

Louisiana Property and Casualty Insurance Commission

Full Commission Meeting

Wednesday, December 19, 2007
Louisiana Department of Insurance
Plaza Hearing Room
1:30 p.m.

Minutes

Commission Members Present: Bill Newton (representing Commissioner Donelon), Ted Haik, Representative Carter, Kimberly Robinson, Ed O'Brien (representing Jeff Albright), Richard Clements, Dr. Christine Berry, Marc Carter, Joseph Deutsch, Wanda Freeman (representing Chuck McMains), Earl Taylor, Steve Hymel, and Lorrie Brouse.

Commission Members Absent: Senator Cain, Senator Quinn, Representative Farrar, Col. Jim Champagne, Richard Stalder, Nicholas Gachassin and Karen Winfrey.

Commission Staff Present: Terrell Moss, David Evans and Katie Walsh.

DOI Staff Present: Chad Brown, Clarissa Preston, Rich Piazza, Joyce Paul, Judy Wright, Wei Chang, Larry Steinert, Mike McCarty, and Rod Friedy.

Chairman Ted Haik called the meeting to order at 1:40 pm. He welcomed the Commission members and other meeting attendees and wished all a happy holiday season.

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

Ms. Denise Brignac, Deputy Commissioner of Financial Solvency at the Department of Insurance (DOI), updated those present on the Insure Louisiana Incentive Program (Incentive Program) (Act 447 of the 2007 Regular Session codified at R.S. 22:3301 et seq). Of the 6 to 8 insurance companies that originally applied for the program, 5 have passed the Department's in-depth financial review and met with its approval. The Joint Legislative Committee on the Budget must now review and approve these five applicants before the \$29 million total in grant money for which they applied can be disbursed by the first week in January. Ms. Brignac explained that the purpose of this program is to entice companies to write commercial and residential property insurance in Louisiana. She further explained the dedicated surplus and premium writing requirements each applicant/grantee has to meet to earn its grant money and the safeguards that will ensure that the grant money increases the availability of residential and commercial property insurance in the state, particularly in the parishes in the GO Zone and for those currently insured by LA Citizens. The Department will analyze the grantees quarterly for compliance and conduct a target exam annually. In addition, LA Citizens is working on a data support system that will be used to monitor whether a grantee meets and maintains the 25% premium writing requirement.

Chairman Haik introduced Bill Newton, Chief Deputy Commissioner at the Department of Insurance, who gave the Commission members an update on LA Citizens Property Insurance Corporation based upon items discussed at Citizens' Board meeting earlier in the month. Mr. Newton reported that Citizens' inability to generate required financial statements for 2005, due to a flawed information computer system that went online that year, is nearing resolution. The data captured in the computer system's policy issuance system is being reconciled with check registers in which some 60,000 checks were recorded. The process has been tedious and time consuming, but now that it has been established, should allow the 2006 and 2007 financial statements to be produced more quickly. The 2005 financial statement should be ready by the end of December or mid-January. No evidence of any misappropriation or fraud has been detected as of this time. The information computer system is incapable of doing both policy transactions and creating financial records that produce P&L balance sheets and will have to be replaced. An analysis of needs is being done and will be followed with a Request For Proposals (RFP), which Mr. Newton hopes will result in the purchase of a computer policy and financial system of the type prevalently used in the insurance industry. It is hoped that such a new system will be implemented for policy year 2008.

Mr. Newton also spoke about the current legislative audit, which includes accounting for any misappropriations and inappropriate expenditures. Citizens continues to cooperate fully and will make the appropriate corrections based on the legislative auditor's recommendations. The audit is currently focused on Citizens' litigation management and oversight.

Regarding depopulation, Citizens is currently working with 4 to 6 companies, who are not participating in the Incentive Program, that are looking to take business out of Citizens. In addition, Citizens is also negotiating with 2 or 3 reinsurance companies about the purchase of \$1 to \$4 billion of reinsurance. This could result in a significant reduction of exposed value and the need for an assessment in the event of a catastrophic loss. Further, Citizens' staff has created a database to generate "policy runs" so that companies interested in the Incentive Program can identify properties currently insured by Citizens by territorial location, construction, and different risk criteria.

Mr. Newton stated that Citizens is proceeding on schedule within a tight timeframe with the company's separation from service support provided by the PIAL, which will result in Citizens having its own internal support staff. Citizens' Board is also evaluating the lease at Citizens' current Metairie location and will consider available alternatives before the lease is renewed. Mr. Newton mentioned that there is a great deal of interest from brokers in an RFP that Citizens will release in March for its reinsurance brokerage contract. The current brokerage contract is up for renewal in July. Finally, the contracts that Citizens has with its service providers, who handle external transactions, expire in October 2008. Citizens is beginning the process for an RFP for service providers that will provide an opening for others. Future service provider contracts will be staggered so that all do not expire at the same time.

In response to a question from Rep. Carter, Mr. Newton said that Citizens' CEO Wortman will propose a series of "town hall" meetings at locations around the state with representation by Citizens' board members, management, and service providers rather than actual board meetings

in order to provide access and input from concerned citizens. In light of the ongoing legislative audit, Rep. Carter also expressed concern about conflicts of interest that appear to continue to exist in the operations of Citizens. Mr. Newton noted in regard to the current litigation management and oversight audit mentioned earlier, that there is some potential for conflicts of interest, but that the current Citizens' board and management were committed to following the legislative auditor's recommendations to eliminate them. The same commitment will apply as the legislative auditor continues his examination into management of expenses, rate making processes, and processing and information systems. Mr. Newton further stated that since there had been no certified accounting oversight audit of Citizens in at least 2 years, the Board was in the process of bidding for a CPA firm to conduct a certified audit of the 2005, 2006, and 2007 financial statements. In response to a question from Mr. Hymel, Mr. Newton stated that the newly legislated Office of Consumer Advocacy at the Department of Insurance monitors consumer complaints against LA Citizens as well as those brought against all other insurers.

Next, a presentation on the reinsurance industry was given by Mr. Kenneth Selzer, Mr. Paul Davies, and Mr. Randall Brubaker of Aon Re. Mr. Selzer, Executive Vice President at Aon Re Global, gave background information and an industry overview, including the impact of catastrophic events on the reinsurance industry. He focused on trends in the reinsurance industry, stating that over the last 20 years, the catastrophic events that had the most impact on the industry include Hurricane Andrew in 1992, the California earthquake in 1994, 9/11/2001, and Hurricanes Katrina and Rita in 2005. Other sources of catastrophic loss come from tornadoes, winter storms, wind/ hail/ flood, and fire. The trends of growth in the surplus lines industry also follow these catastrophic events. Prior to the 2005 hurricanes, half of all losses came from tornadoes, wind, and hail. However, since the 2004-2005 hurricane season, hurricanes account for half of all catastrophic losses. Mr. Davies, Senior Chairman at Aon Re Global, spoke about the program, reinsurance basics, what is going on in the reinsurance industry, and pricing. He explained the different forms of reinsurance, including excess of loss, pro-rata, and non-traditional. The majority of traditional reinsurance is written by about thirty reinsurers. Currently, Bermuda is the top reinsurance market. Mr. Randy Brubaker, senior vice president and actuary at Aon Re Services, spoke about reinsurance in ratemaking and return on equity capital. Part of what Aon Re Brokers do is compare the cost of equity capital to the cost of reinsurance capital- the two go hand in hand and must be part of the ratemaking process. Mr. Brubaker also compared state and private reinsurance. The comparisons included pre vs. post event funding, geographic risk diversification, security of loss recovery, subsidized pricing, and fluidity of replacement capital.

After the presentation, Mr. Haik proposed the question, "What can our state do to create a better atmosphere for the reinsurance industry?" The suggestions provided by the guest speakers included contract certainty, and competition, which would include the steps the DOI has taken with the incentive program and bringing new business in to the state.

With no further business to discuss, and a motion to adjourn from Mr. Haik, the Louisiana Property and Casualty Insurance Commission meeting adjourned at 3:40 pm.