

# **Louisiana Property and Casualty Insurance Commission Full Commission Meeting**

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**Wednesday, October 3, 2007  
Louisiana Department of Insurance  
Plaza Hearing Room  
1:30 p.m.**

## **Minutes**

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**Commission Members Present:** Bill Newton (representing Commissioner Jim Donelon), Ted Haik, Jody Boudreaux (representing Richie Clements), Phyllis Perron (representing Lorrie Brouse), Marc Carter, Col. Jim Champagne, Joseph Deutsch, Trey Roche (representing Nicholas Gachassin), Steve Hymel, Chuck McMains, Tom O'Neal, Kimberly Robinson, Trey Boudreaux (representing Richard Stalder), Cheri Pinac (representing Aubrey Temple), and Karen Winfrey.

**Commission Members Absent:** Senator Cain, Senator Quinn, Representative Carter, Representative Farrar, Jeff Albright, Dr. Christine Berry, and Earl Taylor.

**Commission Staff Present:** David Evans and Katie Walsh.

**DOI Staff Present:** Elayne Santangelo, Joyce Paul, Judy Wright, Warren Byrd, Denise Brignac, and Alison Jones.

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Ms. Jody Boudreaux, serving as vice-chair in Mr. Clements' absence and due to Chairman Haik's later arrival, called the meeting to order at 1:45 p.m.

Ms. Katie Walsh called the roll, reporting that a quorum was present.

Ms. Boudreaux introduced the newest Commission member: Ms. Karen Winfrey, Assistant Secretary of the Office of Workers' Compensation Administration, Department of Labor.

Mr. Randy Noel, chairman of the Louisiana State Uniform Construction Code Council, addressed the Commission on the State Uniform Construction Code (code). The statewide building code was signed into law in December 2005 as Act 12 of the 2005 First Extraordinary Session. Act 12 required that the International Residential Code (IRC) for homes and the International Building Code (IBC) for businesses be uniformly enforced statewide. The Act required that it be implemented within 90 days in the 11 southern most parishes damaged by hurricanes Katrina and Rita and implemented in the remainder of the state by January 1, 2007. In order to meet the Act's requirements it was necessary to train builders to the new standards and open new code offices with International Code Council (ICC) certified inspectors to assure compliance with the code.

At the time Act 12 was passed, there were only seven code offices in the state and 42 ICC certified inspectors. At present, there are almost 200 code offices providing inspections throughout the state served by approximately 400 ICC certified inspectors and plan reviewers, including Third Party Providers and architects and engineers. Mr. Noel reported how this was accomplished: the Act authorized intergovernmental agreements between local jurisdictions that individually issue few building permits and therefore have little permit income, to band together into economically feasible code offices. Two regional planning organizations (South Central and Rapides) have each organized a code office using this mechanism and some larger cities have entered code office agreements with their parish or surrounding smaller towns.

Mr. Noel stated that in order to implement the code within 90 days in the 11 southern parishes, an out-of-state non-profit organization, Institute of Building Technology and Science (IBTS), was hired to provide 70 certified inspectors to do the inspections and plan reviews and to train new inspectors. In north Louisiana, IBTS has set up regional offices with which small rural jurisdictions contract for inspections and plan reviews. About \$34 million in funding from state and federal sources has been used to arrange training classes for builders, certification for inspectors, and establish code offices throughout the state. Mr. Noel stated that “Phase 1,” which was to open code offices, is nearing successful completion.

He continued by noting that “Phase 2” has just begun and includes complaints, technicalities, and interpretation of the building code. Mr. Noel said that the majority of complaints received so far have been from citizens complaining about jurisdictions, builders, or inspectors not building to or enforcing the code – a sign of general acceptance of the code. However, there remains some resistance to the code, primarily in rural north Louisiana and from resident builders who are not licensed by the state. Mr. Noel stressed that residents in north Louisiana and other citizens not affected by the storms need to be made aware of the importance of the code.

Mr. Noel pointed out the following as issues that need to be addressed in the future:

- Orleans and St. Bernard parishes, because they were so devastated, will need an additional \$5 million to extend the inspection services provided by IBTS for another year, after which these parishes should be self sufficient.
- Development of an online site where citizens and builders can apply for a building permit, schedule an inspection, get inspection status, and determine whether a home they would like to purchase was built to code.
- Continued support for statewide enforcement of the building code, including encouragement from the insurance industry.
- Implementation as soon as possible of the discounts in insurance rates for owners of homes built to the code, as required by 2007 legislation. Once implemented, the discounts should be highly publicized to encourage those who are still reluctant to build to code.
- Consideration of creating a building code enforcement grading system program in the code offices.
- Enact a statewide, uniform Plumbing Code.
- Restore the Mechanical chapter in the International Residential Code to the state building code.

- Adapt the code to unique Louisiana circumstances such as humidity levels, as it applies to how air tight the home should be and how humidity is removed.
- Carefully review the 2009 IRC and IBC before adopting them into our current code.

A question and answer period followed. Among the additional information these exchanges produced were:

- Revenue from permit fees should sustain the code offices. Permit fees have risen dramatically in many areas, in some cases from \$10 to \$1,000. Permit fees are set by local jurisdictions.
- The stringency of the requirements of the building code as they apply to wind speed vary with proximity to the coast and the cost to the consumer for compliance with the code rises the closer the structure is to the coast.
- The increased cost of design, permits, and construction to code add about 5% to the cost of a home in central and north Louisiana, about 8% to a home in inland south Louisiana, and about 15% to a home in coastal Louisiana.

Mr. Joseph Deutsch, Executive Director of the Property Insurance Association of Louisiana (PIAL), presented to commission members a historic overview of the PIAL and its current status and operations. Historically, each state had its own rating bureau that performed the functions of PIAL, which traces its origin to 1888. The shift from individual state bureaus began in 1971 when nine states joined together to form the Insurance Service Office (ISO). Currently, Louisiana is one of six states that rely on its own independent rating bureau.

Mr. Deutsch reported that among the important functions that PIAL performs is assigning and periodically reviewing the Public Protection Class (PPC) fire rating that is assigned to each of Louisiana's 642 fire protection districts. This is essentially a grading of a fire department's ability to respond to and suppress a fire within its jurisdiction. A grade on a descending scale of 1 to 10 is based upon the standardized factors of the ISO Fire Suppression Rating Schedule (FSRS) and is significant not only because a fire protection district is able to measure itself against a national standard, but because the PPC rating is a basis for a community's property insurance rates. PIAL performs a number of functions related to a community's PPC rating, including: develop the Louisiana Addendum with input from Louisiana's fire chiefs, which allows more credit than the FSRS standard for training firefighters and additional credit for a fire department's water hauling capabilities in those areas without fire hydrants; provide a pre-grade (PGAP) for a fire district that requests it; and advise a fire district how to improve its PPC, if it so desires.

He added that another important function of PIAL is the building inspections it does to provide a Specific Rate that will form the basis for an insurer's premium rate for those buildings (primarily commercial) for which a standardized Class Rate cannot be obtained from the ISO manual (non class rate-able property). PIAL uses the Uniform Grading System (UGS) standard to arrive at a building's specific rating. UGS is not used in all the states but produces results similar to those states that use a different standard. Louisiana is unique in that PIAL has rates for 90% of the commercial buildings in the state; whereas, most similar commercial buildings in other states would be class rated.

Other PIAL functions and capabilities are: perform an underwriting survey of a specific building at the request of an ISO member insurer; perform a Building Code Effective Grading Schedule (BCEGS) analysis of a community based upon its building code in order for policyholders in the community to receive insurance premium credit; review rate filings, policy form and endorsement filings, and rate manual filings from ISO and submit these to either the Louisiana Insurance Rating Commission or Department of Insurance for final approval; dwelling and commercial building inspections for Louisiana Citizens and any other insurer that contracts to do so; authority to sell PPC related data, which PIAL has so far declined to do; and, at present, manage Louisiana Citizens personnel.

Mr. Deutsch answered members' questions both during and following his presentation, chiefly regarding how local fire districts and municipalities could improve their citizens' property insurance rates through the district's PPC rating or avoid decisions that would result in a PPC retrograde by working with the PIAL.

Mr. Bill Newton, Chief Deputy Commissioner, reported on the recent NAIC Southeast Zone Public Hearing on Insurance Issues in the Gulf Coast Region and other matters of interest. The NAIC Zone meeting, held in Mobile, AL in late September, was the first meeting of all of the insurance commissioners from the Southeastern coastal states since the 2005 storms hit. The commissioners discussed the progress of their respective states and the various manners in which they are dealing with their obstacles. In discussing the differing approaches the states have taken since the storms, Mr. Newton contrasted the maximum probable loss estimate (MPL) of a catastrophic event in Louisiana (MPL \$60 billion) with Florida (MPL \$190 billion) and noted that Katrina was a \$24 billion event.

At the meeting, the commissioners heard different perspectives on how to deal with catastrophic risk, primarily hurricane. Five concepts were presented and discussed:

- The Taylor bill, authored by Mississippi's U.S. Congressman Gene Taylor: a multi-peril approach, which would hope to eliminate the wind vs. flood debate by adding the peril of wind to the National Flood Insurance Program (NFIP). As proposed, individuals could purchase coverage limits up to \$500,000. The response to this bill has been fairly receptive.
- Private market approach, advanced by Travelers Insurance Company's CEO a month earlier in *Wall Street Journal*: designate the entire coast of the U.S. from Maine to Texas as a coastal wind catastrophe area and treat that area differently than the rest of the states by moving oversight from the states to the federal government. In this coastal zone, a uniform building code could be declared and companies could file rates and forms for the entire zone. From a business standpoint, there would be a more uniform approach to managing risks and common rules and regulations to coastal exposure would be easier to issue.
- Adjustment to the federal tax code: Currently, loss reserves set aside by an insurance company to pay future losses are heavily regulated. One aspect of this is that these reserves are scrutinized to be sure that they are not artificially inflated to avoid profit taxes. This proposal would allow deferred tax accumulation of insurers' catastrophe storm reserves. The benefit would be that insurers could "level out their exposure to

maximum size losses and have that money in reserve and then enjoy a tax advantage for not having to repatriate those reserves into their P&L at the end of the year.”

- National catastrophic fund: create an all perils policy which would include all catastrophic exposures nationwide and cover any event designated a catastrophe, including terrorism. Advantages to this approach would be that the risk is spread nationwide and, as such, there should be good consumer participation and thus some reduction in cost. Also, such an all perils policy would eliminate the earthquake versus mudslide and wind versus flood claims disputes.
- Catastrophic bond funding for risk, bill proposed by Florida’s U.S. Congressmen Kline and Mahoney: a private sector based solution in which bonds would be sold to private investors at attractive interest rates. If a storm hits that meets the definition of a catastrophe, a bond would pay its principle to the affected area and the investors would lose their principle. As proposed, this approach would require each state to set up its own cat fund. Mr. Newton stated that, based upon a previous actuarial study, it would be economically difficult for Louisiana to set up its own cat fund. The reception to this bill in the House has been very positive.

Mr. Newton encouraged the Commission to study and evaluate the five concepts presented at the Mobile NAIC Zone meeting.

Mr. Newton also informed the commission members that Commissioner Donelon has gotten positive feedback from insurance companies in his attempts to bring business back into the state. To continue the progress, he urged that we let companies know that Louisiana has taken a private sector approach in encouraging companies to bring their business to the state.

An extensive question and answer period followed in which Mr. Newton also detailed a recent marketing packet produced through a cooperative effort between the Department of Insurance, Office of the Governor, GNO Inc., IIABL, PIA, and CIL. The packet, intended for insurance company CEO’s and CFO’s, presents a comprehensive list of reasons to do business in Louisiana. In addition, there was discussion as to whether and how the Commission might lend its support to the deferred tax accumulation of insurers’ catastrophe storm reserves proposal that Mr. Newton reported.

Mr. Haik reminded the LPCIC about the drafted letter that was sent to a sub-committee after last month’s meeting. He suggested that the draft include some information presented today regarding building codes. Once that information has been included, the draft should be submitted to the Department of Insurance’s Public Affairs Division for final review and release.

There being no further business, the Louisiana Property and Casualty Insurance Commission meeting adjourned at 3:45 p.m.