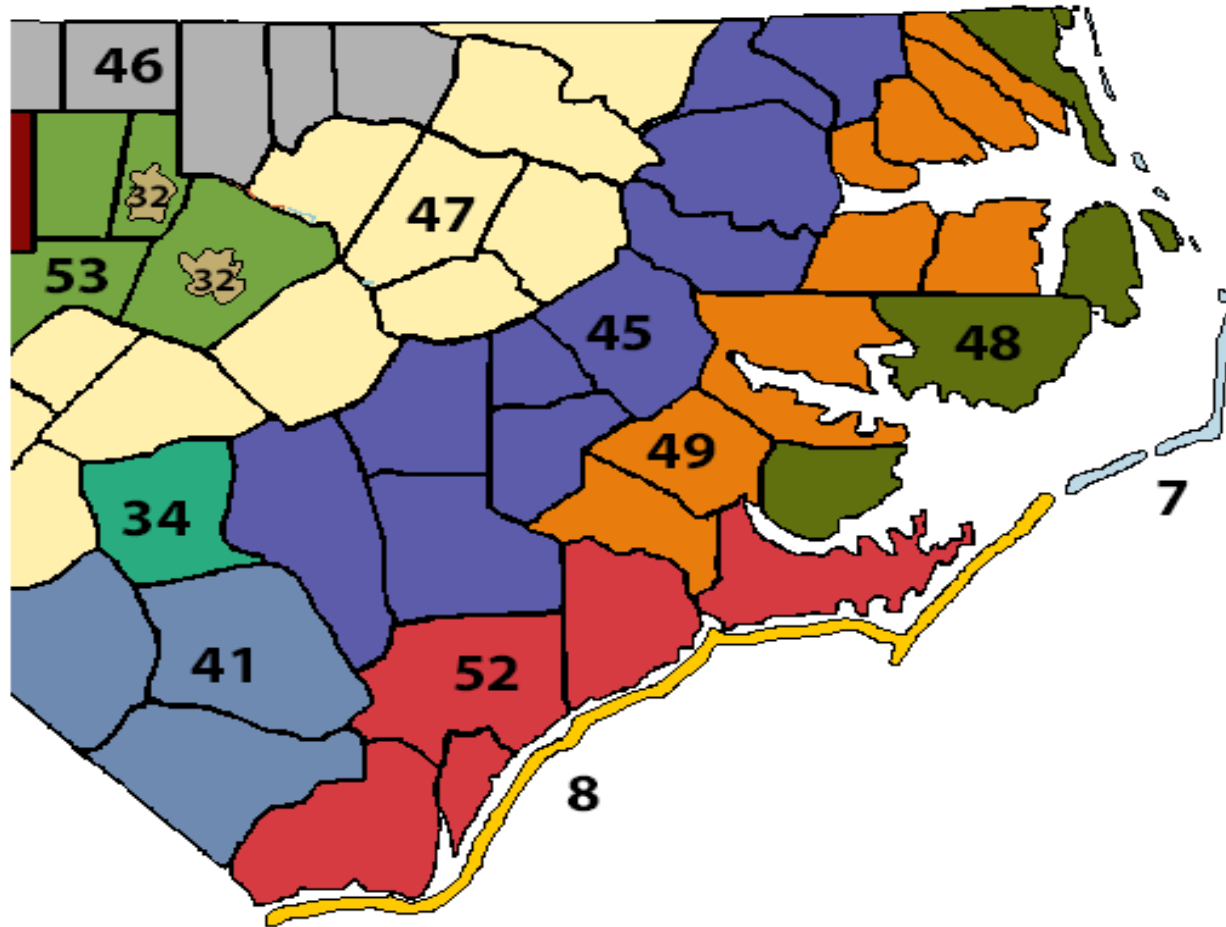
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North Carolina Rate Bureau Homeowners Territories

(Effective May 1, 2009)



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Actual Premium Comparison Quotes - February 17, 2009

\$150,000 HO-3 Policy:

Charlotte: AutoOwners quote, \$500 flat deductible,
\$482.68

Carteret Mainland: NCJUA Quote, \$500.00
deductible/2% wind deductible, **\$1526.00**

Carteret Beach Area: NCJUA Quote, 2% deductible,
\$2405.00

These quotes do not reflect the rate increase in Carteret County
and a rate decrease in Charlotte effective May 1, 2009.

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Ordered Advisory Rates

Keep This in Mind:

- Advisory rates in the central and western part of the state are **discounted** due to a competitive market.
- Rates in the beach plan are surcharged 15% above to 25% above the advisory rate.
- The total cost for coastal homeowners' insurance may include homeowner's, wind and flood policy premiums.

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Impact of Changes

Any increase in the cost to own or rent a home in today's economy increases the hardship of those who have lost their jobs and those that are trying to avoid foreclosure.

These rate increases affect financing and refinancing opportunities and the ability to reduce the extensive inventory of homes on the market.

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Impact of Changes

These changes are already causing people who own their homes to drop insurance coverage – especially the elderly on fixed incomes.

The 2% per occurrence deductible hurts our small businesses the most, since the deductible is applied on 2% per contents, 2% per structure, etc.

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Senator Julia Boseman's Response to Rate Changes

“We have to do what we can do in tough economic times to keep insurance affordable,” she said, adding that the increases are “completely unreasonable.”

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Senate Bill 6

- An act to impose a temporary stay on increased surcharges and deductibles for certain policies under the beach plan and on property insurance rate increases for certain homeowner's policies across the state.
- Ref To Com On Commerce on 01/29/2009
- **Primary Sponsors:** Julia Boseman; **Co:** Harry Brown; Jean Preston; R.C. Soles, Jr.
- The stay would be to May 1, 2011.

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House Bill 26

- An act to impose a temporary stay on increased surcharges and deductibles for certain policies under the beach plan and on property insurance rate increases for certain homeowner's policies across the state.
- Ref To Com On Rules, Calendar, and Operations of the House on 02/02/2009
- **Primary Sponsor:** Representative Spear; **Co:**Grady, Justice, McElraft, Stiller, and Underhill.
- The stay would be to May 1, 2011.

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Legislative Action

Bills only address primary residences. They do not address employee housing and other year-round rental housing opportunities that are crucial to our communities in providing affordable housing to those not able to buy a home who want to live and work in our area. The increased cost of insurance will be passed on to tenants in higher monthly rents.

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Legislative Action

The bills stay the effective date of May 1 rate increases for primary resident policy holders of dwelling AND contents coverage of \$150,000 or less. Contents coverage is calculated as a percentage (sometimes as high as 70%) of the dwelling coverage. This means that the increase would not apply to DWELLINGS valued at \$87,000 or less statewide.

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North Carolina Is Often Compared to Florida - There is No Comparison!

Florida:

1224 miles of coastline

Population very densely centered around the coast

Only 138 miles wide from coast to coast with the exception of panhandle.

A hurricane making landfall in Tampa could also affect Orlando and Daytona beach, etc.

North Carolina:

273 miles of coastline

Coast not as densely populated

Inland areas very rural

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Hurricane Info 1851 - 2004

Florida

- 19 hurricanes category 3 or above
- 3 category five storms
- 6 category four storms

North Carolina

- 6 Hurricanes category 3 or above
- 0 category five storms
- 1 category four storm

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Hurricanes Are Not Just A Coastal Problem

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Hurricanes

Six out of fifteen of the costliest hurricanes to hit the US – property damage only/flood not included – made landfall in western and central North Carolina. Only two of the fifteen hurricanes caused damage in eastern NC.

from: Insurance Information Institute

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Hurricanes

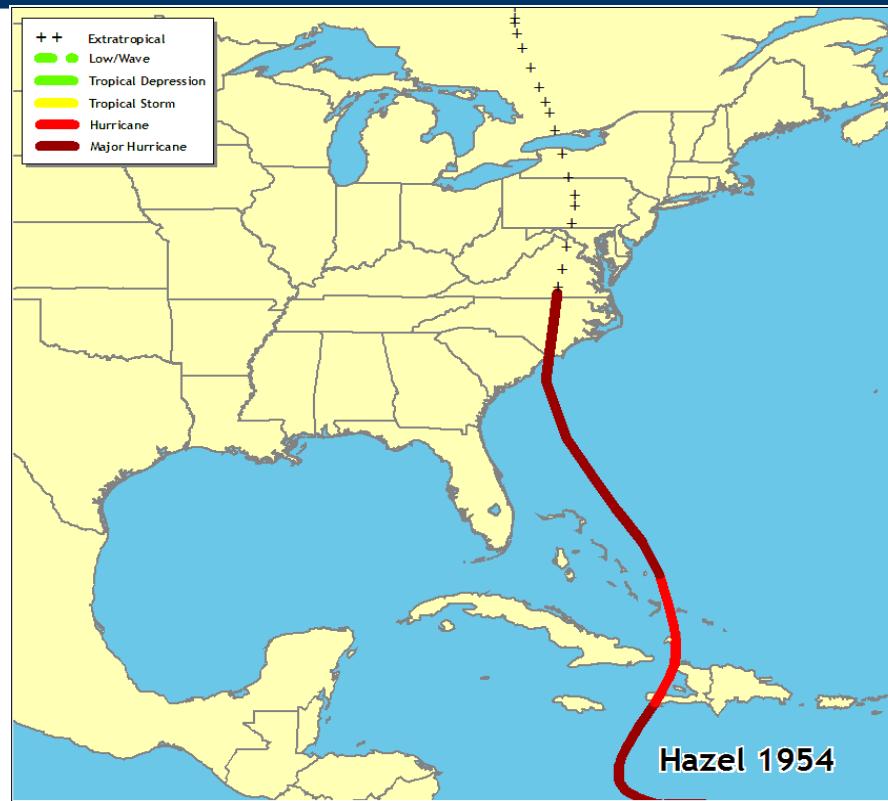
- Charley - a minimal hurricane/tropical storm when making landfall in NC
- Ivan - affected solely western and central NC
- Hugo - affected mostly central and western NC
- Frances - affected solely western and central NC
- Jeanie - affected solely western and central NC
- Opal - affected solely western and central NC
- Floyd - affected eastern and central NC. Greatest losses were caused by flooding in central NC
- Fran - affected eastern and central NC

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Hurricane Hazel



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Hazel's Wrath

Sustained 2-minute average winds of 78 mph were also observed in **Raleigh with gusts over 100 mph.** A total of 15,000 homes or buildings were destroyed throughout the state, including some 39,000 damaged structures. Thousands of trees were downed by the combination of tropical-rain soaked ground and ferocious winds. 30 of North Carolina's 100 counties sustained major damage. **Based on reports from residents in the capital city of Raleigh, an average of two or three trees fell per city block, many on homes, automobiles, and power lines.**

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Hurricane Hugo



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Western NC Suffers

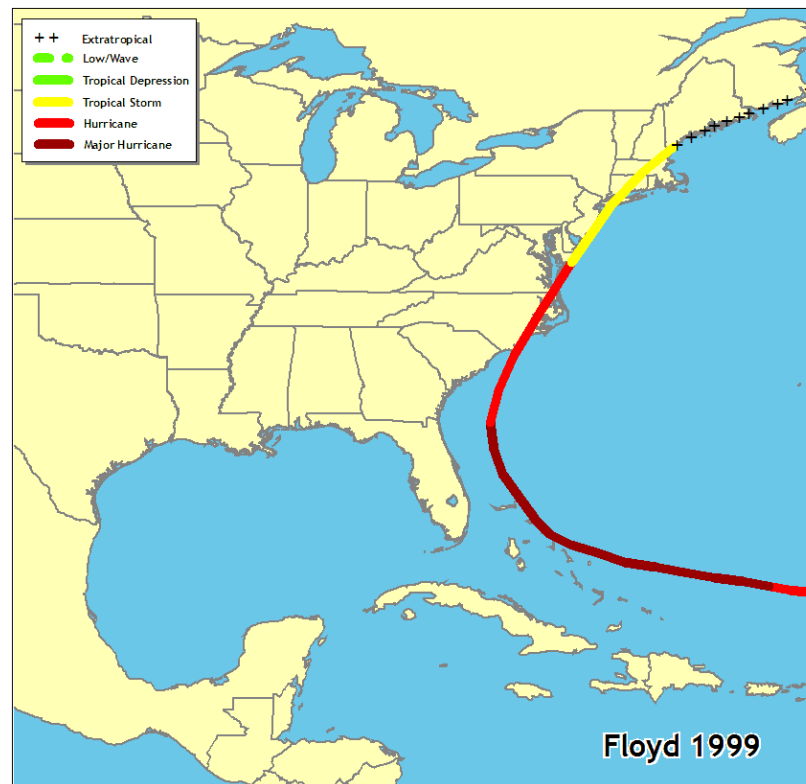
Almost two-hundred miles inland Hugo still had 100-mph wind gusts. The major metropolitan area of Charlotte, North Carolina suffered extensive damage. Thousands of large trees fell into homes and businesses around Charlotte; glass was shattered in downtown skyscrapers. Torrential rains in Virginia flooded roads and cut power to 2 million people. By late on September 22nd, Hugo finally died over the cool forests of southern Canada.

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Hurricane Floyd



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Hurricane Isabel

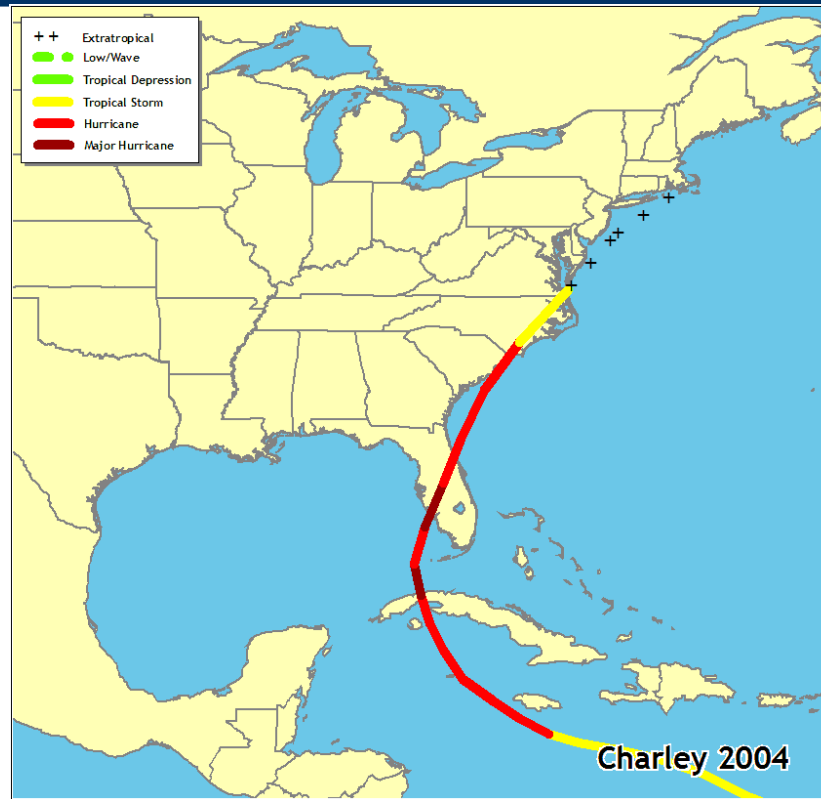


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Hurricane Charley



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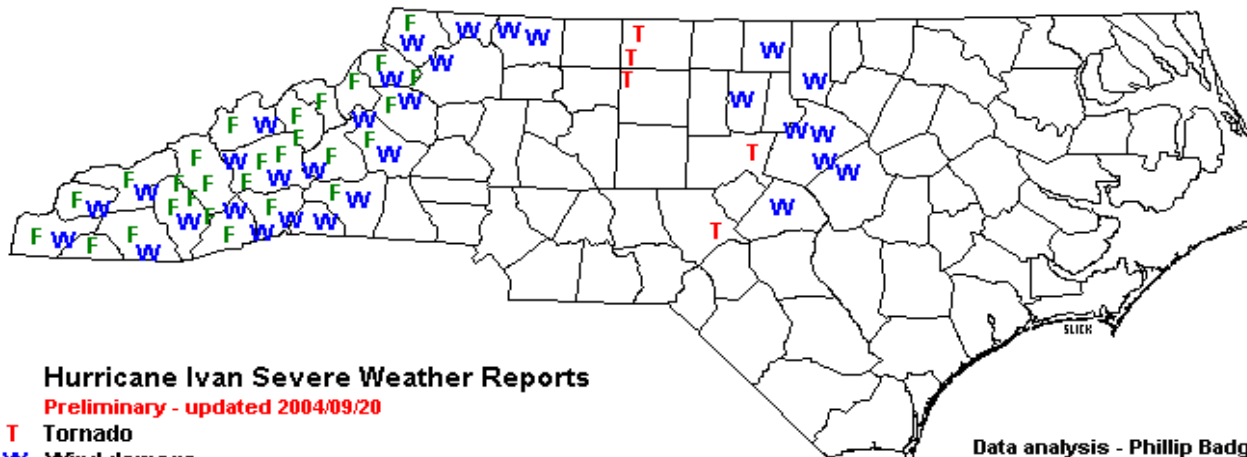
Hurricane Ivan



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Hurricane Ivan Severe Weather Reports

Preliminary - updated 2004/09/20

- T** Tornado
- W** Wind damage
- H** Hail
- F** Flooding

Data analysis - Phillip Badgett
 Graphic - Jonathan Blaes
 NWS Raleigh, NC
www.erh.noaa.gov/rah



Hurricane Fran



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RALEIGH SLAMMED

- Like Hurricane Hugo in 1989 - Fran first hit southern coastal communities, then roared inland with unusual force. Raleigh was battered. Not since Hazel, had the booming city been hit with wind and rain so hard. Due to Fran's intensity at landfall, the storm was still near hurricane strength when it hit Raleigh 100- miles inland. Wind gusts of 90-mph downed thousands of trees, causing major secondary damage to homes and businesses.
- Compounding the problem - Fran hit the Raleigh area late in the evening. As the storm grew more fierce, electrical power to thousands was lost. Only people with battery powered radios were receiving storm updates. Terrified residents sat in darkness, as fifty-foot, century-old oaks crashed through their homes.

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The Future

The number of hurricanes expected to occur during a 100-year period based on historical data—

Light blue area, 20 to 40

Dark blue area, 40 to 60

Red area, more than 60.

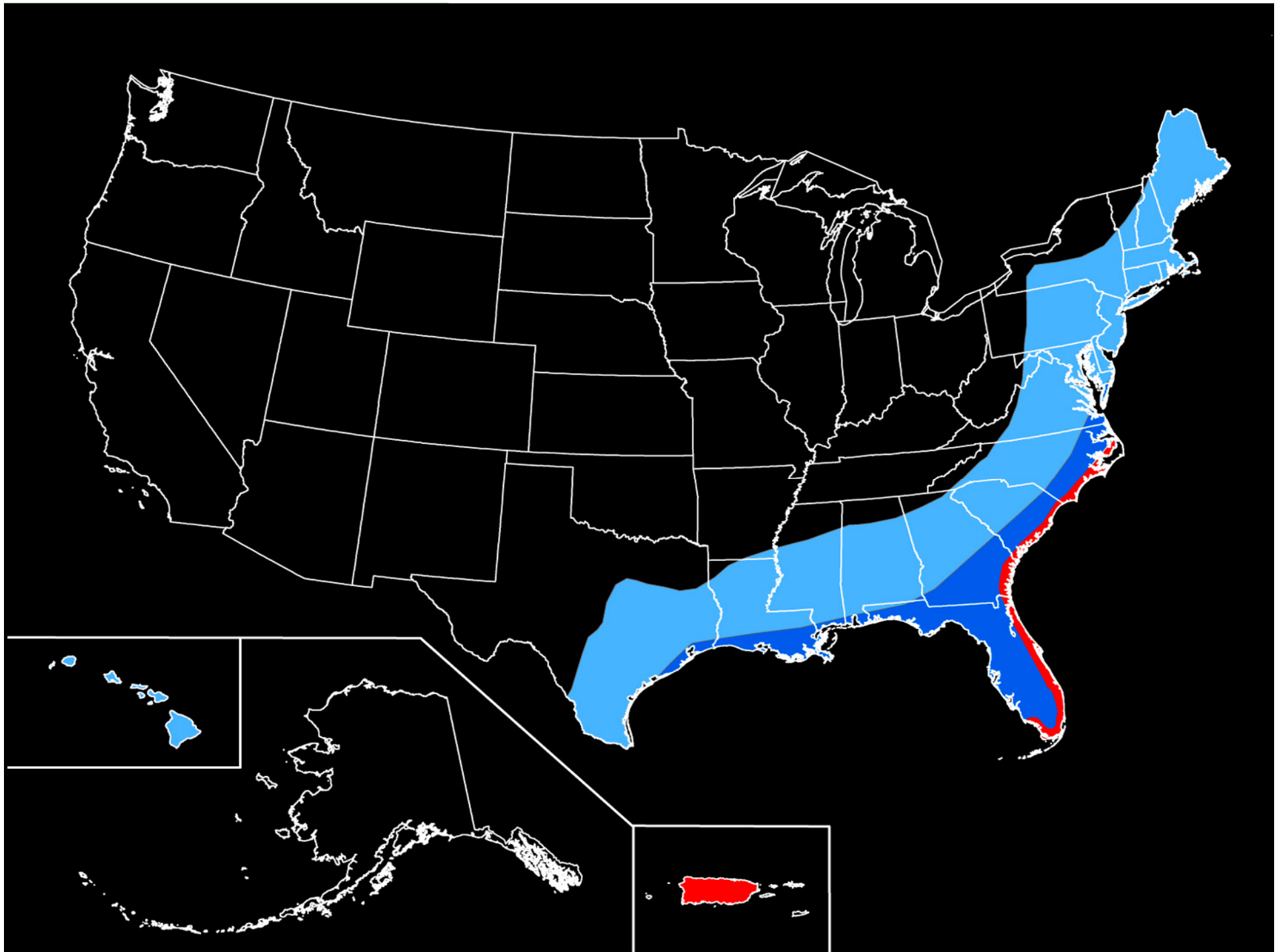
Map not to scale.

Source: the National Atlas and the USGS

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CONCERNS ABOUT RECENT AND PROPOSED CHANGES

- **Modeling to establish rates and reserves is controlled by the insurance industry without oversight. Garbage in, garbage out!**
- **Rates should be based on actual loss history for the coast and throughout the state.**

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CONERNS ABOUT RECENT AND PROPOSED CHANGES

2% Deductible or any deductible should be statewide and for hurricane or named storms only/sustained wind velocity

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CONERNS ABOUT RECENT AND PROPOSED CHANGES

Rate disparity between beach, coast, and inland is far too great. The coast has the strictest wind codes.

The entire state is at risk for hurricanes!

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CONCERNS ABOUT RECENT AND PROPOSED CHANGES

- **Attempts to limit assessments on companies for losses in the wind pool/beach plan will cause greater financial risk to the ncjua/nciua and our citizens.**
- **Pools will have to buy exactly the needed amount of reinsurance or accumulate excessive reverses resulting in higher premiums.**

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CONERNS ABOUT RECENT AND PROPOSED CHANGES

Hurricane wind rates and risk should be better allocated throughout the state. All information and historical facts show virtually the entire state is at risk from hurricanes or damage caused by their remnants including tornadoes.

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CONCERNS ABOUT RECENT AND PROPOSED CHANGES

Recommendation by the Joint Select Study Committee:

Reduce the amount of coverage for certain structures from \$1.5 million to \$750,000:

This will likely force insureds into non-admitted, non-regulated, nonstandard policy terms and forms markets with no guaranteed fund; will probably make the loss results of the beach plan/wind pool worse as those plans will pay losses first with the companies writing above \$750,000 having little or no risk.

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CONERNS ABOUT RECENT AND PROPOSED CHANGES

- Rates should vary based upon year of construction.
- Prior to the mid 1960's, there were not codes to govern construction. Since that time wind codes and code enforcement has been strengthened on several occasions.

Flood standards have also been implemented and strengthened. Protective measures such as shatter proof glass, storm shutters, standing seam metal roofs, etc. Should generate rate credits.



**Building Performance Assessment:
Hurricane Fran in North Carolina - Observations, Recommendations, and
Technical Guidance, Federal Emergency Management Agency
Mitigation Directorate
Washington, DC and Region IV, Atlanta, Georgia, March 1997**

“The State Building Code initially required pilings to be embedded 8 feet below grade. Later, it became apparent that this piling penetration requirement was inadequate for erosion-prone oceanfront buildings. The Code was revised on January 1, 1986, to require piling foundations in all coastal high hazard areas (NFIP V zones) and ocean hazard areas (identified by CAMA). Buildings constructed closer to the seaward edge of the vegetation line than 60 times CAMA's long-term erosion rate are now required to have pilings extending to - 5.0 feet m.s.l. or 16 feet below grade, whichever is less. At the same time, requirements for cross-bracing between pilings were added to improve wind resistance, making buildings with longer pilings readily distinguishable from older buildings on unbraced pilings with shallower embedment.

Wind-resistant construction techniques emphasizing improved connections from roof to foundation were in standard practice before 1970. Major increases in the wind criteria in the Residential Building Code have already been adopted and are scheduled to take effect sometime in 1997. The new criteria will, for the first time, apply up to 100 miles inland from the coast, rather than only on the barrier islands.”

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Wind Damage

Due to more stringent building code standards on the Coast, very high winds have a greater damaging impact on homes in counties farther inland and in the western part of the state!

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Federal Windstorm Plan Under NFIP?

Insurance Companies SAID NO! – April 2008

“PCI asks the U.S. Senate not to add wind insurance to the flood program (as proposed within H.R. 3121, the Flood Insurance Reform and Modernization Act) because either **private or state residual markets for windstorm coverage already exist for more than 99 percent of all coastal properties** in the United States. Only properties in significant disrepair, representing less than 1 percent of the total, are uninsurable through these programs.”

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No National Wind Plan! (con't)

- “It is troubling to hear continued claims that windstorm coverage is unavailable in coastal areas, when in fact, such coverage is universally available for homes in insurable condition,” says David A. Sampson, PCI’s president and CEO. “In areas where private coverage currently does not exist, homeowners can obtain wind insurance through state residual market plans, which are doing an excellent job of providing this service to consumers. We see no reason to risk the disruptive consequences of adding wind to the federal flood program when wind coverage is already available to coastal homeowners through private insurers or the states.”

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Why? Wind Premiums of \$38 Billion!!

“Such a program could also mean a loss of more than \$38 billion in private industry insurance premiums, which insurers must invest to build capital and surplus to cover insured losses. Given that insurers are also strong investors in municipal, state, and local bonds, this loss of revenue could result in a further loss of more than \$24 billion in bond investments.”

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\$38 Billion

\$38 Billion in annual premiums would go a long way to cover any and all damages from if the “What If” storm occurred!

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NC 20 Supports the Following:

- **NC 20** supports fair and accessible homeowner's insurance rates across the state.
- **NC 20** supports a stay of the effective date until May of 2011 on the changes made to the Beach Plan and Fair Plan approved by the Department of Insurance Commissioner on November 21, 2008.
- **NC 20** supports a stay on the effective date until May 2011 on the homeowners insurance rates ordered December 18, 2008 by the Department of Insurance Commissioner.
- **NC 20** encourages the legislature to appoint a study committee to comprehensively review the NC Insurance System which includes the Rate Bureau, Department of Insurance, NCJUA, and NCIUA.
- **NC 20** supports the creation of an Insurance Commission similar to the model of the Utilities Commission.

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NC 20 Supports (con't):

- **NC 20** supports transparency, accountability and verifiability of the North Carolina insurance system for a higher level of consumer protection.
- **NC 20** supports the use of actuarial data over modeling.
- **NC 20** supports statewide rate equity for HO-3 homeowner's policies.
- **NC 20** supports the current maximum coverage limit of \$1.5 million under the Beach Plan.
- **NC 20** supports statewide wind deductibles triggered by named hurricanes and capped at 1% statewide.
- **NC 20** supports incentive programs and credits for wind damage mitigation
- **NC 20** does not support a cap on insurer assessments.

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