



**Task Force on the Availability and Affordability of
Property Insurance in Coastal Areas**

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**Task Force on the Availability and Affordability of Property Insurance in
Coastal Areas**

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REPORT OF THE TASK FORCE ON THE AVAILABILITY AND AFFORDABILITY OF PROPERTY INSURANCE IN COASTAL AREAS

I. EXECUTIVE SUMMARY

In recognition of concerns over changes in the availability and affordability of property insurance in coastal areas all along the East Coast and into the Gulf, and in response to questions concerning the availability and affordability of property insurance in Maryland's coastal areas, the Maryland General Assembly, through signature of the Governor, enacted House Bill 1442 (Chapter 486 (2007)) "*Task Force on the Availability and Affordability of Property Insurance in Coastal Areas.*"

The statutory purpose of the Task Force on the Availability and Affordability of Property Insurance in Coastal Areas ("Task Force") was to "examine methods to ensure the continued availability and affordability of property insurance in coastal areas of Maryland." As part of its examination, the Task Force was required to study:

- (1) the availability and affordability of homeowner's insurance and other property insurance in coastal areas of the State, including the Eastern Shore and Southern Maryland, and whether there is sufficient competition within those areas;
- (2) the current number and types of insurers in the coastal markets, including admitted carriers, excess and surplus lines carriers, residual market mechanisms, captives, and the reinsurance market, and the types of products offered;
- (3) the competition and rate adequacy in the coastal markets for storm-related perils;
- (4) the impact of coastal markets on the availability and affordability of property insurance in noncoastal areas and the costs associated with spreading property insurance risks among homeowners across the entire State;
- (5) the regulatory framework within the State for the pricing and underwriting of property insurance, including the use of named storm deductibles;
- (6) the development and evolution of storm modeling and its use by the insurance industry in the assessment of potential losses from significant storms and the need for a regulatory framework in the use of storm modeling;

(7) potential structural protections for properties in coastal areas that would result in the mitigation of storm damage in coastal areas and the extent to which such mitigation has had a beneficial impact on the availability and affordability of property insurance in other states;

(8) the ability of the State to influence patterns of real estate development in coastal areas in a manner that minimizes future exposure of the State and Maryland residents to severe storm damage to property;

(9) the effectiveness, cost, and long-term viability of alternative market mechanisms, such as limited coverage products, wind pools, the expansion of residual market mechanisms, and catastrophe funds that have been implemented or are being considered in other states or by the federal government;

(10) initiatives adopted in other states to increase availability and affordability of property insurance in coastal areas; and

(11) any other matter the Maryland Insurance Commissioner deems relevant to the availability and affordability of homeowner's insurance in coastal areas of the State.

The Task Force held open meetings and solicited testimony and presentations from various organizations in an effort to fully study each of its charges. As a result of its review and deliberations, the Task Force makes the following recommendations:

1. Require any insurer that seeks to refuse to underwrite or renew a risk based solely on the fact that the risk is located in a certain geographic area to obtain the prior approval of the Insurance Commissioner. This recommendation would require legislation to amend the existing statute, Section 19-107 of the Insurance Article.

2. Require any insurer that seeks to use catastrophe modeling as a basis for its rating and/or underwriting to have its catastrophe model reviewed and approved for use by the Insurance Commissioner. This recommendation would require legislation that would be supplemented by regulation.

3. Require any insurer that seeks to apply a mandatory and separate deductible for losses arising out of a hurricane or named storm in an amount greater than 5% to

obtain the prior approval of the Insurance Commissioner. This recommendation would require legislation as the Insurance Article currently has no such restriction.

4. Require any insurer that seeks to apply a separate deductible for losses arising out of a hurricane or named storm to advise the insured of this separate deductible and its amount in the Annual Summary of Coverages and Exclusions as required by Section 19-205 of the Insurance Article. This recommendation will require amendment to the existing statute.

5. Require any insurer that seeks to apply a separate deductible for losses arising out of a hurricane or named storm to have common language that operates as a trigger for the application of the deductible. It is recommended that a hurricane or named storm deductible be triggered when the National Weather Service has issued a Hurricane or Named Storm warning for the State of Maryland and will be removed 24 hours after the National Weather Service has cancelled the Hurricane or Named Storm warning or watch. This recommendation will require legislation as the Insurance Article does not address this matter.

6. Require the development of a statewide building code that applies to all new construction and major renovations (equating to more than 50% of the property) with the requirement that residential dwellings meet the International Residential Code and commercial construction meet the International Building Code. This recommendation will require legislation.

7. Encourage mitigation efforts by requiring insurers to provide a discount on the policy premium for those insureds that undertake mitigation efforts to protect their properties in the event of a loss. Identifying the mitigation efforts that will entitle an

insured to a discount and the amount of the discount will be established by the Insurance Commissioner in regulation. This recommendation will require legislation that can be supplemented by regulation.

8. Provide the Commissioner with the authority to take the necessary actions, with respect to submission of claims, grace period for payment of premiums, postponements of cancelations and nonrenewals, and other powers as needed to protect the citizens of the State when the Governor has declared a state of emergency. This recommendation will require legislation as the Insurance Article does not currently provides the Commissioner with this type of authority.

9. Request the Maryland Insurance Administration to study the desirability and feasibility of a State Catastrophe Fund.

While the Task Force does not believe there is currently an issue of either availability or affordability of property insurance in the coastal areas of Maryland, it wants to make sure this situation remains that way and that the marketplace stays stable. Thus, the Task Force encourages the Maryland General Assembly to implement legislation to codify its recommendations.

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TASK FORCE ON THE AVAILABILITY AND AFFORDABILITY OF PROPERTY INSURANCE IN COASTAL AREAS

II. Introduction

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- (2) the current number and types of insurers in the coastal markets, including admitted carriers, excess and surplus lines carriers, residual market mechanisms, captives, and the reinsurance market, and the types of products offered;
- (3) the competition and rate adequacy in the coastal markets for storm-related perils;
- (4) the impact of coastal markets on the availability and affordability of property insurance in noncoastal areas and the costs associated with spreading property insurance risks among homeowners across the entire State;
- (5) the regulatory framework within the State for the pricing and underwriting of property insurance, including the use of named storm deductibles;

(6) the development and evolution of storm modeling and its use by the insurance industry in the assessment of potential losses from significant storms and the need for a regulatory framework in the use of storm modeling;

(7) potential structural protections for properties in coastal areas that would result in the mitigation of storm damage in coastal areas and the extent to which such mitigation has had a beneficial impact on the availability and affordability of property insurance in other states;

(8) the ability of the State to influence patterns of real estate development in coastal areas in a manner that minimizes future exposure of the State and Maryland residents to severe storm damage to property;

(9) the effectiveness, cost, and long-term viability of alternative market mechanisms, such as limited coverage products, wind pools, the expansion of residual market mechanisms, and catastrophe funds that have been implemented or are being considered in other states or by the federal government;

(10) initiatives adopted in other states to increase availability and affordability of property insurance in coastal areas; and

(11) any other matter the Maryland Insurance Commissioner deems relevant to the availability and affordability of homeowner's insurance in coastal areas of the State.

The Task Force held open meetings throughout the month of October in order to solicit information and testimony relevant to its charges. Minutes from those open meetings may be found in the Appendix of this report.¹

II. Maryland's Regulatory Framework

The Maryland Insurance Administration ("MIA") is the state agency charged with regulating the business of insurance in Maryland. Headed by the Insurance Commissioner, the MIA is responsible for monitoring insurer solvency and compliance, investigating consumer complaints, reviewing insurance rates and forms, licensing producers and insurance companies and educating consumers statewide on a multitude of insurance issues.

¹ Minutes from each of the Task Force Meetings are included as appendices to this Report along with copies of the handouts that were provided to the Task Force members at each meeting.

All insurers who issue, sell or deliver property insurance in the State of Maryland must file all policy forms with the MIA and obtain the Commissioner's prior approval before those forms can be utilized by the insurer. In contrast, the rates that are filed by insurers for property insurance are filed with the MIA under Maryland's competitive rating law, also known as "file and use" which authorizes insurers to use the rates once they are filed with the MIA as no prior approval is required. However, the Rates and Forms Section of the Property & Casualty Unit of the MIA does review the property rate filings in order to ensure the filings are in compliance with the Insurance Article and regulations; that is that the rates are actuarially justified and are not excessive, inadequate, or unfairly discriminatory. Reviewing filings are just one way the MIA works to protect Maryland property insurance consumers. In addition to rate and form review, the MIA works to protect Maryland property insurance consumers through regulation and examination of the insurance companies and regulation of insurance producers.

Additionally, the MIA works hard to empower Maryland insurance consumers through education. Through the Consumer Education & Advocacy Unit ("CEAU"), the MIA works to provide consumers with information about what is covered under their insurance policies, what their duties and obligations are under the policy, and what the insurance company's duties and obligations are to the consumer. The CEAU participates in fairs, tradeshows and other events all over the State; including regularly scheduled visits to Motor Vehicle Administration locations. At each event, MIA staff provide educational materials to consumers on various insurance issues, including automobile, homeowners, health and life insurance. At these events, the staff is able to answer numerous questions from consumers, including insurance rate and form issues and how the claims process works.

In reviewing Maryland's regulatory framework, the Task Force specifically examined

Section 19-107 of the Insurance Article which sets forth the requirements when an insurer seeks to refuse to underwrite (issue) or renew certain types of insurance² based solely on the geographic location of the risk. Specifically, Section 19-107 of the Insurance Article states:

(a) An insurer may not refuse to issue or renew a contract of motor vehicle insurance, property insurance, or casualty insurance solely because the subject of the risk or the applicant's or insured's address is located in a certain geographic area of the State unless:

(1) at least 60 days before the refusal, the insurer has filed with the Commissioner a written statement designating the geographic area; and

(2) the designation has an objective basis and is not arbitrary or unreasonable.

(b) A statement filed with the Commissioner under this section is a public record.

Currently, under §19-107, a carrier who wishes to refuse to issue or renew a contract of property insurance solely on the basis of the geographic area where the property is located must file a written statement designating the geographic area with the Commissioner 60 days before the change is implemented and that designation must have an objective basis and cannot be arbitrary or unreasonable. Underwriting is the process by which a company decides whether it should issue a policy and, if so, on what terms. A filing under Section 19-107 is not subject to the Commissioner's prior approval, but is made pursuant to Maryland's "file and use" system. This means that 60 days after providing its notice to the Commissioner, the carrier may begin implementing its geographic restrictions.

In preparation for the Task Force meetings, the MIA issued a data call to all property and casualty insurers writing property insurance in the State to determine if any insurers had

² As currently written, Section 19-107 applies to motor vehicle insurance, property insurance, or casualty insurance. However, for purposes of the Task Force, its review was limited to property insurance, and, more specifically, to homeowners' insurance.

geographic restrictions based solely on the location of the risk³. In response, the MIA learned that while most insurers had some type of controlled growth strategy in place for Maryland coastal risks, few had made filings in accordance with Section 19-107 of the Insurance Article. The MIA noted, however, that some filings could have been made by insurers before the MIA had implemented electronic record keeping. Thus, the MIA, working through its Compliance and Enforcement Section's Market Conduct Unit, is in the process of conducting an audit to be sure all property & casualty insurance companies with geographic restrictions in place have filed these restrictions with the MIA as required by statute. If the company made such a filing prior to the current electronic record keeping system, the MIA will obtain a copy from the insurer and note it in its database. If there have been changes to the previously filed restrictions or if an insurer has not filed its geographic restrictions in accordance with the statute, the insurer will be required to make such a filing. Preliminary results of this audit have revealed various compliance failures on the part of companies. Specifically, the MIA has found instances where insurance companies have:

- Failed to have a §19-107 filing and have/are in the process of submitting a filing to MIA;
- Failed to have a §19-107 filing and after receipt of the letter from the Market Conduct Unit are withdrawing the restriction(s) and will begin to write in coastal areas;
- Failed to have a §19-107 filing and have had coastal restrictions in underwriting guidelines only;
- Failed to have a windstorm/deductible filing; and/or
- Companies have made prior filings, but those filings do not accurately reflect the company's current underwriting practices.

The MIA's investigation is ongoing at this point in time, so complete information is not yet available. However, the preliminary results indicate a need for further refinement of § 19-107.

³ The MIA issued Bulletin 07-14 on August 13, 2007 seeking information related to homeowners and commercial property policies in coastal areas. A copy of this bulletin is attached in the Appendix.

In addition, in order to be sure all insurers were aware of and were in compliance with Section 19-107, the MIA issued Bulletin 08-01 on January 3, 2008⁴.

IV. Maryland's Coastal Property Market

Over 100 insurance companies are currently writing personal lines homeowners' insurance in Maryland; however, 80% of those policies are written by seven (7) different insurance groups. Each of these seven (7) different insurance groups is employing some type of controlled growth strategy in Maryland's coastal areas. The insurers that make up the other 20% of the market offering homeowners' insurance to Maryland citizens are also generally employing some type of controlled growth strategy in coastal areas. Although the commercial property market is not as concentrated as personal lines, there are nineteen (19) insurance groups writing over 75% of the premium in the State, the commercial property writers are also generally employing some type of controlled growth strategy.

When talking about controlled growth strategies, some of these strategies include: placing a limitation on the number of new policies an insurer will write; placing minimum limitations on the distance a structure must be away from the water which can range from 1,000 feet up to half (1/2) mile, to one (1) mile, to two (2) miles, to five (5) miles, to ten (10) miles, to twenty (20) miles, to fifty (50) miles, or nothing east of Rt. 528, or nothing east of Highway 13⁵. The range of "safeness" varies from company to company and may be reflected in no minimum distance from the water, in other words, no limitation at all, up to a maximum of 50 miles from the water.

⁴ A copy of this bulletin is attached to this report as part of the Appendix.

⁵ Some insurers are dealing with their exposure to potential catastrophic risk by non-renewing existing policyholders whose properties are located in certain geographic areas; however, this has not yet occurred in Maryland. To date, no insurance company writing in Maryland has chosen to deal with its risk exposures by non-renewing existing policyholders.

It is common for insurers to impose restrictions on their personal lines insurance policies that are different than those imposed on their commercial insurance policies.

It is also becoming increasingly common for property insurers to require certain minimum percentage deductibles for windstorm damages in those coastal areas in which they do offer coverage. A 2% and 5% deductible are the most commonly applied percentages and are calculated by taking this percentage from the amount of coverage on the structure or dwelling (this is known as Coverage A) in lieu of the usual flat dollar amount of a deductible (e.g. \$500 or \$1,000 standard deductible). Depending upon the specific insurer, these deductibles may be triggered by only "Named Storms" as declared by the National Weather Service or they may be applied to any windstorm claim. The range of deductibles available to an insured on a property insurance policy may vary from the same deductible for wind losses as is applicable for any other covered peril loss under the policy up to a maximum of 5% of the amount of coverage on the structure.⁶ Some carriers allow their policyholders to "buy this deductible back" and thereby keep the deductible lower, while other insurers make the percentage deductible mandatory.

Consumers in coastal areas will likely have a better chance of purchasing a property insurance policy with minimal restrictions from a smaller insurer as opposed to a large insurer. The reason for this is geographic concentration. For example, State Farm insures 20% of the personal lines market in Maryland and may therefore insure one out of every five homes in a neighborhood; whereas a small mutual insurer with a good reputation may insure only .1% of the personal lines market. Thus, the smaller mutual insurer may only insure one or two homes in the entire community. In the event of a hurricane or tropical storm hitting that community, State Farm would have a greater concentration of exposures and thus a far greater potential for losses

⁶ In some parts of the country, property owners have deductibles as high as 10% of Coverage A, the amount of coverage on the structure. To date, in Maryland, no insurer has a mandatory deductible that exceeds 5% of Coverage A.

than the small mutual insurer would face. Insurers with significant market concentrations must look at potential catastrophes differently than insurers with smaller market shares. As a result, consumers are likely to find smaller insurers are more open to writing new business than larger insurers.

V. The Development and Evolution of Catastrophe Modeling

The Task Force heard presentations from the three most prominent storm modeling companies, AIR Worldwide, RMS and Eqecat. The goal of catastrophe modeling is to reduce the uncertainty in insurers' business operations due to potential losses from catastrophes. Within the industry, catastrophe models are used to make underwriting decisions, portfolio management and risk transfer decisions. While catastrophe models may not always appear accurate when looked at on an event-by-event basis, they are an accurate predictor of future events when validated against past experience. Catastrophe models are used by insurers to develop underwriting standards; that is to determine where the company should be writing and where it should not be writing and how it should price the risks that it is writing.

AIR was the first of the catastrophe modeling companies and was founded in 1987. RMS was founded in 1988 and Eqecat was founded shortly thereafter. Each modeling company offers a variety of different models covering perils such as hurricanes, tornadoes, and earthquakes. Interest in catastrophic models for hurricanes was spurred by Hurricane Andrew in 1992 which resulted in \$16 billion in losses and the insolvency of eleven (11) insurance companies. The Hurricane Andrew experience served as a wake up call to insurers whose losses exceeded all the premiums the insurers had collected over all the prior years. The focus was again on catastrophe modeling following the Northridge earthquake in 1994 when insured losses in CA exceeded \$12

billion. Then in 1996, the rating agencies (such as AM Best, Standard & Poor, etc.) began requiring catastrophe loss information be considered when rating an insurer's financial stability. The 2001 terrorist attacks caused \$40 billion in insured losses which, at the time, was the largest single insured loss and that led to the creation of terrorism models being applied to property and casualty lines, as well as workers' compensation and life insurance lines. In 2004, four hurricanes hit Florida and caused \$20 billion in insured losses and resulted in the insolvency of two (2) insurance companies, one of which was the third largest insurer in the state. In 2005, another significant hurricane season resulted in \$50 billion in insured losses and the insolvency of one (1) insurance company. Following each of these events, the role and demand for catastrophe modeling increased.

Each of the modeling companies has the same basic three (3) components in a catastrophe model: 1. hazard, 2. engineering, and 3. financial. The first step in generating the hazard component of the model is to define the risk and create a catalog of the potential future events (such as hurricane, tornado, earthquake, etc.). This catalog is based, in part, on historical data as a means to predict what will occur in the future. The catalog is a list of all the events that are scientifically possible. For each such event, a footprint is created to assess the conditions that may occur in the places where the event may happen and a time profile is created for the event applying a wind speed, rainfall, etc. to every location for the entire period of the event. This results in measurements not just of the strength of the event, but the duration of same as well.

Then, the model goes into the engineering component which seeks to predict the amount of damage that will be sustained in the effected area. This is done by inputting all the individual

characteristics of the property structures located in the affected area, such as the building materials and the manner in which the structure was built.⁷

The financial component of the model looks to the policy conditions to enable the model to calculate the projected insured losses by factoring in the limits of coverage, reinsurance, and exclusions.

The Task Force was told that the catastrophe models are based on the best available science and its components cannot be manipulated by the insurer client to obtain a desired result.⁸ No client is able to customize or alter the software's underlying science that is used to create the hazard component of the model. Indeed, it is not until the engineering component that an insurer has any input to the model at all which is when it provides the modeling company the data on its insured property risk characteristics.⁹ Over time, insurers have been able to provide more personalized data for various locations which, in turn, has allowed the models to become more accurate in its projections.

Models are used to predict the frequency of storms as well as the severity of storms and the model is tested for accuracy by using retrospective validation. The frequency predictor is done in a manner distinct from the validation of the severity predictor; however, both are done in tandem to ensure the model as a whole is a valid predictor.¹⁰

⁷ This would include the building codes applicable during the construction of the property and whether the structure met, exceeded or was below those requirements. Specifically, the model would look to determine how the roof was attached, whether there are secondary water barriers, bracing of gable end walls, the strengthening of roof-to-wall connections, protecting or replacing the glazed openings (such as windows, skylights and gable end vents), and protecting or replacing doors (particularly entry and garage doors).

⁸ RMS stated that its model was based on objective and unbiased science.

⁹ Each of the models are proprietary and constitute the company's intellectual property, but all the modelers expressed a willingness to work with the regulators to walk through the models and explain in detail how they work.

¹⁰ The representatives of the modeling companies told the Task Force that each of the companies does retrospective validation of its models through its research and development department; as well as having experts in the field following a catastrophic event so the experts can match what actually occurred to what the model predicted would

Catastrophic losses are only one factor that goes into the calculation of an actuarially sound rate. First, you need actuarially sound rates that consider all the costs associated with the risk transfer; including the expected loss costs associated with the average annual losses and the cost of capital to protect against probable maximum losses greater than the annual premiums. These losses are hard to predict and, therefore, hard to estimate solely from historical data. The modeling companies explained that catastrophe models do more than simply rely on historical data. Catastrophe models are used to simulate thousands of years to produce projections for total expected insured losses which is an important part of the rate or premium. Modelers believe there are advantages to the use of simulation over the use of historical data alone in determining catastrophe rates. Simulation allows for the effects of changes over time for population patterns, housing stock and building codes and the amounts of insurance as well as replacement costs. The models provide a more complete picture of the distribution of possible losses, including what could happen if an event occurred for which there is no recent historical data and it sets a framework within which one can analyze the loss results. That is not to say historical data is ignored; in fact, all models are extensively validated against scientific observations and claim data from actual historical events, it just that it is not the sole data models rely upon. The "standard hurricane model" is based on the historical 100 year catalogue as opposed to the "alternative catalog" which only uses data for years when the sea surface temperature ("SST") is elevated or warmer than normal. However, AIR cautioned that use of the alternative catalog is less accurate as it is based on less data.¹¹ The lack of hurricanes in 2006 and 2007 will impact

occur. Finally, when the models have been tested by comparing the modeled losses to actual losses, the models have performed well and tracked the actual losses fairly closely. As the hurricane data is updated yearly, so to are the company's catastrophe models.

¹¹ Air noted that while an increase in SSTs does correlate to an increase in the Atlantic Basin storm activity, it does not translate into an increase in those storms or hurricanes making landfall in the United States. There is no linear relationship. The relationship in an increase in overall activity and the increased frequency of landfall is being

and become part of the standard and alternative catalogs or models because we are in a time of warmer than average SSTs, but despite that fact, the US has not experienced hurricane landfalls. Obviously, the impact of this lack of storms will be greater in the alternative catalog as opposed to the standard catalog because the alternative catalog uses less data, years with elevated SSTs, and these two years, 2006 and 2007, will carry greater weight in the alternative catalog.

Under the standard catalog, the average annual loss for Maryland is \$31 million. That means that in any given year there is a 1% probability that a hurricane loss would exceed \$650 million. Thus, the probable maximum loss ("PML") is \$650 million. It was noted that Maryland has \$1 trillion in property insurance of which \$14.2 billion is coastal property insurance or 1.4% of the State's property insurance is represented in coastal insured property. Like AIR, RMS calculated that Maryland has \$1.1 trillion dollars in insured property; however, RMS calculated the average annual loss for Maryland to be \$19 million and the PML being \$372 Million.

RMS talked about the validity of its "near term model" which reflects the reality that the severity of storms have increased since 1970 and the frequency of storms has increased since 1995 and then makes its predictions using the full historical record, but only looking forward for a five (5) year period. RMS believe that the long term model has under-estimated the Atlantic Basin activity and that it is too slow to reflect changing events. Specifically, RMS stated that the standard hurricane model did not adequately account for the Atlantic multi-decadal oscillation ("AMO"), climate change or global warming. In addition, RMS stated that the historical records from before 1950 are not complete and this results in under-estimation of storm activity.

The catastrophe modeling profession is still in its infancy and does not yet have an overarching professional organization that certifies its members as having reached a standard of

researched based on warmer sea surface temperatures. It is not clear what the relationship is between warmer sea surfaces and the likelihood of landfall or increase in the severity of storms.

professionalism. Currently, catastrophe modeling is more of a discipline with a very young International Association of Modelers. However, inside each modeling company, there are professionals on staff all of whom meet the professional standards for each of their individual disciplines, such as engineering, meteorology, geophysics, etc. Many are PhDs and have advanced training and certifications in their area(s) of specialty.

The Task Force did learn that some states do exercise oversight of catastrophe models and their use by insurers. These states include Florida, South Carolina, Louisiana, Texas and Hawaii.

In sum, while the use of catastrophe models raises some questions and poses new legal and regulatory challenges, there is no escaping the fact that the insurance industry relies heavily on models and that this reliance is almost certainly going to continue, if not increase.

VI. Mitigation of Storm Damage

In order to better understand mitigation efforts and their impact on the availability and affordability of property insurance, the Task Force had presentations by:

- South Carolina Safe Home Program, a state sponsored mitigation program;
- FLASH, the Federal Alliance for Safe Homes, an advocacy and educational organization designed to promote life safety, property protection and economic well-being by strengthening homes and safeguarding families from disaster;
- ISO, a licensed advisory organization in all 50 states and the leading provider of actuarial, statistical, policy forms and other data to the property and casualty insurance industry;

- Institute for Business and Home Safety (“IBHS”), a national nonprofit trade association created and funded by the insurance industry whose mission is to reduce the social and economic effects of natural disasters and other property losses;
- SkyeTec, a certified inspector for the My Safe Florida Safe Home Program and the South Carolina Safe Home Program; and
- Maryland State Builders Association, a statewide affiliation of local builder associations whose members include builders, remodelers, developers, and related businesses.

A risk is impacted by where the structure is built, how it is built (the design and construction) and how it is maintained. In order to reduce risk and thereby lower the cost of insurance and encourage more insurers to underwrite the risk, structures need to be built with disaster resistant features, retrofitting of existing structures should be encouraged and undertaken, and maintenance of properties should be promoted. All of this can be achieved by:

- Public education through leadership;
- Disaster resistant new construction;
- Retrofitting of existing homes;
- Business continuity planning; and
- Stronger building codes.

Building codes and practices have made a difference in the severity of damages homes have sustained following a catastrophic event. While it may cost a little more to build a house to survive a natural disaster, in the long run it is worth it since a safer home translates to savings post-storm. A recent study by the National Institute of Building Sciences, *Natural Hazard Mitigation Saves: An Independent Study to Assess the Future Savings from Mitigation Activities*,

December 2005 verified that the cost benefit of mitigation was a 4 to 1 return on investment. IBHS promotes a "Code Plus" program for all new construction which may add anywhere from 3- 10 % to the cost of construction, but will pay for itself in less damage following a natural disaster.¹² Another presenter to the Task Force advised that the evidence shows that for every dollar spent on mitigation, \$5-\$7 is saved on future losses. FLASH advised as Maryland works on mitigation efforts for one peril, such as wind, it is important to make sure the solution works for all perils; including wind, flood and fire.¹³

Initially, the focus of mitigation efforts was on new construction as construction was ongoing, particularly in coastal areas. In addition, many were concerned that retrofitting existing buildings and structures would be too hard and too expensive. However, following Hurricane Wilma, the vulnerability of existing properties became obvious. In addition, it demonstrated that many moderate and lower income families were significantly impacted as they tended to reside in older homes that were not built to withstand storms.

The real focus of mitigation efforts should be on preventing the damage from occurring in the first place and the best way to do that is by utilizing building techniques that will enable a building or home to withstand a natural disaster.¹⁴ Certain building techniques offer mitigation protection and, typically, qualify as a basis for mitigation credits and deductions required by states for grants or tax credits and credits towards insurance premiums.

¹² One of the IBHS supported programs is the "Fortified Home" which is built to standards above the existing codes; this was referred to as the "Gold Standard." IBHS offers on line training for building professionals so they can be aware of this opportunity to build a safer home and market it as such.

¹³ FLASH has a number of consumer awareness programs and materials that can be co-branded by a State. The Task Force recommends that various State agencies, trade associations and other affected groups may wish to take advantage of these materials in order to promote education of Maryland citizens.

¹⁴ The seven key factors for wind mitigation are: roof attachments, secondary water barriers, code-plus roof coverings and attachment methods, bracing gable end walls, strengthening roof-to-wall connections, protecting or replacing glazed openings, and protecting or replacing doors.

Another important aspect of mitigation is having the strongest possible state-wide building code. In addition to requiring the highest building codes (for residential construction, that would be the International Residential Code and for commercial construction, it would be the International Building Code) for new construction or where the amount of needed repairs exceeds 50% of the existing structure, the states also need to enforce those building codes. There is no benefit achieved from having a strong building code if it is not enforced.¹⁵ The concept of what affordable housing means should be reformed to include a home that can withstand various disasters. States need to update their building codes so that retrofitting will not always be required. The initial investment in better built structures will be a cost savings to the property owner over the life of the home or structure and will reduce the cost of being a property owner in areas susceptible to disasters. The support for more stringent building codes and rigorous enforcement of same was stressed by South Carolina Safe Home, FLASH, ISO and IBHS.

Other states with coastal property exposures have created programs to address mitigation as a means of protecting their citizens. Looking at a ten (10) year snapshot of the effect of FEMA Mitigation Grants/Projects shows that mitigation reduces human losses (death, injuries and homelessness), reduces direct property damage, reduces direct business interruption losses, reduces indirect business losses, reduces non-market damages, and reduces the cost of emergency response.

The Florida Safe Home Program was initially created with the goal of protecting Floridians and their homes from hurricanes and to reduce future property losses and to provide incentives for personal mitigation behavior through discounts & credits for wind mitigation efforts undertaken by the homeowner, thereby stretching private capital. The program provides

¹⁵ While Maryland has a good statewide building code, the problem is that local governments are allowed to deviate from the statewide code, thereby undercutting the benefits provided by strict building codes.

free wind mitigation inspections performed by certified inspectors who provide the homeowner with a detailed report that rates the home's ability to withstand wind damage and then provides a list of suggested improvements that strengthens the home's ability to withstand wind damage. The suggestions for improvements provide an average cost to have the work done, the projected savings the homeowner should experience if the mitigation is undertaken and the improvement in rating the home will receive as a result of the mitigation effort undertaken. It also advises the homeowner of any opportunities for matching grants to help defray the cost of mitigation. In order to implement these goals, the Florida legislature appropriated \$250 million for the activities of the Florida Safe Home Program with the idea being that as many as 50,000 Floridians would be assisted in mitigation efforts for their homes.¹⁶ By the end of the 2006 hurricane season, 12,000 citizens had participated in the program.

The South Carolina Safe Home Program was based in large part on the Florida program and had the same goals; however, South Carolina does not perform the inspections of its citizens' homes for free. Instead, South Carolina made the decision to charge for the inspections that are performed by a state-certified inspector. These inspections also provide a road map for the homeowner to follow in order to harden the home and protect it from damage in the event of a natural disaster. South Carolina, like Florida, does offer grants for mitigation for properties located in its coastal areas (matching up to a maximum of \$300,000 for a structure and non-matching up to a maximum of \$150,000). The South Carolina program was funded with a \$2.3 million appropriation from the premium tax the state collected from insurance companies and it has the opportunity to seek additional funds if needed.

¹⁶ Another \$100 million was added to the program from HUD funding and this allowed the project to expand with a goal of serving 70,000 Floridians.

The Maryland State Builders Association supports strong building codes, but their representative noted that the State's ability to control either the amount or the quality of construction in the coastal areas is limited since all land use and zoning decisions are made at the local government level, not at the state level. Currently, local jurisdictions develop local building codes based on the jurisdiction's specific needs.

The presenters left the Task Force with the following suggested reforms for the State of Maryland to consider:

- Immediately close gaps in building codes
- Adopt and apply model codes for all new construction
- Redefine affordability of housing to include disaster-resistance to be part of the cost of housing
- Establish mitigation programs to fit needs of Maryland exposures – including the perils of wind, water and fire.
- Make disaster protection a public value
- Help educate owners and occupants about the importance of building codes and “Code Plus” for disaster resistance
- Promote the construction of disaster resistant new structures
- Promote the retrofitting existing structures to withstand disasters
- Enforce strong building codes
- Establish incentives for disaster resistant buildings and retrofitting of existing structures (e.g. by giving tax credits for protective devices such as hurricane shutters, establishing catastrophe savings accounts, waiving building permit fees

if structures are Code Plus, mortgage lenders to provide rate discount for homes built with disaster resistance standards, etc.).

VII. Alternative Market Mechanisms

Maryland has a property insurer of last resort known as the Joint Insurance Association ("JIA").¹⁷ If a consumer cannot obtain property insurance in the private marketplace, that person may apply for property insurance with the JIA. Any insurer that cancels or nonrenews a property insurance policy is required to advise the insured of their ability to replace the insurance through the JIA.¹⁸

Currently, the JIA has 60% of its business submitted by producers and 40% is written directly by the JIA. As of August, 2007, the JIA had a limited policy volume with 2,246 homeowners' insurance policies in place, 2,410 dwelling fire policies in place and 120 commercial property insurance policies for a total of 4,776 policies in the State.¹⁹ The JIA has not experienced a capacity problem, its book of business is not growing, nor has it experienced any significant change even as standard insurers are adjusting their controlled growth strategies in the coastal areas. This would suggest to the Task Force that private market is able to provide the necessary property insurance to Maryland property owners.

A panel of independent insurance producers also made a presentation to the Task Force.²⁰

¹⁷ See Insurance Article, Section 25-401 et seq. of the Annotated Code of Maryland.

¹⁸ See Sections 27-602 and 27-603 of the Insurance article, Annotated Code of Maryland.

¹⁹ It should be noted that the insurance policies sold by the JIA are not identical to those sold by private insurers. The JIA insurance policy represents "essential property insurance" and its policies do not contain all the extras that many people consider common when buying a homeowners' insurance policy from a private insurer.

²⁰ Actually, the producers made 2 separate presentations, one on October 3, 2007 and one on October 30, 2007. Please refer to the minutes attached as part of the Appendix for more details regarding these presentations.

The producers stated that they did not believe there was any crisis in the property insurance market for coastal areas; nor were they aware of any carriers pulling out of the coastal areas. The producers indicated that there are unique characteristics in play when obtaining insurance for properties located in coastal areas that are not present for properties located in non-coastal areas. Specifically, it was noted that many properties in coastal areas are secondary homes or rental properties and are not owner occupied year round. This puts the property at greater risk for freezing and water damage claims, as well as vandalism and theft losses. When there are greater risks, there are greater costs associated with insuring the risk. However, an experienced producer knows where to go to obtain coverage for a property owner. Most producers know and are familiar with the underwriting guidelines and appetite for risk of the insurance companies with whom they have appointments to act as agents which enables the producer to match the owner with an insurance company that meets their needs in terms of coverages and prices.

The producers told the Task Force that they were aware of insurance companies reassessing their risks and some companies applying special deductibles of 1-5% for wind and hail losses or hurricane losses, but stated that these changes had not impacted their ability to place the property insurance. The producers indicated that they were able to place insurance for those persons coming to them or their agencies and were not forced to go to the JIA. While it may require a little more diligence on the part of the producer to obtain the necessary coverages for an acceptable price than it has in the past, none of the producers recalled any instances of being unable to place a risk.

A representative from a surplus lines broker²¹ also addressed the Task Force and reiterated that he did not believe there was a problem in obtaining property insurance in Maryland. The broker advised that he had six (6) non-admitted markets for property insurance risks to be placed; all of which are open for business and actively seeking same.²² Again, it was noted that some of these insurers were applying percentage deductibles of 3-5% for waterfront properties and as low as 1% for those properties located one to five miles from the water. The broker advised that some surplus lines insurers were actually reducing prices, which was, to him, an indication that affordability was not an issue either.

Essentially, the producers did not feel that there was a problem with either availability or affordability in obtaining property insurance in coastal areas. Thus, they did not suggest any changes to be made as they believe the market place is in balance and functioning well.

VIII. The Impact of Reinsurance and Rating Agencies

As there have been suggestions that property insurer's actions in reassessing their coastal exposures is based on reinsurance and rating agencies; the Task Force thought it important to have presentations by reinsurers and rating agencies to understand the role these non-state regulated entities have on the insurance market.

The Reinsurance Association of America ("RAA") is a trade association that represents property & casualty organizations that specialize in offering reinsurance. RAA members provide two-thirds of the property & casualty reinsurance in the United States. Reinsurance is commonly

²¹ Surplus lines brokers place insurance risks with excess and surplus lines companies that are not admitted insurers licensed to do business in the State. This means a policyholder with a surplus lines policy will not have the protection of the Property and Casualty Guaranty Corporation, nor the assistance of the Maryland Insurance Administration in the event of an issue since it does not regulate surplus lines insurers.

²²For this surplus lines broker, the six markets include 4 Lloyds of London syndicates, Lexington Insurance Company and Scottsdale Insurance Company. In addition, there are other surplus lines insurers that may also be an option for taking on Maryland risks if the admitted insurers are not interested in writing the coverage.

referred to as "insurance for insurance companies." It is not something that directly impacts consumers; rather, it is a tool insurance companies use to manage their risk after looking at their own exposures and capital position. Typically, reinsurers will pay one third of any catastrophe losses. Thus, reinsurance allows primary insurance companies to write more insurance and it serves to bring availability and affordability to the coastal property insurance market.

In 2004, there was \$43 billion in insured losses and no reinsurer insolvencies occurred. In 2005, there was \$80 billion in insured losses and no reinsurer insolvencies occurred. In 2006, following the unprecedented hurricane activity in the United States, the demand for reinsurance outstripped the supply. Primary insurers were shocked by their losses and wanted to purchase more protection in terms of reinsurance as the costs of Hurricane Katrina exceeded the models estimated losses by more than 50%. Thus, primary insurers were forced to reassess their exposures. In addition, there was pressure from the rating agencies which were requiring primary insurers to maintain more capital or reinsurance for catastrophe losses in order to protect and maintain their financial ratings. Added to this mix were the predictions of increased hurricane activity for the next few years. However, in 2007, the reinsurance marketplace stabilized and 12 new reinsurers were created. There was more reinsurance capacity in 2007 as evidenced by the fact that more reinsurance was sold in 2007 than was sold in 2006 which was more than had been sold in 2005. Finally, the cost of reinsurance has dropped approximately 20% from its high of 2006 to the price in mid-2007.

The RAA maintained that reinsurance is available and is affordable in Maryland. While there is adequate and affordable reinsurance available to primary insurers, there is still the need to consider an insurer's appetite for risk, its exposures in the area and, if the insurer is over-exposed, it will need to reduce its writings regardless of the availability of reinsurance. In

addition, there is an increase in the volume of reinsurance being purchased by any given company and that will impact homeowners' premiums. So, while the price of reinsurance may be dropping, primary insurers are purchasing more reinsurance to protect themselves and their ratings in the financial market.

The Task Force had a presentation from a representative of A.M. Best, a financial rating agency. In 1906, A.M. Best began rating property insurers. A.M. Best is a member of the National Registered Statistical Rating Organization ("NRSRO") which is coming under the regulatory authority of the Securities and Exchange Commission ("SEC") and it will be subject to audit by the SEC.

The goal of AM Best's financial strength ratings is to play an objective and constructive role in the insurance industry in the prevention and detection of insurer insolvency. A.M. Best uses its Financial Strength Rating ("FSR") to provide an opinion on the insurer's ability to meet its ongoing obligations to policyholders. The ratings are prospective and look with longevity as opposed to present short-term ratings. This lends strength to the idea that the rating is tied to the solvency of a company and the prevention of insolvency. The FSRs vary with Secure Ratings going from A++ down to B+ and Vulnerable Ratings going from B to D.²³ When an insurance company has a secure rating, it indicates the company is less susceptible to market changes and the company has the ability to meet its financial obligations.

There is a large audience that uses A.M. Best's ratings which includes government agencies, reinsurance companies, agents, brokers, regulators, investors, financial institutions and others. The rating that a company has can impact what entities will do business with that company. For example, when purchasing a home, Fannie Mae and Freddie Mac require that the

²³ There are ratings of E and F with E being a company that is under regulatory supervision and F being a company in liquidation; these last two categories mean that the Department of Insurance has taken action and that A.M. Best is no longer reviewing the insurance company.

homeowners' insurance policy be with a carrier that has a B or better rating. In the commercial markets, lenders require commercial property insurance to be placed with a carrier that has an A- or better rating.

A.M. Best's financial rating approach has three (3) key components to determine the FSR that will be assigned to an insurance company. Best looks at the company's balance sheet strength, operating performance and business profile.

When determining the company's balance sheet strength, Best looks at the underwriting leverage (how much risk is the company taking on?), the risk adjusted capital (how much capital does the company have on hand as opposed to how much they are required to have?), what the capital structure/holding company structure is, the quality and appropriateness of the company's reinsurance (what is the amount of recovery that the company will successfully collect from the reinsurance?), the adequacy of the company's loss reserves, the quality and diversification of its assets, and its liquidity in relation to its probable maximum loss ("PML") (if there is a large loss, does the company have enough cash to pay all its claims?). The capital adequacy ratio is a proprietary model that A.M. Best developed to evaluate all the components simultaneously in order to determine the overall estimate of the required level of capital a carrier is required to maintain in order to support its risks; that is how much capital a carrier should have on hand. A.M. Best requires a minimum amount of capital to obtain a specific rating.

When evaluating a company's operating performance, A.M. Best looks to the level of profitability; both historically and prospectively (how much of its profits come from underwriting and how much from investments?); its stability and volatility of earnings, its revenue composition (the quality of its earnings); and its ability to meet its goals and plans (A.M.

Best meets annually with companies to review its strategic plans and how the company is meeting its goals).

In reviewing the company's business profile, A.M. Best looks at the market risk, how that risk is spread (what is the amount of concentration), its event risks (what are its catastrophe exposures), the competitive advantages (how does the company retain its policyholders, through price or products?) and the overall management of the company. It is really a qualitative analysis of management's ability to understand risk when it writes a policy and how that risk interacts with its entire book of business.

While capital strength is the foundation of an A.M. Best rating, it also looks for and evaluates sustained stable operating profitability with the ability to add future capitalization to ensure future strength; a well-diversified strong business profile to ensure stability and the ability to respond to market changes; and a management team with depth, experience and stability that will operate the company well in the future.

For rating purposes, a company's exposure to catastrophic risk is very important since catastrophic risk operates as a primary threat to an insurance company's solvency. No single exposure can affect policyholder security more instantaneously than a catastrophic event. While catastrophic losses may not be the primary reasons for insolvency, they are number 5 or 6 on the list of factors that lead to insurer insolvency.²⁴ A.M. Best does not have catastrophe models and does not have the expertise to create same; however, they require insurance companies provide them with the data on their book of business that would include the insurers' exposures to catastrophic events and PML. While A.M. Best does not care about where the company chooses

²⁴ The primary cause for insurer insolvency is deficient loss reserves (37.2%), followed by rapid growth of the insurance company (17.3%), alleged fraud (8.9%), and overstated assets (7.8%). Then comes catastrophic losses. For instance, in Maryland, when tornadoes struck Charles and Calvert counties in April of 2002, they led directly to the insolvency of Mutual Fire Insurance Company of Calvert County ("Calvert County Mutual") which had been in existence since 1858.

to write, it does care about the amount of risk an insurer takes on and how it manages those risks. If the company's risks are more exposed to catastrophic events, it impacts the insurer's ability to pay claims and thus, its rating. Therefore, an insurer that reduces its risks and its susceptibility to losses by pulling out of areas where it is over-exposed to catastrophic events, will experience an increase in its financial rating.²⁵

VII. Initiatives Adopted in Other States

While many states have made reforms related to property insurance in coastal areas, the Task Force received the greatest amount of testimony regarding the South Carolina Omnibus Coastal Property Insurance Reform Act of 2007.

The South Carolina Omnibus Coastal Property Insurance Reform Act of 2007 made several reforms to South Carolina law.²⁶ Some of the provision of this Act include:

- Creating catastrophic savings accounts. Funds contributed to a catastrophic savings account may be deducted from South Carolina state income tax.
- Providing a state tax credit for taxpayer's who incur costs in retrofitting their homes to make them more resilient to natural disasters and hurricane losses.
- Providing a state income tax credit for excess premium²⁷ paid on the taxpayer's primary legal residence.

²⁵ In the last twenty (20) years and using A.M. Best ratings, those insurers with secure ratings (A++ to B+) were rarely impaired, while companies with vulnerable ratings (B to D) became impaired.

²⁶ A copy of the South Carolina Omnibus Coastal Property Insurance Reform Act of 2007 is attached to the report in the Appendix.

²⁷ Excess premium is the amount by which the premium paid exceeds 5% of the taxpayer's adjusted gross income.

- Conferring emergency powers upon the Insurance Director to issue or extend an emergency regulation designed to facilitate recovery from the emergency and protect the interest of the public when the Governor declares a state of emergency.²⁸
- Providing a premium tax credit for licensed insurers who write full property and casualty coverage that specifically includes wind and hail coverage in areas eligible for coverage through the state created "Wind Pool."
- Requiring all insurers, when issuing or renewing a policy, to notify the policyholder of the availability and range of premium discounts, credits, rate differentials or reduction in deductibles if the property owner has undertaken mitigation efforts.
- Requiring that any rate filings made after July 1, 2007 that excludes coverage for wind are reviewed to ensure that the rate reflects the appropriate discount commiserate with the reduction of risk of loss from wind.
- Providing that certain activities are eligible for discounts or credits towards the property insurance premiums.²⁹
- Reforming and expanding the South Carolina Wind Pool.
- Establishing the Hurricane Loss Mitigation Program to provide advice and assistance to consumers on ways that can reduce the possibility of loss from catastrophic events.
- Providing the Insurance Department with the authority to "accept" a catastrophe model for use in the rate-making process.³⁰

²⁸ This includes the authority to promulgate emergency regulations to address grace periods for payment of premiums, postpone cancellations and non-renewals and suspend the performance of other duties by the insured.

²⁹ These would include the use of storm shutters, use of roof tie downs, construction standards, building codes, distance from water, elevation, flood insurance, policy deductibles and other factors requested by the insurer or by order of the Director of Insurance.

³⁰ The new law authorizes the Department to recover its costs associated with the review and evaluation of catastrophe models.

The Task Force was impressed with the extent to which South Carolina reformed its law. The Task Force has incorporated certain reforms into its recommendations based on information it gained from reviewing South Carolina's law.

There was discussion regarding Catastrophe Funds ("Cat Funds") as well. The Task Force received a presentation from David Smith on behalf of ProtectingAmerica.org which was created in 2005 and principally financed by Allstate Insurance Company with the idea of finding a better way to deal with major disasters. The presenter stated that while prevention and mitigation work, there needs to be a way of funding catastrophe losses in advance in order to limit the damages associated therewith. According to the presenter, ProtectingAmerica.org is a collation of insurers, first responders, emergency management officials, counties, municipalities, title agents, the Red Cross, and private citizens all of whom are concerned about the need to better prepare for and protect America from the consequences of natural catastrophes. ProtectAmerica.org supports the creation of state catastrophe funds.

Mr. Smith recommended that Maryland establish a Cat Fund that recognizes Maryland's unique risks and that is funded by mandatory contributions from those insurers that write property insurance in Maryland. Such a Cat Fund would improve both the availability and affordability of homeowners insurance in the State as it would provide a backstop for paying catastrophe claims and provide a source of more affordable reinsurance or primary insurers. A Cat Fund could set aside 10 to 35% of its monies to be used as grants for meeting building codes or retrofitting properties. A State Cat Fund can provide reinsurance at 3 to 4 times less cost than the private reinsurance market is able to do. This is because a State Cat Fund pays no broker fees or commissions, has a lower expense load, does not have a heavy profit load, has no underwriting costs since it is a mandatory program, does not pay federal or state taxes, and, if

properly structured, could issue tax exempt debt as a way to finance losses. Mr. Smith stated that the IRS requires the State to appropriate \$10 million to start a Cat Fund in order to enable it to secure a tax-free build up of funds; with the balance of the Fund being supported by insurers writing homeowners insurance in the State. By mandating that insurers must purchase reinsurance from the State Cat Fund, the premiums would go into the Fund and build up a reserve to pay future claims. While the insurer purchases reinsurance from the State and the insurer passes that cost along to the policyholder, Mr. Smith was unable to provide an estimate of what the cost to a Maryland consumer would be. According to Mr. Smith, if a catastrophe hit before the Fund is able to pay the claims, then other lines of insurance business within the State would be assessed to enable the Fund to pay claims.

RAA expressed concerns about government sponsored Cat funds, be they state or federal. It believes that Cat funds are not a long term solution as there is no evidence that they will result in more insurers doing business or writing more insurance policies. An insurer will still need to have adequate rates and will still need to evaluate its catastrophe risk and assess its exposures. The presenter noted that the FL Cat Fund violates the basic tenant of insurance; that of spreading risk. The FL Cat Fund concentrates all the risk of a FL hurricane within the state of FL, backed by the FL government and, ultimately, Florida citizens in the event of a large loss, as opposed to spreading it internationally the way traditional reinsurers do. Mr. Burke of the RAA stated that Florida is not a success story. It had 12 years between Hurricane Andrew and the 2004 and 2005 Hurricanes which was time for it to build reserves; yet, the State of Florida had to borrow money to pay for the losses following the 2005 losses. In contrast, reinsurers spread the risk of catastrophe losses internationally, so a bad storm season in Florida is not as disruptive for it.

One of the Producers also expressed concern about a State Cat Fund as he did not believe there was any need for same and further, was concerned about any unintended consequences such a Cat Fund might have on the market; that is that it might serve to discourage insurance companies from writing in the State.

Recommendations of the Task Force

As a result of its review and deliberations, the Task Force makes the following recommendations:

1. Require any insurer that seeks to refuse to underwrite or renew a risk based solely on the fact that the risk is located in a certain geographic area to obtain the prior approval of the Insurance Commissioner. This recommendation would require legislation to amend the existing law, Section 19-107 of the Insurance Article.

2. Require any insurer that seeks to use catastrophe modeling as a basis for its rating and/or underwriting to have its catastrophe model reviewed and approved for use by the Insurance Commissioner. This recommendation would require legislation that would be supplemented by regulation.

3. Require any insurer that seeks to apply a mandatory and separate deductible for losses arising out of a hurricane or named storm in an amount greater than 5% to obtain the prior approval of the Insurance Commissioner. This recommendation would require legislation as the Insurance Article currently has no such restriction.

4. Require any insurer that seeks to apply a separate deductible for losses arising out of a hurricane or named storm to advise the insured of this separate deductible and its amount in the Annual Summary of Coverages and Exclusions as required by Section 19-

205 of the Insurance Article. This recommendation will require amendment to the existing statute.

5. Require any insurer that seeks to apply a separate deductible for losses arising out of a hurricane or named storm to have common language that operates as a trigger for the application of the deductible. It is recommended that a hurricane or named storm deductible be triggered when the National Weather Service has issued a Hurricane or Named Storm warning for the State of Maryland and that it will be removed 24 hours after the National Weather Service has cancelled the Hurricane or Named Storm warning or watch for the State. This recommendation will require legislation as the Insurance Article does not address this matter.

6. Require the development of a statewide building code that applies to all new construction and major renovations (equating to more than 50% of the property) with the requirement that residential dwellings meet the International Residential Code and commercial construction meet the International Building Code. This recommendation will require legislation.

7. Encourage mitigation efforts by requiring insurers to provide a discount on the policy premium for those insureds who undertake mitigation efforts to protect their property(ies) in the event of a loss. Identifying the mitigation efforts that will entitle an insured to a discount and the amount of the discount will be established by the Insurance Commissioner in regulation. This recommendation will require legislation that can be supplemented by regulation.

8. Provide the Commissioner with the authority to take the necessary actions, with respect to submission of claims, grace period for payment of premiums,

postponements of cancelations and nonrenewals, and other powers as needed to protect the citizens of the State when the Governor has declared a state of emergency. This recommendation will require legislation as the Insurance Article does not currently provides the Commissioner with this type of authority.

9. Request the Maryland Insurance Administration to study the desirability and feasibility of a State Catastrophe Fund.

XI. Conclusion

While the Task Force does not believe that there is currently an issue of either availability or affordability of property insurance in the coastal areas of Maryland, it wants to make sure the situation remains that way and that the marketplace stays stable. Thus, the Task Force encourages the Maryland General Assembly to implement its recommendations through legislation that will benefit all Marylander citizens.