PROPERTY INSURANCE REPORT

The Authority on Insuring Homes and Commercial Property

Vol. 22#13/517 **Dec. 14, 2015**

INSIDE

THE GRAPEVINE

More Trends: Florida Is Still A Concern, but There Are Hopeful Signs of Strength

We shared a few of our trends from the recent Property Insurance Report National Conference in the last issue (PIR 11/30/15), but there wasn't room for everything so we wanted to come back to two more. Of particular importance is a conversation we've been having concerning the structure of the **Florida** property insurance market. In short: we're much more hopeful.

Over the past several years

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Happy Holidays!

The next *Property Insurance Report* will be published Jan. 11, 2016, following our traditional year-end publishing break.

NAMIC: Don't Let U.S. Insurers Become Collateral Damage in International Capital Standards

Global financial regulatory wizards – yes, they exist – are putting together new rules governing giant global financial institutions, including insurers. The wizards would prefer that the financial system not collapse again as it did in 2008, a reasonable goal. Since the vast majority of U.S. insurers do not operate internationally and are not nearly large enough to threaten the financial system, why should they care? **Jonathan Bergner**, director of federal affairs for the **National Association of Mutual Insurance Companies**, faces that question all the time. Speaking to the Property Insurance Report National Conference last month, he offered the audience the same warning that he has been sharing with his members: "Very quickly you will see some

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Rhode Island's High Profit Persists As Insurers Fret About High Risks

New Englanders have had a difficult time of it when it comes to weather, given the massive snowstorms, nor'easters, and even a pair of hurricanes in the last few years. Property insurers, however, are managing just fine, thank you, particularly in **Rhode Island**.

This year started off with Winter Storm Juno smacking right into New England in late January, dropping plenty of snow throughout the region, including a staggering 36 inches in northern **Massachusetts**. The storm crippled Rhode Island's infrastructure, with travel bans and power outages effecting swaths of the tiny state and resulting in its fifth FEMA disaster declaration since 2010. In recent years, Rhode Island also experienced two nor'easters in 2013, Hurricane Sandy in 2012 and Hurricane Irene in 2011.

Through all this, Rhode Island's homeowners insurance market has outperformed the rest of the nation quite

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very bad ideas coming across the ocean if we're not careful."

Just because giant international insurers are the initial target, Bergner said, the final rules could ultimately impact many, if not most, insurers. What is more, the early stages of the discussion have been dominated by Europe, where insurers are saddled with "one size fits all" regulations that, while efficiently uniform, are also a remarkably blunt instrument for managing widely divergent enterprises. Bergner related how someone summed up Congressional testimony on importing the European model of regulation to the United States: "European insurers hate their regulation. That's why they want everyone to have it." It is hard on them, Bergner said, so European insurers feel they would be better off if everyone had to suffer the same fate.

Rules aimed at international giants today could trickle down to smaller insurers. It has happened before with banks.

If U.S. insurers are asleep at the switch, it just might happen.

Of the people and organizations directly connected to discussions about potential new standards, none are proclaiming an impending crisis. But there is a strong fear that the U.S. property and casualty industry could be forced to contend with inappropriate new standards. Many people following these issues believe insurers should take these challenges seriously and try to influence the trajectory of the international discussions. Maybe p/c insurers in the United States will get lucky and new rules won't be enacted or won't be troublesome. We wouldn't bet on either.

NAMIC and the **Property Casualty Insurers Association of America** (PCI) funded a report by the economic advisory firm **Sonecon** to assess the impact that some of the proposed international regulations would have on U.S. insurers. It isn't a pretty picture. New international standards could increase the capital requirements for some large U.S. insurers by at least 15% to 30%, according to Sonecon. The increased capital demands would be expected to lower their return on capital, slow their growth, and possibly reduce their competitiveness against firms that don't bear the more stringent burdens. Estimates from Sonecon indicate higher capital standards would require a 4% to 8% increase in insurance rates to generate the same return on equity.

But what about big insurers just outside the scope of the developing rules? They may become hemmed in, unable to grow or expand, especially internationally, without being pushed over the threshold and under the sway of tougher capital standards.

And how about small insurers? Alas, rules aimed at international giants could also trickle down to smaller insurers, imposing on them similar demands with fewer resources to respond. There is already a move underway to expand the scope of new capital requirements from giant global insurers deemed "too big to fail" to insurers in the next tier. This kind of trickle-down effect has happened before with bank regulation.

Finally, the emergence of international standards could undermine the primacy of the **National Association of Insurance Commissioners**, and thus state regulation of insurance. For giant international insurers looking for a centralized way to navigate the United States regulatory scene, that might be fine. But, as the Sonecon report notes, the current U.S. system has proven to be far more effective in managing solvency than the centralized U.S. banking regulatory regime. And many insurers prefer the more carefully tailored regulatory schemes of the states to an even bigger bureaucracy where they're not likely to be heard.

When thinking about international regulations in general, and capital standards overall, a question emerges from the depths of complicated

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agreements and acronyms: Why? It is widely accepted that the U.S. property and casualty insurance market poses no threat to the global financial system. **Daniel Tarullo**, a member of the **Federal Reserve Board of Governors**, testified to Congress in 2014 that, "There isn't any systemic risk in traditional insurance activities."

As the Sonecon report explains, "Most experts in finance have concluded that compared to banks, insurers have neither the size nor the interconnectedness that drive the correlated losses that can pose systemic risks, especially when the country experiences severe economic and financial stresses."

The biggest U.S. banks are many times larger than the largest U.S. property/casualty insurers. Sonecon reports that the top five property and casualty insurers account for less than 31% of all p/c assets, as compared to the top five banks with nearly 60% of all banking assets. If one insurer goes down, it does not bring down other insurers, never mind the financial system.

Insurers are also invested far more conservatively, and widely, than banks, and they hold a lot of money in reserve. As of 2011, the U.S. property and casualty insurance industry's capital-to-asset ratio of 39.6% was almost four times higher than the banking industry's 11.4% ratio, according to a study by **David Cummings**, **Krupa Viswanathan**, and **Mary Weiss** published in the *Journal of Risk and Insurance*.

If insurers pose so little threat, how did this get started?

Following the "Great Recession," government and central bank officials in 20 major economies, meeting under the umbrella of the **Group of 20** (also known as G20), were determined to address the fallout from the failure of "global systemically important" financial institutions, including "global systemically important insurers." Also known as G-SIIs, these are the insurers whose failure could endanger the broader financial system.

To that end, the G20 created the **Financial Stability Board** (FSB), an organization of central bankers and finance ministers, to monitor the global financial system and recommend actions to prevent future crises. The FSB charged the **International Association of Insurance Supervisors** (IAIS), a voluntary organization of insurance supervisors and regulators, with developing a capital requirement for the globally important insurers.

These organizations quickly identified nine insurance enterprises as G-SIIs. On that list, only **AIG** and **MetLife** have any impact on the U.S. property and casualty industry, especially personal lines insurers. MetLife's auto and home subsidiary controls 1.3% of the homeowners market and 1.2% of the U.S. personal auto market. AIG's personal lines business is focused on the high net worth market, and writes 1% of U.S. homeowners insurance premium and just 0.1% of the personal auto market.

> ***We're seeing a move from targeting companies that are 'too big to fail' to going after companies that are just 'big.'***

Beyond this group, however, is a second tier of insurers that are in the crosshairs of new international capital regulations, and this tier represents a larger swath of the U.S. property and casualty industry, including **Liberty Mutual**, **Travelers**, **Berkshire Hathaway**, **CNA** and **Ace/Chubb**. (Both Ace and Chubb were on this list before Ace announced plans to acquire Chubb.) Those companies make up more than a quarter of the total U.S. property and casualty insurance market, according to Sonecon, and nearly 15% of the homeowners market and about 18% of the personal auto market.

"We're seeing a move from targeting those companies 'too big to fail' to now going after companies that are just 'big,'" according to **Jimi Grande**, NAMIC's senior vice president

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Rhode Island
Homeowners Multiperil Insurers

Groups Ranked by Total 2014 Direct Premium Written (000)

Group Name	2014 Premium	Mkt share 2014	Loss Ratio 2014	2013 Premium	Mkt share 2013	Loss Ratio 2013	2012 Premium	Mkt share 2012	Loss Ratio 2012
Allstate Corp.	$50,635	14.3%	32.3%	$50,274	14.7%	28.7%	$50,382	15.7%	30.8%
Amica Mutual Insurance Co.	$48,483	13.7%	29.0%	$48,677	14.3%	36.7%	$42,830	13.3%	40.1%
Liberty Mutual	$33,072	9.4%	48.5%	$32,184	9.4%	37.8%	$30,687	9.6%	32.4%
Nationwide Mutual Group	$26,590	7.5%	40.4%	$26,423	7.7%	43.3%	$27,360	8.5%	44.2%
USAA Insurance Group	$19,690	5.6%	34.9%	$18,142	5.3%	29.9%	$16,550	5.2%	29.7%
MetLife Inc.	$19,342	5.5%	38.8%	$19,352	5.7%	43.0%	$18,023	5.6%	27.4%
United Insurance Holdings	$16,320	4.6%	43.7%	$10,645	3.1%	46.5%	$3,566	1.1%	71.1%
NBIC Holdings Inc.	$16,157	4.6%	40.5%	$17,144	5.0%	37.8%	$16,996	5.3%	45.5%
Andover Companies	$15,119	4.3%	35.2%	$13,425	3.9%	73.5%	$11,982	3.7%	32.8%
Chubb Corp.	$12,966	3.7%	18.5%	$13,140	3.9%	17.6%	$12,533	3.9%	27.7%
Mapfre/Commerce	$11,143	3.2%	29.2%	$10,363	3.0%	35.2%	$9,802	3.1%	26.4%
Providence Mutual Fire Ins Co.	$10,526	3.0%	44.2%	$10,121	3.0%	38.5%	$10,241	3.2%	59.7%
New London County Mutual Insurance	$7,910	2.2%	53.3%	$8,102	2.4%	44.7%	$8,468	2.6%	40.8%
American International Group	$7,597	2.2%	39.8%	$6,894	2.0%	61.1%	$6,234	1.9%	100.8%
Travelers Companies Inc.	$7,206	2.0%	15.6%	$7,943	2.3%	24.3%	$8,788	2.7%	25.6%
Main Street America Group	$5,973	1.7%	41.6%	$6,024	1.8%	46.1%	$6,129	1.9%	26.8%
American Family Mutual	$5,672	1.6%	57.4%	$4,715	1.4%	44.1%	$3,439	1.1%	55.0%
Selective Insurance Group Inc.	$5,301	1.5%	36.1%	$4,831	1.4%	32.1%	$4,429	1.4%	33.7%
Union Mutual Fire Insurance Co	$4,116	1.2%	34.7%	$2,926	0.9%	32.9%	$2,550	0.8%	76.0%
Pure Group of Insurance Companies	$3,376	1.0%	24.7%	$2,776	0.8%	66.0%	$2,037	0.6%	53.5%
Vermont Mutual Insurance Co.	$2,593	0.7%	34.4%	$2,300	0.7%	25.2%	$2,116	0.7%	27.3%
Motorists Insurance Group	$2,541	0.7%	70.0%	$2,456	0.7%	30.8%	$2,379	0.7%	30.1%
Country Financial	$1,922	0.5%	20.1%	$2,069	0.6%	49.0%	$2,696	0.8%	33.4%
Quincy Mutual Fire Ins Co.	$1,850	0.5%	24.5%	$1,970	0.6%	40.5%	$1,893	0.6%	30.7%
Employers Mutual Casualty Co.	$1,816	0.5%	33.4%	$2,366	0.7%	21.3%	$2,648	0.8%	19.7%
Allianz/Fireman's Fund	$1,613	0.5%	8.4%	$1,807	0.5%	34.8%	$1,848	0.6%	25.7%
Tower Group International Ltd.	$1,472	0.4%	6.5%	$1,961	0.6%	43.4%	$2,425	0.8%	11.0%
American National Insurance (ANPAC)	$1,441	0.4%	79.8%	$1,553	0.5%	30.0%	$1,571	0.5%	18.4%
Farmers Insurance Group	$1,416	0.4%	17.5%	$1,302	0.4%	24.0%	$1,219	0.4%	38.7%
Hartford Financial Services	$1,272	0.4%	12.9%	$1,140	0.3%	25.8%	$1,173	0.4%	9.9%
QBE Insurance (Gen Cas/Unigard)	$1,238	0.4%	11.7%	$1,002	0.3%	2.1%	$822	0.3%	79.3%
WBL Group/Stillwater Insurance	$1,111	0.3%	51.9%	$1,421	0.4%	33.4%	$1,677	0.5%	40.8%
State Farm Mutual	$1,097	0.3%	61.3%	$1,042	0.3%	31.7%	$908	0.3%	21.3%
ACE Ltd.	$1,020	0.3%	78.3%	$1,011	0.3%	95.6%	$724	0.2%	-34.9%
Munich-American/American Modern	$993	0.3%	24.4%	$764	0.2%	87.4%	$616	0.2%	15.1%
Horace Mann Educators Corp.	$740	0.2%	35.9%	$736	0.2%	26.1%	$717	0.2%	32.7%
Assurant Inc.	$599	0.2%	35.7%	$550	0.2%	40.3%	$647	0.2%	78.7%
FM Global	$461	0.1%	28.6%	$409	0.1%	-7.1%	$422	0.1%	134.2%
Statewide Totals	$353,593		36.2%	$341,460		37.7%	$321,117		36.7%

Source: SNL Financial, by permission, and the *Property Insurance Report* database.
Loss ratio is incurred losses as a percentage of direct premium earned. The ratio does not include dividends or loss adjustment expense. Single year data can be skewed by reserve adjustments.

State Market Focus: RHODE ISLAND

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handily, sporting incurred loss ratios of 36.2% in 2014, 37.7% in 2013 (with a 22.5% profit margin) and 36.7% in 2012 (with a 24.1% profit margin). For the decade ending 2013, the state had the third highest average annual profit margin at 19.5%. Considering 2014's performance, those numbers should only improve. As for this year, we can only imagine that things will continue to hold steady in regards to the state's profitability.

Even Rhode Island's worst days are better than other states for property insurance. Looking at records dating back to 1996, the state's homeowners insurers posted their highest incurred loss ratios in 2011, when Hurricane Irene stopped by to make some trouble. At 63.2% and with a profit margin of just 4.3%, the state's insurers still performed better than home insurers nationwide, who posted a countrywide average loss ratio of 75.4% and an after-tax loss of 3.8%.

Building upon long memories of the devastating "Long Island Express" hurricane of 1938, insurers have managed to obtain healthy rates, which have insulated them from the consequences of severe weather.

In 2012, the most recent data that we have from the **National Association of Insurance Commissioners**, homeowners in Rhode Island paid the seventh-highest homeowners premium, forking over an average of $1,233. On our HURT Index, which compares premium to income as a gauge of affordability, Rhode Island ranked 17th.

The state's high costs come from a mix of higher then average home values and infrequent yet devastating hurricane risk.

Rhode Island is well known for its large number of expensive coastal properties, including Newport mansions like The Breakers, built by the Vanderbilts in the Gilded Age. In 2012, 81% of homes in Rhode Island had an insured value over $200,000, compared with 59.1%

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Rhode Island
Property Insurance Profit Margins
10-Year Summary, % of Direct Premiums Earned, With National Averages

Line of Business	2013 Total Profit	2012 Total Profit	2011 Total Profit	2010 Total Profit	2009 Total Profit	2008 Total Profit	2007 Total Profit	2006 Total Profit	2005 Total Profit	2004 Total Profit	Avg Total Profit
State Homeowner	22.5	24.1	4.3	18.3	21.5	20.4	23.9	26.8	16.6	16.7	19.5
Nat'l Homeowner	16.5	8.1	-3.8	7.2	5.7	-2.4	15.0	17.0	-2.4	3.0	6.4
State Fire	19.6	33.9	33.6	5.2	32.0	31.6	-9.1	47.2	19.6	33.5	24.7
Nat'l Fire	26.9	24.7	24.8	27.6	24.5	13.2	20.2	27.3	8.2	29.8	22.7
State Comm	22.4	16.5	12.7	-0.6	16.6	32.1	26.2	22.1	18.9	23.7	19.1
Nat'l Comm	14.9	9.0	4.1	13.2	11.0	9.2	19.9	19.7	6.8	9.8	11.8
State Allied	14.1	17.2	24.1	-90.3	36.8	39.1	34.0	31.7	25.0	27.2	15.9
Nat'l Allied	6.3	-19.4	5.7	28.5	21.2	2.8	29.9	23.9	-125.1	-1.4	-2.8

Note: Profit calculations are by *Property Insurance Report* using data from the National Association of Insurance Commissioners. Calculations are estimates, some based on national averages.

State Market Focus: RHODE ISLAND

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nationally. Homes insured at values above $300,000 make up 51.1% of the market compared to just 27.9% nationally.

But even outside of the high end, Rhode Island homeowners pay relatively high premiums. The average premium for homes valued between $150,000 and $174,999 in the state was $829, the 15th highest.

Since 2010, the state's 10 largest home insurers, by group, increased rates 34.9%, according to **SNL Financial's** RateWatch, which tracks rates by line and by state for leading insurers. Most of the increase came in 2011 and 2012, when rates increased 7.7% and 7.6%, respectively. But rates have moderated, rising just 3.7% in 2014 and 2.3% this year through mid-November.

Allstate remains the dominant home insurer in the state with a market share of 14.2%, down from the 15.7% peak in 2012. After a number of years of solid growth, second-place **Amica** has also saw its share drop slightly in 2014, just as it did for No. 3 **Liberty Mutual** and No. 4 **Nationwide**. **USAA** overtook **MetLife** as the fifth-largest insurer. The real story is **Florida**-based **United Insurance Holdings,** which entered the market in 2012 and surged into seventh place last year, surpassing **Narragansett Bay Insurance Co.**, **Andover** and **Chubb**.

On the political front, things remain quiet. As far as property/casualty issues are concerned, auto body shop issues returned to the forefront, though in a far less contentious form. There was also a bill on global warming, which created the House Commission on Economic Risk Due to Flooding and Sea Rise. The commission was mandated to submit a report on the matter by Jan. 1.

Joseph Torti III, deputy director of the **Rhode Island Department of Business Regulation** and superintendent of both the insurance and banking divisions, will step down at the end of the month. Torti was first appointed to the insurance post in 2002 and the banking position in 2008. His replacement has yet to be named. PIR

Rhode Island

Commercial Multiperil Nonliability Insurers
Groups Ranked by 2014 Premiums Written (000)

Group Name	2014 Premiums	Mkt share	Loss Ratio
Nationwide Mutual	$8,563	9.0%	37.5%
Travelers Companies Inc.	$8,205	8.6%	9.3%
Chubb Corp.	$7,130	7.5%	1.4%
Liberty Mutual	$6,364	6.7%	23.9%
Hartford Financial Services	$5,160	5.4%	7.6%
Tokio Marine Group	$5,095	5.4%	38.6%
Allstate	$4,702	4.9%	32.7%
CNA Financial Corp.	$3,453	3.6%	14.7%
Hanover Insurance Group Inc.	$3,286	3.5%	24.4%
Allianz Group/Fireman's Fund	$2,599	2.7%	8.2%
Vermont Mutual Insurance Co.	$2,535	2.7%	32.5%
American Financial Group Inc.	$2,504	2.6%	-7.2%
Quincy Mutual Fire Insurance Co.	$2,201	2.3%	26.9%
Statewide Totals	$95,155		26.5%

Data Source: SNL Financial, by permission, and the *Property Insurance Report* Database.
Loss Ratio is incurred losses as a percentage of direct premium earned. The ratio does not include dividends or loss adjustment expense. Single-year data can be skewed by reserve adjustments.

Rhode Island 2012 Insured Home Values (HO3 Policy Form)

Home Value	Rhode Island	National Average
<$50K	0.0%	0.4%
$50-75K	0.1%	0.9%
$75-100K	0.3%	2.8%
$100-125K	0.9%	6.2%
$125-150K	2.4%	9.1%
$150-175K	5.9%	10.9%
$175-200K	9.4%	10.7%
$200-300K	42.8%	31.2%
$300-400K	21.6%	14.9%
$400-500K	8.9%	6.5%
>$500K	7.6%	6.5%
Total exposures	194,002	50,660,829

Source: NAIC, *Property Insurance Report*

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of federal and political affairs. "At a minimum, this will lead to different companies operating by different sets of rules, and it wouldn't be a surprise to see that used to create a justification for expanding these rules even further into the U.S. marketplace." There is a precedent for this happening in the banking industry, where the international regulatory framework of the Basel Accords started with a focus on large banks and eventually was applied to even the smallest community banks.

At the conference, Bergner encouraged insurers to take the threats seriously. Who wins with more uniform standards? Who is pushing? "At the highest level . . . it is a political thing for governments to say 'we are taking action to prevent another systemic collapse of the financial system.' They don't know anything about insurance, but they knew AIG failed and they knew they needed to do something, Bergner said.

"European countries at the end of the day are pushing their model the hardest, and they're looking out for their companies that have to deal with these regulations," he said.

Turning finally to the U.S. government, Bergner said, "what is driving some of the problem in Washington is that they like nothing more than to not do anything that is contentious. When the insurance industry is not unified, they say 'we can't do anything, you guys aren't together so we're not going to touch it.'"

Bergner also acknowledged that some U.S. insurers believe they will benefit from more uniform international regulation, so their message to Washington is: "This isn't that big a deal, don't worry about it." No doubt, the lack of unity among insurers "has clouded the message a little bit," Bergner said. All the more reason for every insurer to dig into these developments, and be sure they're fully versed in what the impacts might be and to invest the time and energy to lobby for the outcome that is most beneficial to them and the industry at large.

Editor's note: If you've survived all these acronyms and are hungry for more, email *bpsullivan@riskinformation.com* and we'll send you the Oct. 15 issue of *Auto Insurance Report*, with a version of this story including more details on how companies are being categorized. PIR

Focus: RHODE ISLAND

Rhode Island
Fire Insurers
Groups Ranked by 2014 Premiums Written (000)

Group Name	2014 Premiums	Mkt share	Loss Ratio
Assurant Inc.	$5,459	11.0%	25.1%
Arbella Mutual Insurance Co.	$3,457	6.9%	54.7%
American International Group	$3,251	6.5%	214.3%
Andover Companies	$3,146	6.3%	7.3%
FM Global	$3,113	6.2%	33.8%
Munich-American Holding Corp.	$3,071	6.2%	57.7%
Liberty Mutual	$2,550	5.1%	18.3%
Travelers Companies Inc.	$1,709	3.4%	12.8%
Alleghany Corp.	$1,516	3.0%	13.3%
Selective Insurance Group Inc.	$1,513	3.0%	80.8%
United Insurance Holdings	$1,392	2.8%	115.2%
Zurich Insurance Group	$1,371	2.8%	-7.9%
Statewide Totals	$49,870		40.3%

Rhode Island
Allied Lines Insurers
Groups Ranked by 2014 Premiums Written (000)

Group Name	2014 Premiums	Mkt share	Loss Ratio
FM Global	$5,955	14.1%	17.0%
Andover Companies	$2,926	6.9%	75.6%
Zurich Insurance Group	$2,134	5.0%	-0.2%
American International Group	$2,043	4.8%	10.4%
Munich-American Holding Corp.	$2,012	4.8%	28.5%
Assurant Inc.	$1,987	4.7%	78.3%
Nationwide Mutual Group	$1,918	4.5%	45.4%
Selective Insurance Group Inc.	$1,752	4.1%	17.6%
USAA Insurance Group	$1,624	3.8%	64.7%
NBIC Holdings Inc.	$1,529	3.6%	48.5%
Employers Mutual Casualty Co.	$1,467	3.5%	22.8%
Statewide Totals	$42,327		29.2%

Data Source: SNL Financial, by permission, and the *Property Insurance Report* Database.
Loss Ratio is incurred losses as a percentage of direct premium earned. The ratio does not include dividends or loss adjustment expense. Single-year data can be skewed by reserve adjustments.

THE GRAPEVINE

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during our closing speech, we have repeatedly characterized Florida as a "ticking time bomb." It wasn't a radical view – many insurers and reinsurers worried that the smaller, less capitalized insurers that replaced the fleeing giants would struggle in the aftermath of a giant storm.

At first, we feared that some insurers would fail, leaving their losses to the guaranty fund, which was uniquely designed to draw capital from policyholders directly rather than from other insurers in the state. But that fear ebbed as the small insurers, bolstered by a fortunate lack of storms, started to build capital.

For most insurers, the fears were not about the ability to pay claims from the first storm. Reinsurance backing for Florida property insurers has been strong from the beginning. The real concern was for what would come after the storm, as reinsurers withdrew their capital, or dramatically raised prices. Would the Florida market collapse from a dearth of capital or an inability of insurers to charge a price high enough to pay for reinsurance?

If so, the involuntary market – in the form of **Citizens Property Insurance Corp.** – would balloon to unmanageable size, unlike the barely manageable size of recent years.

If you had told us in 2006 that there would be virtually no major storms in Florida through 2015, we would have bet that premium rates would fall to dangerously low levels and that reinsurers would flood the market with underpriced coverage. After all, a short memory has long been the hallmark of insurers and reinsurers.

But that is not what has happened at all. Rather than getting more foolish with time, it appears that insurers are getting more skilled. Even more surprising, for all the bluster one still hears on occasion in Florida, there is a remarkable level of maturity being shown by politicians, regulators, the public and the media.

Here's why we feel better:

• Geographic risk management is better than ever. Insurers are unlikely to make the mistake of owning too much of a concentrated area, which is what killed **Prudential Property and Casualty** back in Hurricane Andrew.

• It is impossible to say what the correct price should be for Florida property risk – it always depends on when the next storm arrives, which cannot be known. But the discipline to resist giving back pricing in the absence of storms shows real restraint and long-term thinking.

• **Charlie Crist** is not in charge. When he was governor from 2007 to 2011, Crist worked hard to convince everyone to do all the wrong things as it relates to Florida property insurance. **Gov. Rick Scott**, who succeeded Crist, has not tried anything dramatic to "fix" the market (who knows what that would be), but instead has been a steady hand, allowing the good fortune of no storms to help build a solid foundation for the storms to come.

• Reinsurers have not gone crazy, giving away capital. To be sure, there is fierce competition, but we see no signs of outright foolishness. The absence of foolishness is much more important than people acknowledge.

• Just as importantly, given the large amounts of reinsurance and capital market money begging for better rates of return, we don't think the aftermath of a storm will result in fleeing capital or catastrophic price increases. Reinsurers tell us they are ready for the loss that is sure to come, and rather than run and abandon the market, they intend to enjoy the higher prices that follow a big storm. Some are actually rooting for a storm to shake out the less skilled capital and bring some forward pricing momentum to a stagnant market. That might sound weird, but this is insurance.

• Florida isn't rebuilding its homes, nor is it pulling back from the beaches, but there are

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better building codes, better construction techniques, and more demand from homeowners for improvements on existing structures. The gains are not profound, but they're clearly there, and that can only help. With every passing year, Florida's structures are better able to withstand a storm.

This is not to say the Florida market won't be very, very ugly after a major storm. And if a giant storm like Hurricane Andrew makes a direct hit on Miami, no amount of progress made in the past decade that will prevent a real mess. But there is a very good chance that even a repeat of the original Hurricane Andrew will be handled with aplomb – as were the storms of 2004. Now that's progress.

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Earthquake Risk Is Still a Disaster

Enough happy talk, let's identify some real trouble: earthquake risk. There is little good insurance news on this front.

When a big quake hits, at least one good thing will happen. If it is in **California**, we believe there will be astonishment at the remarkable resiliency of buildings, especially when compared to structural performance in recent quakes in other parts of the world. California really takes the construction issue seriously. It helps that so much of the state is relatively new construction, at least compared to other parts of the country.

Other than that, it is all bad news. Structural integrity is terrible in much of the New Madrid area, or heaven forbid the East Coast. (A modest quake in **Virginia** closed the Washington Monument for three years. At least it didn't fall down.) From what we understand, new commercial structures in the Pacific Northwest are well built, but the rest of the structures are exposed.

When the dust settles (literally), the first thing everyone will realize is that hardly anyone carries earthquake insurance. We've written this before (PIR 11/16/15), but it bears repeating: home insurers will be squeezed to pay claims for what they think is excluded earthquake damage.

What is more, insurers will be blamed for failing to fully impress upon consumers the importance of earthquake insurance, for misleading them into thinking they're fully covered, and for making the ground shake in the first place with their irresponsibility and greed.

Solutions, admittedly, are hard to come by. Mandating earthquake insurance coverage? Not a chance. A big marketing campaign? That's also not likely to work. Publicizing smaller quakes to build consumer awareness and spur sales of earthquake insurance? There's little evidence of that working so far. All of this has been amply tested by flood insurance, and the outcome is the same. All we can suggest right now is that insurers more aggressively offer earthquake coverage to their customers, either directly or brokered. Maybe even get them to sign a declination note. That way, at least there will be modicum of protection from political and regulatory fallout after the earthquake that is sure to come. PIR

PROPERTY INSURANCE REPORT
Established 1994
Brian P. Sullivan, Editor
Telephone: (949) 443-0330
Email: bpsullivan@riskinformation.com

Leslie Werstein Hann, Managing Editor
Telephone: (908) 574-5041
Email: leslie@hannwriting.com

Patrick Sullivan, Associate Editor
Telephone: (949) 412-5851
Email: bpsullivan@gmail.com

Subscription Information: (800) 633-4931
On the Web: www.riskinformation.com
Property Insurance Report, © 2015, published bi-weekly, 24 times a year, by Risk Information Inc., 33765 Magellan Isle, Dana Point, CA 92629. It is a violation of federal law to photocopy or reproduce any part of this publication without first obtaining permission from the Publisher. ISSN: 1084-2950
Subscription Rates: $767 per year in U.S. and Canada. Elsewhere $807 per year.