

**LOUISIANA DEPARTMENT OF INSURANCE
OFFICE OF THE COMMISSIONER**

MEMORANDUM

DATE: July 9, 2010

TO: Lori Cherry
Deputy Commissioner/
Public Affairs

FROM: Jim Donelon
Commissioner of Insurance

RE: JEDCO Insurance Summit

As we approach the fifth (5th) year anniversary of the catastrophic hurricanes of 2005 I point to statistical data as the best evidence of our insurance market recovery to date. The state sponsored residual market for property insurance (Louisiana Citizens) had 111,000 policies in its book of business when Katrina hit Louisiana in 2005. That book swelled to 170,000 policies by 2008 and has been reduced to 127,000 policies today and that number continues to shrink on a monthly basis.

As a percentage of written premiums for homeowner's coverage, Louisiana Citizens has 6.4 % as of December 31, 2009 as compared with 6.3 % on December 31, 2004. That success is largely as a result of proactive steps taken by the Louisiana Department of Insurance, the Louisiana Legislature and our Governors following the catastrophic events of 2005. Those measures included the passage of our state's first ever statewide building code, the abolition of the last in America political insurance rating commission and the creation of the Louisiana Insurance Incentive Program. As a result of those measures and other steps we have attracted a dozen new to our market property insurers actively writing business below the I-10 to I-12 corridor.

Although coverage is still too expensive, prices have stabilized in the property insurance market as a result of the competition generated by the new to our state writers and the commitment to our market of Liberty Mutual, Republic Group and Farmers Insurance Company. Last year, the Wall Street Journal did a very critical editorial of the political leadership of Florida for putting the state at great fiscal risk by making Florida Citizens the primary market for property insurance in that state. They concluded that editorial by saying "If Florida had wanted to see how to do things right, they just needed to look down the coast to Louisiana, of all places, who did the following...".

The greatest threat to our continuing recovery is a class action law suit pending in Jefferson Parish that I have referred to as “morally and legally deficient”. Space does not allow me to explain the reasons for that description but suffice it to say that the tens of millions of dollars of attorney’s fees it proposes to award a handful of local attorneys would probably result in an assessment being necessary on every property insurance policy in the state of Louisiana. The public outcry after such an event would threaten our ability to continue our private sector based recovery by angering voters and legislators at the entire system.

Additional good news on the insurance front comes in the form of workers compensation insurance rates paid by employers dropping by a cumulative 44% over the past four (4) years as a result of robust competition by all of the national players together with successful self insurance funds sponsored by groups like the restaurant association, nursing home association, etc. On the not good news front is the fact that our auto insurance rates continue to be amongst the highest in the nation as they have been for decades but broken down by Parish the problem is concentrated in the metropolitan New Orleans area. The only parishes with a cost of auto insurance more than 5% above the statewide average are Orleans (42% above the state average), St. Bernard (32% above the state average), Plaquemines (15% above the state average) and Jefferson (13% above the state average). If those four parishes were within 5% of the state average as the other 60 parishes are we would have rates comparable to our sister southern states. In closing, I am pleased with our recovery to date and am committed to continuing my efforts to attract more competition to our property insurance market and thereby making all insurance coverage more affordable and available for the citizens and businesses of Louisiana. Be assured that I look forward to continued dialogue with your group and its members and stand ready to assist any with individual problems or questions.

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MEMORANDUM

DATE: July 9, 2010

TO: Lori Cherry
Deputy Commissioner/
Public Affairs

FROM: Rich Piazza

RE: JEDCO Insurance Summit

Commercial premiums are significant; \$4.4 billion written by the insurance industry in 2009. Most commercial insurance markets are competitive and expected to remain soft through 2010. Since 2005, commercial premiums collected are **up +25%** but over the past year commercial premiums collected are **down 2%**. AIG does not appear to have had any drag on the P&C market; Chartis (AIG's rebranding) is continuing to compete and is helping to keep commercial markets "soft."

Worker's compensation markets are very competitive with WC rates/\$100 payroll, on average, 20% below what they were in 1990! The reason is primarily employers emphasis on safety driving down accident frequency.

Commercial auto has become more competitive and, for the first time in many years, profitable to the insurance industry. This results in more competition commercial auto insurers and softer pricing. The commercial auto market improvement can be attributed to the bad economy (fewer miles driven) and, like WC, improved safety, e.g., better vehicles and more closely monitored drivers.

Commercial property rates in south Louisiana will never see pre-Katrina levels. Louisiana has been impacted by 5 of the most devastating 10 hurricanes in history; Katrina, Andrew, Ike, Ivan, Rita; between 1960 and 2010, Louisiana has four parishes with the highest frequency of hurricane loss; Lafourche (1st), Jefferson (6th), St. Bernard (9th), Cameron (10th); of the remaining top 10 parishes, 3 are in Florida and 3 are in North Carolina. Insurers are not inclined to forget the risk associated with hurricane. Today, they are using more sophisticated and accurate tools to match risk with a policy premium which, over the past ten years, raised property wind rates in south Louisiana and lowered

property wind rates in central and north Louisiana. Today we have more stable market than we did just two years ago.

In summary, property insurance still has potential to get more competitive, and is moving in that direction barring another Katrina-sized catastrophe; smaller catastrophes are not expected to impact rates. Insurance buyers have choices today that you did not have 4 years ago. In summary, commercial insurance rates are flat in 2010 and will continue to remain stable for the rest of the year.