Commissioner's Monthly Column

Louisiana Seeing Growth in the Property and Casualty Market

Less than a Decade Post Hurricanes Katrina/Rita

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As Louisiana's Insurance Commissioner I am charged with attracting new insurance companies to the state to create a broader choice for policyholders. I am often reaching out to property and casualty insurers who are not doing business in Louisiana with the purpose of recruiting new carriers to our state. In recent years these efforts have met with surprising success. A combination of strategies to improve Louisiana's property insurance market since Hurricanes Katrina and Rita has resulted in 20 new insurance groups actively writing homeowner policies in our state.

Following Hurricanes Katrina and Rita in 2005, a number of insurers stopped writing policies in coastal areas from Maine to Miami and around to Mexico, with a few companies leaving our state entirely. The Insure Louisiana Incentive Program was created by the Louisiana Legislature in 2007 and beginning in 2008 Louisiana sponsored a depopulation program to get policies out of Louisiana Citizens Property Insurance Corporation (Citizens) and back into the voluntary market.

The Insure Louisiana Incentive Program was a grant program developed to attract new homeowners and commercial property insurance companies to Louisiana. The program attracted five companies with Louisiana providing grants to these companies totaling $29 million. Four of those companies are writing homeowners insurance and one is writing commercial insurance. As part of the requirement to earn 100 percent of the grant, 25 percent of the company's new insurance premium must come from Citizens and the company must participate for the five-year grant program duration.

One of the five companies has completed the program. Three other companies will complete the program in 2014 and the fifth company is scheduled to complete the program in 2015. To date under this program, these five companies have earned more than $18 million of the incentive money they received.

We are also attracting new companies to our property and casualty market and continue to see signs of improvement as Citizens continues its trend of downsizing. Since Hurricanes Katrina and Rita in 2005 its policy count has reduced from a high of 174,000 in September 2008 to below 95,000 at the end of 2013 through its depopulation program. What this means in terms of market share is that Citizens dropped from 9.8 percent of the homeowners market in 2008 with a ranking of third largest homeowners writer to an estimated 2.7 percent market share with a ranking of ninth largest homeowners writer in Louisiana at the end of 2013. This reduction in market share also means that all Louisiana property owners benefit as it reduces the risk of future assessments in the event of another Katrina-level event.

The Insure Louisiana Incentive Program, the Citizens depopulation program and our active recruiting have certainly proven to be effective in bringing new insurance companies to Louisiana, giving consumers more choices and allowing Citizens, the state-backed insurer of last resort, to reduce the market share of its book of business.

The efforts to attract competition to Louisiana's property and casualty insurance market by so many have also helped to create more competitive pricing of property insurance policies. These accomplishments have gone a long way towards meeting the mission of the LDI which is to make insurance affordable and available to consumers through providing them the opportunity to access cheaper and better coverage by shopping their coverage needs.

One measure of market competition is the size of the residual market of last resort. As mentioned, the market share for Citizens has continued declining among the top writers of homeowners. Another example is the Louisiana Automobile Insurance Plan. The Plan had nearly 10,000 policies in the mid-1990's and today has fewer than 25 personal and commercial policies. This improvement is due to the auto market becoming more competitive with more insurance products available, giving consumers more choices in the voluntary market.

While monitoring the market for competition is essential, ensuring these regulated entities are responsive to policyholders and financially sound is equally critical in maintaining a robust and competitive marketplace. The LDI's Office of Financial Solvency monitors the viability of an insurer's financial structure as well as the insurer's competitiveness in the marketplace, as the first responsibility of insurance regulators is to see to it that insurers are able to fulfill their promises to their policyholders.

The Office of Financial Solvency monitors the business operations of insurance companies, ensuring that all licensing requirements are met on an ongoing basis. This office routinely analyzes the periodic financial statements and other required filings of licensed insurers, primarily those domiciled in Louisiana, to ensure their financial condition would not be hazardous to its policyholders or the general public. Areas of review include, but are not limited to, capital & surplus, risk-based capital, plan of operation, corporate governance, cash flow, premium, losses, reinsurance, complaint data, holding company registration statements, affiliated transactions, and investments.

The Office of Financial Solvency's Actuarial Division assists in the monitoring process by reviewing Louisiana-domiciled insurer financial statements. The Actuarial Division also monitors property and casualty markets, enabling the LDI to be aware of any specific market turn that may become a regulatory concern. Recently some markets have shown signs of moving through a pricing cycle. On the personal lines side, both homeowners and personal auto have seen prices harden on a national basis but availability of products and competition among insurers has remained strong. For homeowners, the market experienced double digit average rate increases after 2005's hurricane season but has since stabilized to average statewide rate changes around the five-percent level.

The insurance industry has safety nets in place in case claims exceed capital or in case the insurance company becomes insolvent. Reinsurance is a mechanism by which insurers are able to transfer risk. Many insurers obtain reinsurance to protect their operations from severe losses that may result from a catastrophe. Property reinsurance rates impacting Louisiana have declined in recent years and are expected to decline again in 2014. With fewer catastrophic events in recent years (impacting both the Louisiana and worldwide market) and with competition from alternative reinsurance products, the traditional reinsurance market is quite competitive which results in lower rates for Louisiana insurance companies.

The Louisiana Insurance Guaranty Association (LIGA) is another means by which policyholders are protected. Although insurance companies are required to meet specific solvency requirements, it's not impossible for a company to become insolvent. LIGA is funded by assessments on insurance companies for the purpose of paying covered claims with a minimum delay and minimum financial loss to the policyholder due to insolvency of an insurer domiciled in Louisiana. LIGA may assess insurance companies up to one percent of property and casualty premium, but has not made assessments since 2004 as the Association is well funded and has had minimum active claims recently. LIGA even had surpluses that allowed it to return about $76.8 million to insurers in 2009 from assessments made in prior years. Consumers have the added assurance of knowing that their property and casualty policies are insured to a limit of $500,000 per accident or occurrence on covered claims. This higher limit was passed in the 2010 Regular Legislative Session, which was an increase from $300,000 per accident or claim. Prior to 2008, the limit was $150,000 per accident or claim.

Nearly a decade after the most expensive insured loss event in the history of insurance anywhere in the world, the efforts of countless individuals have succeeded in restoring choices and stability to the insurance marketplace in Louisiana. I am pleased with our progress but more remains to be done. I look forward to continuing to work with you to strengthen our property and casualty markets and expand choices for Louisiana consumers.