Megan Hayes - STATE FARM WRITTEN SUBMISSION REGARDING MIA QUASI-LEGISLATIVEHEARING ON COASTAL INSURANCE

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Attachments:	4208072_1 DOCX.pdf

Pursuant to the Notice of Quasi-Legislative Hearing dated October 21, 2011, State Farm Fire and Casualty Company is submitting the attached written testimony.

Thank you. Mike

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EXHIBIT
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December 16, 2011

VIA ELECTRONIC MAIL ONLY

Karen Stakem Hornig
Deputy Commissioner
Maryland Insurance Administration
200 St. Paul Place, Suite 2700
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Re: State Farm Fire and Casualty Company (NAIC #25143)
Submission of Written Testimony
Availability and Affordability of Property and Casualty Insurance in Maryland's Coastal Areas

Dear Deputy Commissioner Hornig:

On behalf of State Farm Fire and Casualty Company (State Farm), thank you for the opportunity to submit written comments to the Maryland Insurance Administration (MIA) relating to the quasi-legislative hearing held by Maryland Insurance Commissioner Therese M. Goldsmith on December 13 and 14, 2011. State Farm Fire and Casualty Company is the largest homeowners insurer in the State of Maryland. While State Farm did not present testimony during the hearing on December 13 and 14 in Baltimore, we are a member of the National Association of Mutual Insurance Companies (NAMIC), a trade association which did provide testimony.

The property and casualty insurance market in Maryland is an important and significant business opportunity for State Farm. State Farm is constantly reviewing the products and coverages it offers to consumers. Part of that process is evaluating the exposures of providing insurance in coastal areas throughout North America. One of State Farm's primary missions is to remain financially strong and able to keep our promises to our policyholders so we are prepared to help our customers recover from the unexpected. Managing our coastal exposure has become more important as more people move to the coast. A hurricane along the coast today can cause dramatically higher losses than when the coast was less populated.

As you are aware, in November, 2010, State Farm filed to nonrenew insurance policies on the Maryland barrier islands. The review process for this action is still underway, with a hearing scheduled in May, 2012. State Farm has determined the best venue for providing specific testimony regarding its Maryland coastal nonrenewal program is through the established procedures in which it is currently involved.

State Farm welcomes Commissioner Goldsmith's interest in coastal property exposures. The potential for a devastating catastrophic event must be addressed. State Farm strongly encourages

and supports a coherent, comprehensive and coordinated approach involving the public, insurers, and federal, state and local governments.
State Farm and others in the insurance, lending, and real estate industries, state and local government officials, and consumer and labor groups, support creative partnerships between government and the private sector to enhance the stability of property insurance markets threatened by catastrophic perils. State Farm supports a holistic approach by these sectors to preparing for, and recovering from, the inevitable natural disasters. This should include five key aspects:

1. **Mitigation** – Thoughtful and responsible land use regulation and strong, well-enforced building codes.

2. **Consumer Education** – Effective education about the risks and responsibilities associated with living in catastrophe-prone areas and about appropriate insurance coverage, including an understanding of what is, and what is not, covered under their policies.

3. **Emergency Response Coordination** – Comprehensive coordination of logistical issues between the emergency management and insurance response systems with regard to humanitarian, health and safety, housing, communication and access issues.

4. **Governance** – Institutionalization of a structure, perhaps within FEMA, to capture key learnings about disasters and to implement best practices.

5. **Recovery Financing** – Implementation of a four-part public/private partnership to finance recovery from natural disasters that will, in conjunction with the above elements, enhance the ability of the marketplace to support the recovery from disasters.

The four-part partnership, involving policyholders, their insurers (including reinsurers), the states and the federal government, is needed to fairly and reliably finance recovery from natural disasters. The essential structural elements include:

- **Personal responsibility of property owners who live in catastrophe-prone areas.** Consumers must insure themselves against catastrophes rather than rely on government disaster relief programs. Those residing in disaster prone areas should pay premiums based on the risk presented and share in the risk with appropriate deductibles. Insurers must be permitted to utilize deductibles that are sufficient to encourage preparation for disasters by homeowners.

- **Insurer Responsibility**: Direct insurers and reinsurers assume a significant amount of direct property insurance exposure. Insurers choosing to insure these exposures should be responsible for providing claims adjustment service and financing the coverage purchased for the more frequent and less severe events, as well as for providing a layer of protection above the policyholder deductible for mega-catastrophes.

- **State catastrophe funds in CAT-prone states**. Catastrophe-prone states might create catastrophe funds to help stabilize certain markets and set aside reserves on a tax-free basis for infrequent, but inevitable, disasters. State catastrophe funds may be considered as a temporary solution to help dysfunctional markets attract capital, but not used in states where the private market is thriving.

- **Federal safety net for state catastrophe funds**. The federal government would offer reinsurance protection to the state catastrophe funds for events that exceed the capacity of the state funds. Only the federal government has the capacity to deal with the timing uncertainty associated with mega-catastrophes. Establishing a federal reinsurance or loan program for state catastrophe funds will reduce the drain on current and future tax payers. The federal backstop should only be available to states that have adopted and are enforcing modern statewide building codes.

It is not at all clear to State Farm that the availability and affordability of coastal insurance in Maryland has reached a point that a beach plan, a windpool plan, or a catastrophe fund is an appropriate avenue to pursue. However, if such a need arises, State Farm will be an informed and involved participant in designing a mechanism to properly address coastal property exposures in Maryland.

Once again, thank you for the opportunity to provide these comments. State Farm looks forward to continuing discussions about the property and casualty insurance market in Maryland.

Sincerely,

Michael D. Boge

Michael D. Boge
Counsel