

# Jefferson EDGE Insurance Summit

## June 25, 2010

### Program Overview

#### **Lee Giorgio, Chairman – Jefferson EDGE 2010 Insurance Strike Force**

Insurance is not the most compelling topic but something that is absolutely essential to conducting business and essential if business owners are to access the capital markets. The cost of property insurance has risen exponentially after Hurricane Katrina (by three times the premiums that were paid prior to the hurricane). Premiums have stabilized but are still elevated.

Recommendations for commercial property owners to reducing insurance costs:

1. Chose an insurance broker you have confidence in, utilizing more than one broker is counterproductive.
2. Aggressively engage insurers on a personal basis. Inform insurers of the major improvements in flood protection within the region and other major developments (such as the adoption of a statewide building code) that have substantially reduced risk in the region.
3. Obtain warranties on features of buildings that reduce risk, such as a roof, windows or storm shutters that are rated for high wind speeds.

The fundamental purpose of this summit is threefold: to educate about insurance trends, to advocate for better policies and to unify business leaders to seek an improved insurance market.

### Congressional Update

#### **Steve Scalise, Congressman – District 1, U.S. House of Representatives**

The National Flood Insurance Policy (NFIP) has a liability of \$19 billion, largely as a result of Hurricanes Katrina and Rita. Representative Scalise and Representative Taylor of Mississippi have introduced a bill (Multiple Peril Insurance Act) to include wind coverage within the NFIP program and to make other reforms, such as increasing the overall NFIP coverage limit. This would reduce private insurers' incentive to attribute a disproportionate and inaccurate amount of damage to flooding and it would help the NFIP to be more solvent and actuarially sound.

### State Update Post-Katrina

#### **Jim Donelon, Insurance Commissioner – State of Louisiana**

The state has aggressively reduced the number of policies provided by Citizens, the state run insurer of last resort. Prior to Katrina, Citizens had an inventory of 111,000 policies. That figure rose to 170,000 policies after Katrina and Rita, but the figure has now declined to approximately 127,000 policies.

Companies such as Republic, Farmers, and Liberty Mutual have dramatically increased their presence in the Louisiana market resulting from the \$100 million incentive fund that was created after Katrina to increase the participation of private insurers in the Louisiana market, which was a key strategy for reducing rates. A total of 12 new insurers have entered the market over the past several years as a result of these efforts.

There are two ways to get out of an insurance crisis:

1. The Florida model in which the state assumes the burden of providing insurance.
2. The Louisiana model in which the state attempts to cultivate a healthier private insurance market.

The *Wall Street Journal* endorsed the Louisiana approach, referencing Florida's model as neither sustainable nor fiscally responsible. Louisiana's adoption of a statewide mandatory building code is an example of an action that has improved the perception and the reality of reduced risk in Louisiana.

### Commercial Insurance Trends

#### **Rich Piazza, Chief Actuary – State of Louisiana**

In terms of commercial property, the fundamental reason that Louisiana faces the costs that it does is wind damage. The state has a tremendous exposure to wind. Of the ten largest, most expensive hurricanes, five hit Louisiana. Of the ten most hurricane impacted parishes/counties nationally, four are in Louisiana; Jefferson Parish is among these four. Property and casualty policies now are adequately priced to account for the risk of hurricanes. For instance, premiums did not increase substantially after hurricanes Gustav and Ike.

AIG is currently writing more commercial policies in Louisiana and is expanding their market share. Companion Property and Casualty has also written a considerable number of new policies in addition to the companies that Commissioner Donelon cited that have expanded their footprint. Markets are now more competitive than they have been for the past four or five years.

## **Surplus Markets**

### **Jason Williams of AmWINS Brokerage of Georgia**

The cost of surplus insurance lines is driven by supply. Demand remains relatively constant, but supply fluctuates. In the last 12 – 18 months, many new vendors have come to Louisiana.

RMS modeling is something that the insurance companies and rating agencies use to assess regional risk and the risk to individual structures. The RMS models incorporate “previous sins” such as the extent to which an area has flooded in the past. RMS models also monitor how much exposure companies have in a particular area. The cost of capital rises for those companies that are perceived to have too much exposure in a single geographical area.

Property owners should not treat insurance as a commodity. There are many levers to pull and many ways to reduce insurance costs, so businesses should shop around for different policies preferably through one broker.

## **Panel Discussion, part 1**

### **W. Anderson Baker, II, President – Gillis, Ellis & Baker, Inc.**

There is a cost premium to Louisiana properties not just because of wind exposure but also because of the difficulty in assigning liability to wind vs. flood. Private insurers are that much more reluctant to write policies within hurricane-prone areas because of that ambiguity and uncertainty.

Policy holders should move their renewal period to the end of the calendar year because that is when contracts between insurance companies and reinsurance companies come to a close. There may be ample deals available on insurance policies at this time of the year because of the insurance/ reinsurance dynamics. Although, property owners and businesses must accept the fact that policies are now priced more accurately and will be more expensive than they used to be, low deductibles and low premiums do not exist anymore.

## **Panel Discussion, part 2**

### **Dwayne LeBlanc, Executive Marketing Consultant – Assurant Specialty Property**

All flood policies are not equal; despite the fact that it is a federal program, it is provided through private insurers. Each private insurer may have a different interpretation of the program or a different understanding of its dynamics. Knowledge of flood maps and regulations could lead to a drastically more affordable flood policy from one provider vs. another. Business and property owners should seek a number of flood insurance quotes for their properties.

## **Panel Discussion, part 3**

### **Todd Thomas, Managing Director/Partner – Sigma Consulting Corporation**

In terms of reducing the cost of insurance, the market follows one general rule: pursue more information. One’s property may be overvalued, resulting in higher insurance costs. A re-evaluation could reduce the cost of insurance. Consider the following:

- Depending on the resources of the property owner, consider being self-insured. In the long run, self-insurance may be more affordable than taking out a surplus lines policy.
- Consider a high deductible policy.
- Tell your story to insurance companies. If your properties have been renovated and upgraded to more exacting codes, tell that story. If the risk of storm damage has been reduced in your community because of infrastructure improvements or other mitigation measures, tell that story as well.
- The insurance market frequently has duplicate coverage, which adds cost. Make sure that policies do not overlap in the coverage that they provide.
- Combining locations and bundling properties into a single insurance policy can also save money and result in more affordable premiums.
- Utilizing more than one broker is counterproductive, select one broker you have confidence in and negotiate their compensation. This is not a fixed cost and negotiating down the cost of the broker’s services can reduce costs.