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*A Taxonomy of the North Carolina Beach
Plan*

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A Taxonomy of the North Carolina Beach Plan

- Its birth, name, and structure
- Its growth
- Its features
- Its recent changes

First, what's its Name?

- **Officially, the North Carolina Insurance Underwriting Association (17 syllables)**
- **Colloquially, the “Beach Plan” (2 syllables)**
- **Last year, renamed, the “Coastal Property Insurance Pool” (8 syllables)**

Second , what is it?

- “Market of Last Resort”, aka “Residual Market”
- Called “Market of First Resort” by insurers
- Quasi Governmental Entity
- Quasi Insurance Company

Taxonomy: Birth

- Created by Legislature in 1969, with the goal of promoting development of the NC coast by providing a guaranty of insurance availability
- Originally wrote only dwelling forms in “Beach” territories

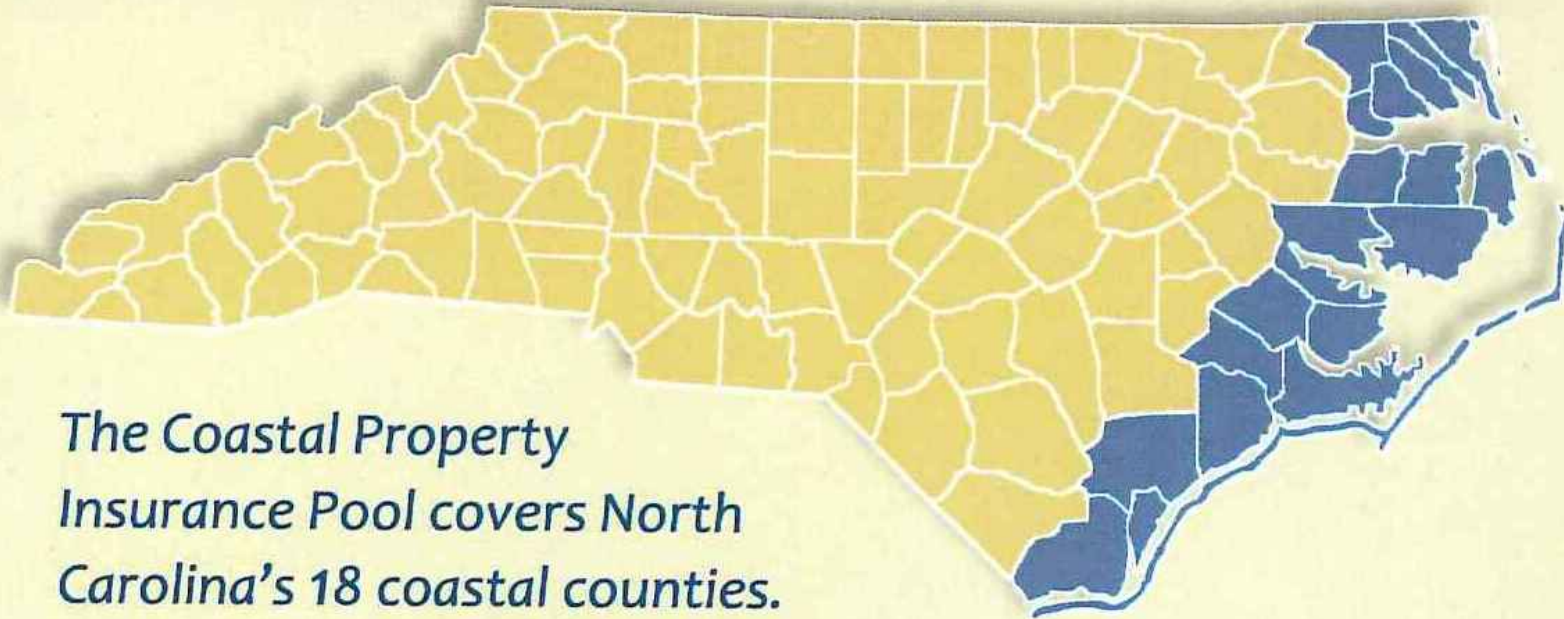
Taxonomy: Structure

- All insurers writing “essential property” in NC are by law members of the NCIUA.
- Managed by 14 member Board of Directors, with annual terms.
 - 7 insurer members, self-selected
 - 4 agent members, appointed by COI
 - 3 public members, appointed by COI
- Board meets twice a year, in May and November
- Approx. 70 employees, with offices in Cary, NC

Taxonomy: Structure

- Provides coverage for both residential and commercial properties
- In 2000, approx. 26% of premium was commercial
- In 2010, approx. 16% of premium was commercial.
- Likely cause of this change: faster increases in rates in residential sector. This is odd as residential rates are prior approval.

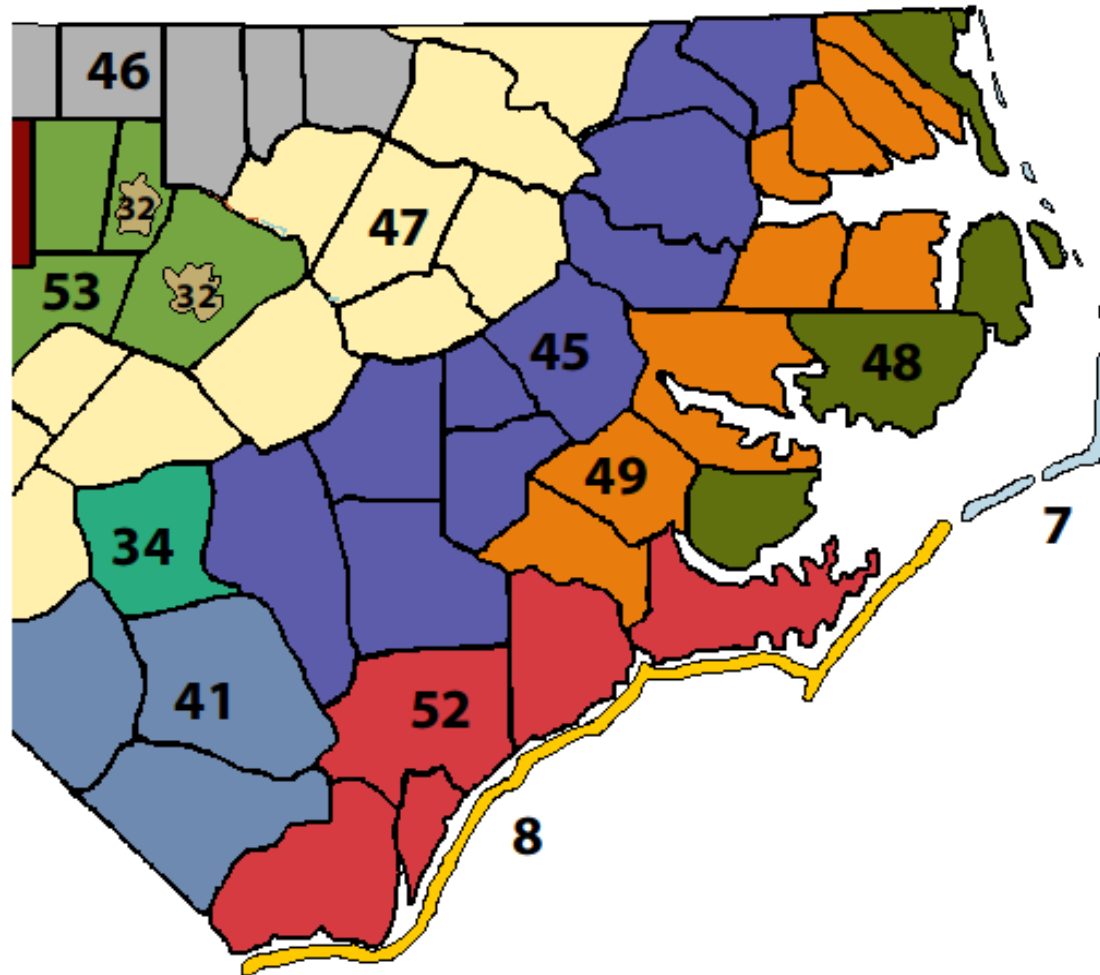
Coastal 18 vs. West 82



The Coastal Property Insurance Pool covers North Carolina's 18 coastal counties.

These 18 counties make up 9% of the the state's insured property.

**North Carolina Rate Bureau
Homeowners Territories**
(Effective May 1, 2009)



Beach Up Close

Part of the coastline of North Carolina sits behind the “Outer Banks,” a narrow strip of land, the barrier islands.



Source: Outer Banks Vacation Guide

www.visitob.com

Taxonomy: Growth

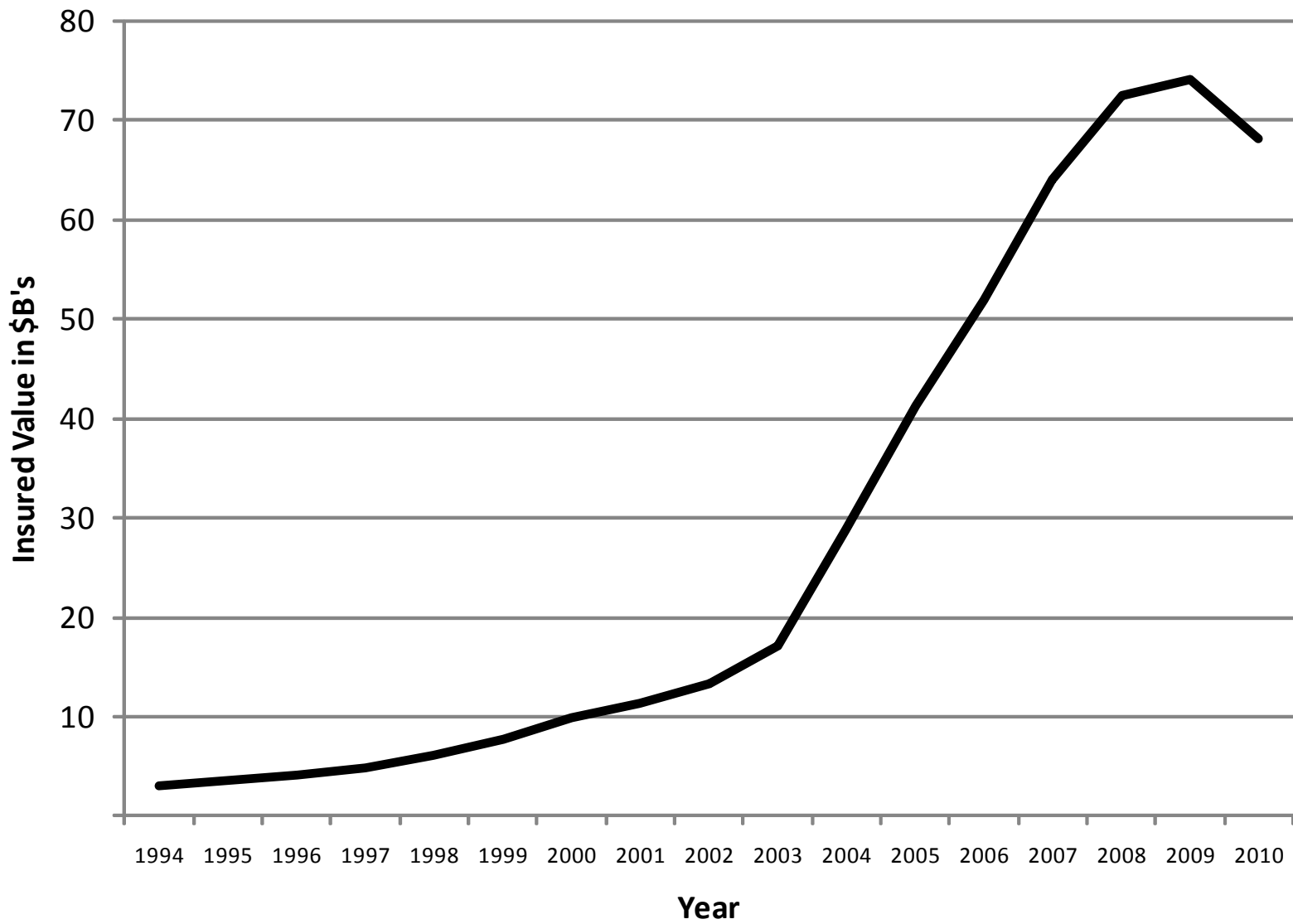
Over the years...

- expanded to write in “Coastal” territories (1998)
- allowed to write HO (2003): Full or Wind-Only (mostly the latter)
- now, 90% of Beach Plan exposure is these new “markets”

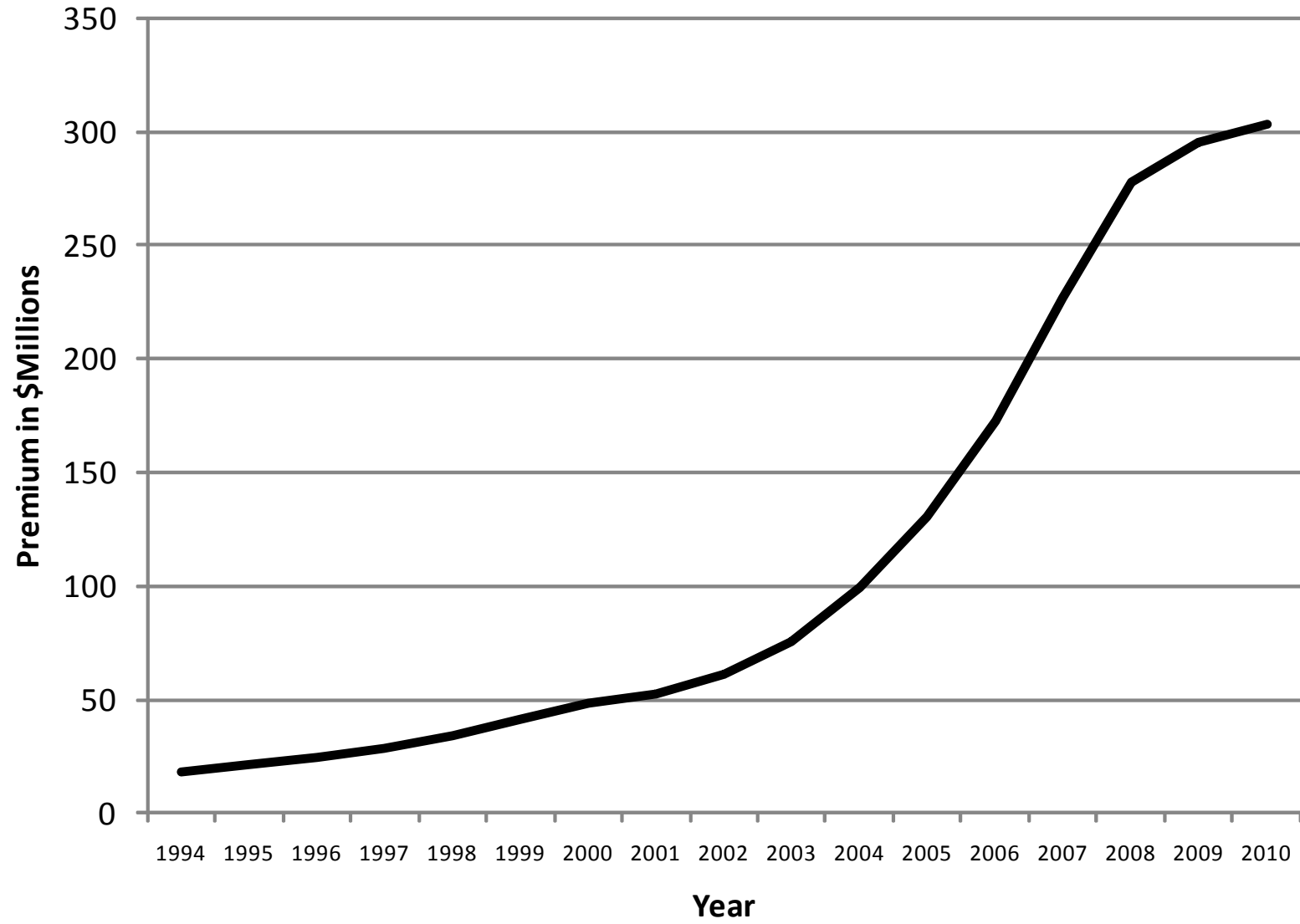
Taxonomy: Growth

- Assets up 40 times
- Equity up 82 times
- Written Premium up 17 times
- Exposure up 22 times

Exposure in \$Billions



Written Premium (\$M)



Causes of (17x) Premium Growth

1. Expanded Scope (Geographical and LOB)
2. Voluntary Market Withdrawal
3. Rate Increases
4. Increasing Values
5. No. of Insurable Dwellings (cf. Population)

Voluntary Market Withdrawal

- 2003 vs. 2008, Residential
 - COAST 93% to 63%
 - BEACH 32% to 28%
 - TOTAL 75% to 52%

- 2003 vs. 2008, Commercial
 - COAST 84% to 69%
 - BEACH 28% to 20%
 - TOTAL 66% to 53%

Rate Increases

- Since mid 1990s, Dwelling EC base rates in Beach have increased by +64%
- +37% increase pending a June hearing
- HO base rates in coast and beach have increased by 142% since mid 90s.
- Coastal policyholders not happy with DOI's handling of rate matters.

Increasing Values

- Average Insured Value for a Dwelling EC has increased from 101K to 148K (3.5%/yr)
- Avg. Insured Value for HO in Coastal terr. Has increased from 178K to 307K (6.2%/yr)

Taxonomy: Features

- How are rates determined?
- Beach Plan rates based on Rate Bureau rates, +15% for full HO, and +5% for Dwelling, and HO wind only.

Feature: the Takeout Credit

				(1)					
				Ratio of					
	West 82	Beach	Beach	Beach MS		Adj'd	Expected	<i>Shortfall</i>	Total
	Market	Premium	Market	to West 82	Adj	Beach	Beach	Expected -	Beach
	Share	(\$M)	Share	Mkt Share	Factor*	Premium	Premium	Adj'd Act	Exposure
A	40.0%	25	100.0%	2.5	2.0	50	50	(0)	25
B	30.0%		0.0%	-	1.0	-	37	37	37
C	20.0%		0.0%	-	1.0	-	25	25	25
D	10.0%	-	0.0%	-	1.0	-	12.50	12	12.50
TOTAL	100.0%	25				50	125	75	100
Beach Plan		75				75			
Grand TOT		100				125			
	Fixed Assumptions for All Scenarios								
	* if (1) is greater than 0.7, then 2.0, or if (1) is GT 0.35, then 1.5, else 1.0								

Takeout Credit, p. 2

				(1)					
	West 82	Beach	Beach	Ratio of		Adj'd	Expected	<i>Shortfall</i>	Total
	Market	Premium	Market	Beach MS	Adj	Beach	Beach	Expected -	Beach
	Share	(\$M)	Share	to West 82	Factor*	Premium	Premium	Adj'd Act	Exposure
				Mkt Share					
A	40.0%	-	0.0%	-	1.0	-	42	42	42
B	30.0%		0.0%	-	1.0	-	32	32	32
C	20.0%		0.0%	-	1.0	-	21	21	21
D	10.0%	5.26	100.0%	10.0	2.0	10.52	10.53	0.01	5.27
TOTAL	100.0%	5.26				11	105	95	100
Beach Plan		94.74				95			
Grand TOT		100				105			
	Fixed Assumptions for All Scenarios								
	* if (1) is greater than 0.7, then 2.0, or if (1) is GT 0.35, then 1.5, else 1.0								

Feature: Fifth Year Closeout

- Prior to 2005, Beach Plan closed out Fiscal Years (Oct to Sept) after five years and distributed profits or assessed members based on adjusted market share.

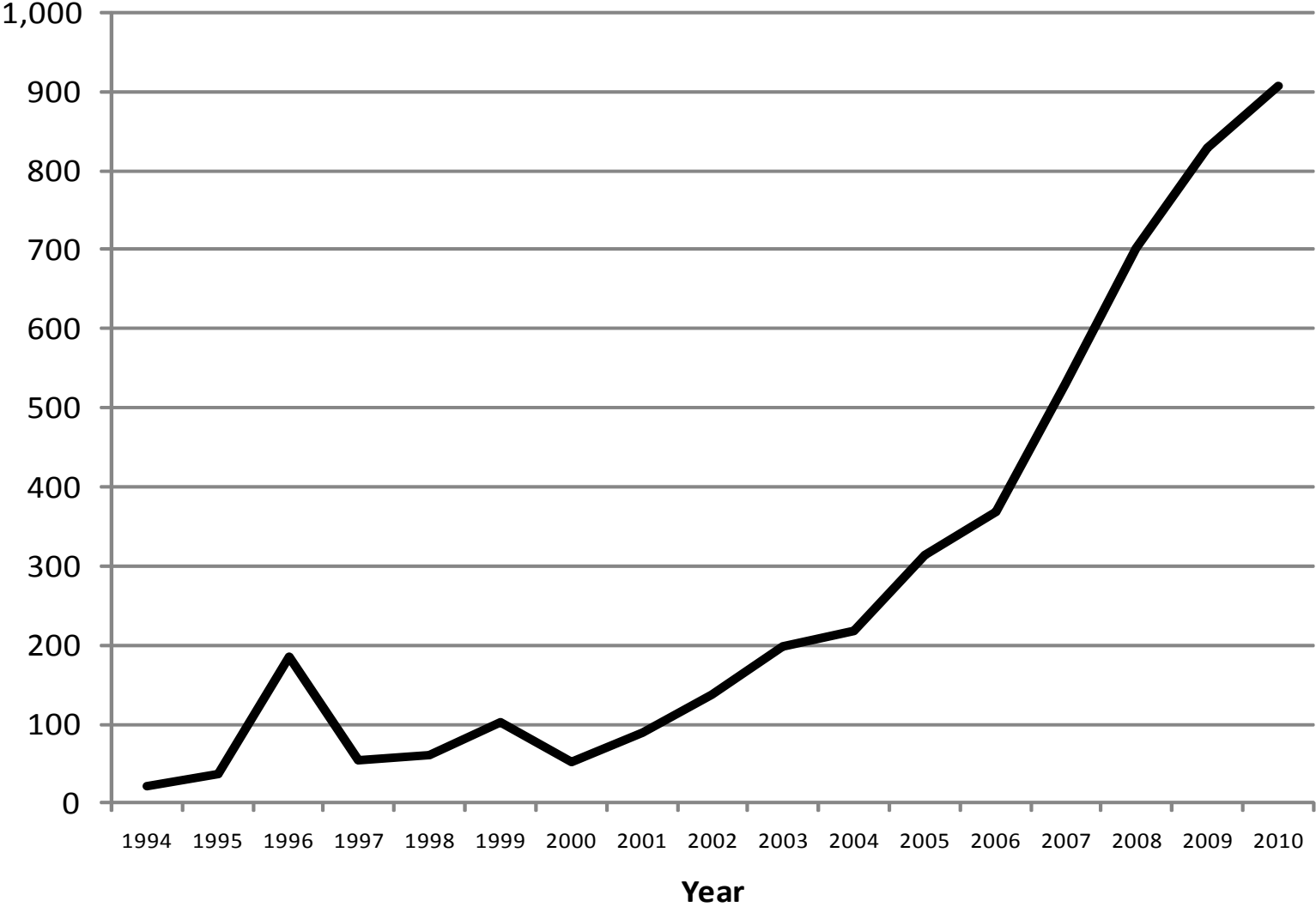
Recent Changes

- Retention of Surplus 2005
- Purchase of Reinsurance 2007
- Passage of H. B. 1305 2009

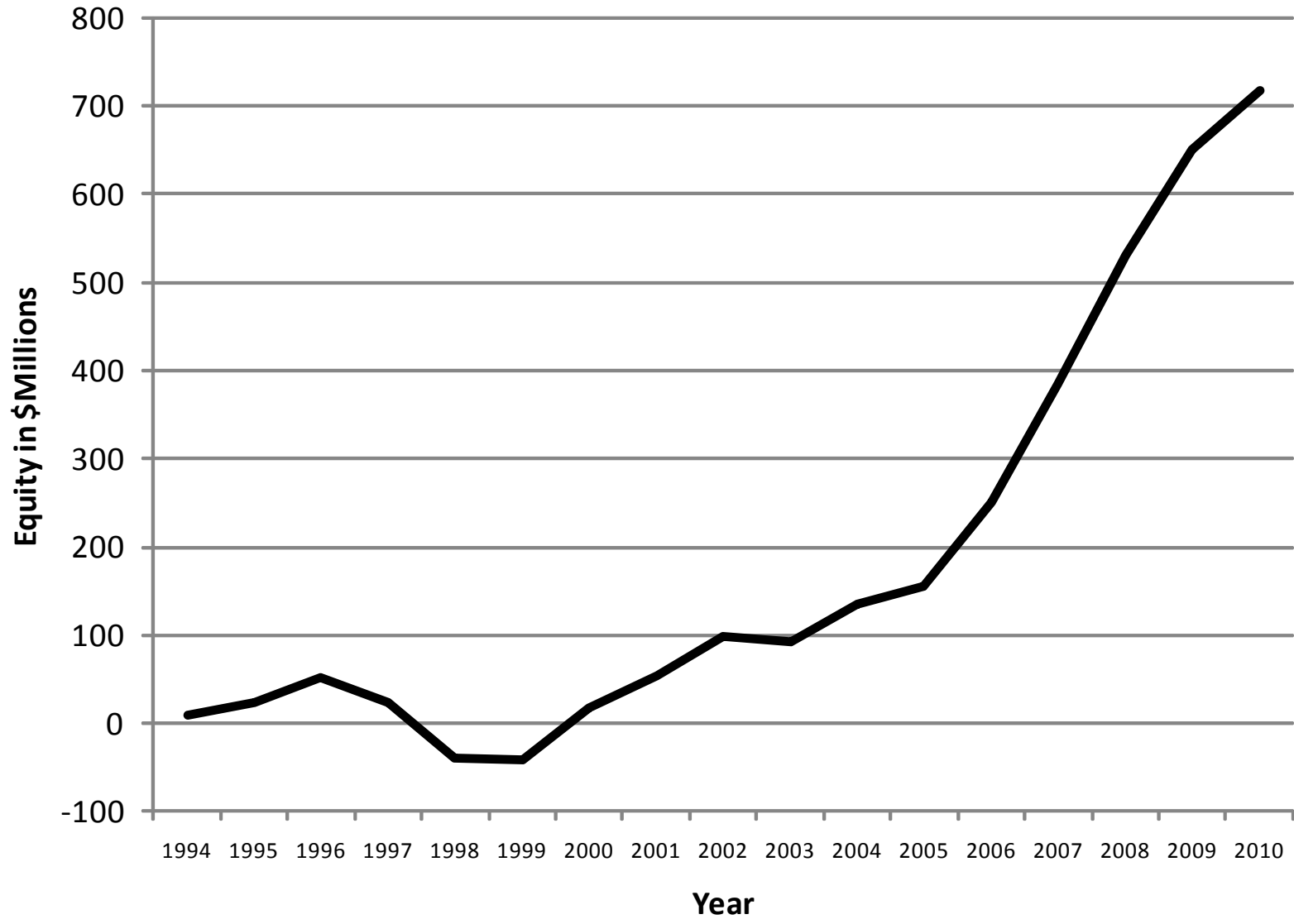
Recent Changes

- Retention of Surplus 2005
 - >BP Board decided to build up surplus by no longer distributing net earnings from fifth year closeout
 - > HB 1305 made this mandatory as of 8/26/2009

Assets in \$Millions



Member's Equity (\$M)



Recent Changes: H.B. 1305

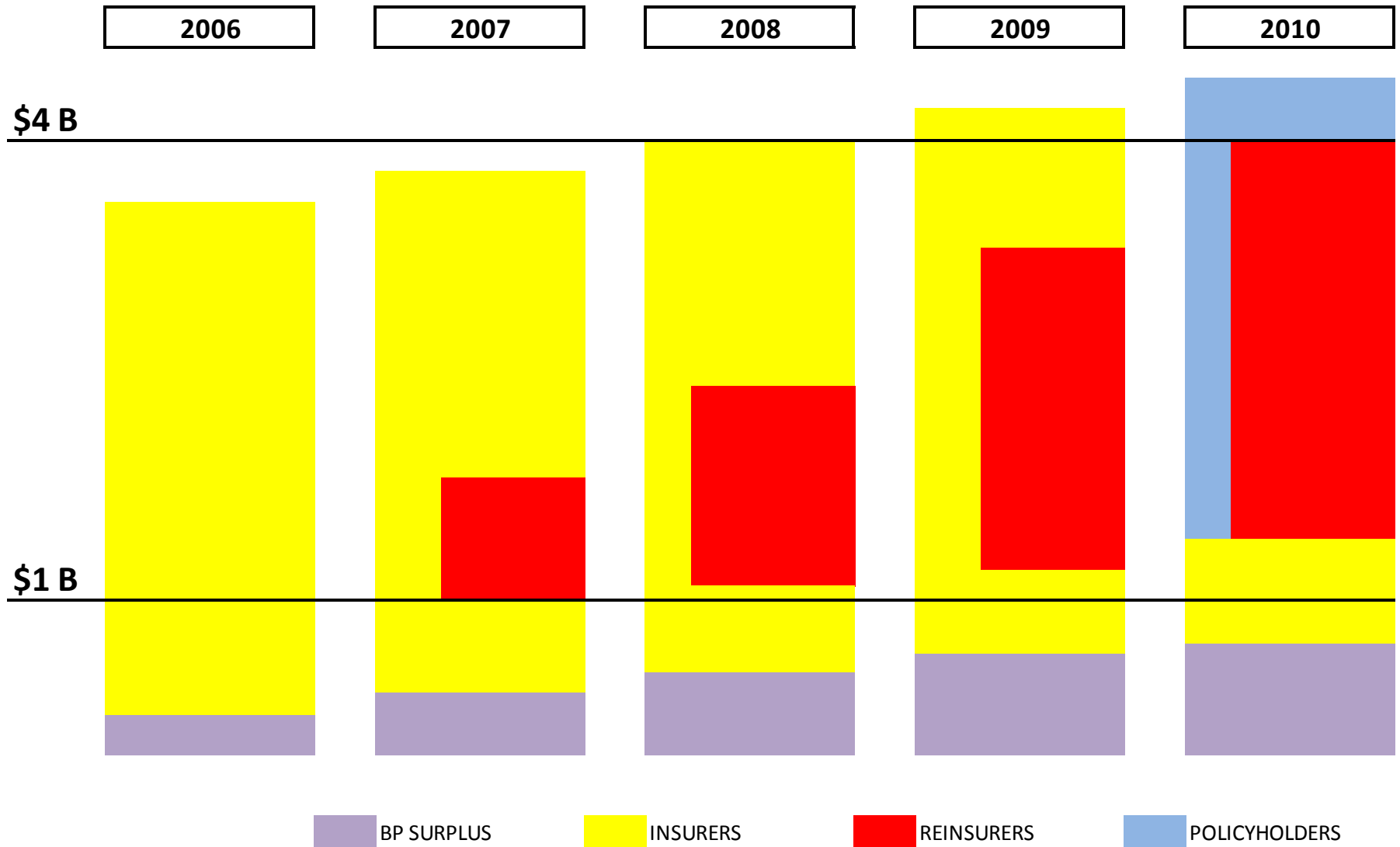
Major Goals:

- Shrink the Beach Plan
 - Minimum named storm deductible of 1%
 - Lower maximum limits from \$1.5M to \$750K
 - Reduce contents coverage to 40%
- Cap the Industry's Exposure
 - From Unlimited to \$1 billion per year
- Codify Surplus Retention and Rate Differentials
- Catastrophe Recovery Charge Implemented

H.B. 1305, p. 2

- After major BP loss, and after BP surplus, company retention (\$1 B), and reinsurance (if any) are exhausted, then policyholders, residential and commercial pay:
- Catastrophe Recovery Charge
 - 10% of premium per year for as long as it takes to fund the balance.
 - Approx. \$300 M per year would be collectible.

Beach Plan Reinsurance -- Latest Five Years



Beach Plan: the Future

- General Manager since 1992 is retiring (end of 2011)
- BP's income could become taxable per IRS
- Take out credits could be expanded
- Insurer liability limit of \$1 B could be changed
- Rate Bureau could be dismantled, and Beach Plan would have to file independent rates
- Major Storm would “disrupt” everything