

# CAS Special Interest Seminar

## Government in Insurance Seminar - Boston, MA Law, Regulation and Property Residual Markets North Carolina

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# Law, Regulation and Property Residual Markets – North Carolina

## § Insurance Statutes

- What is unique about property insurance in North Carolina?
- Industry-wide rates developed by the North Carolina Rate Bureau
- Filed with the Commissioner for approval
- Industry-wide rates also apply to residual markets
- For some Residual Market Risks, surcharges, as defined by statute, are applied to Bureau rates
- In the voluntary market, individual companies may deviate and use consent to rate

# Law, Regulation and Property Residual Markets – North Carolina

## § Property Residual Markets

- NCIUA (Beach Plan)
- NCJUA (Fair Plan)

# Law, Regulation and Property Residual Markets – North Carolina

## § Fair Plan

- Created by the legislature in the 1960s
- Functioned as insurer of last resort for properties unable to insure with voluntary market
- Eligible to write business statewide
- Currently eligible to write in non-Beach Plan counties
- Includes both personal and small commercial buildings
- One participation pool
- Volume/growth

## Law, Regulation and Property Residual Markets – North Carolina

NCJUA - FAIR PLAN RESIDENTIAL POLICIES ONLY				
Evaluation Date	Amount of Insurance In Force (\$ Millions)		Policy Count	
	\$	Annual % Change	#	Annual % Change
September-09	\$4,133	-2.9%	67,026	-3.5%
September-08	4,258	-2.6%	69,461	-3.3%
September-07	4,373	-1.9%	71,819	-2.7%
September-06	4,457	3.6%	73,839	-0.7%
September-05	4,300	6.6%	74,384	0.7%
September-04	4,035	6.3%	73,883	2.5%
December-03	3,795	-	72,088	-

# Law, Regulation and Property Residual Markets – North Carolina

## § Beach Plan

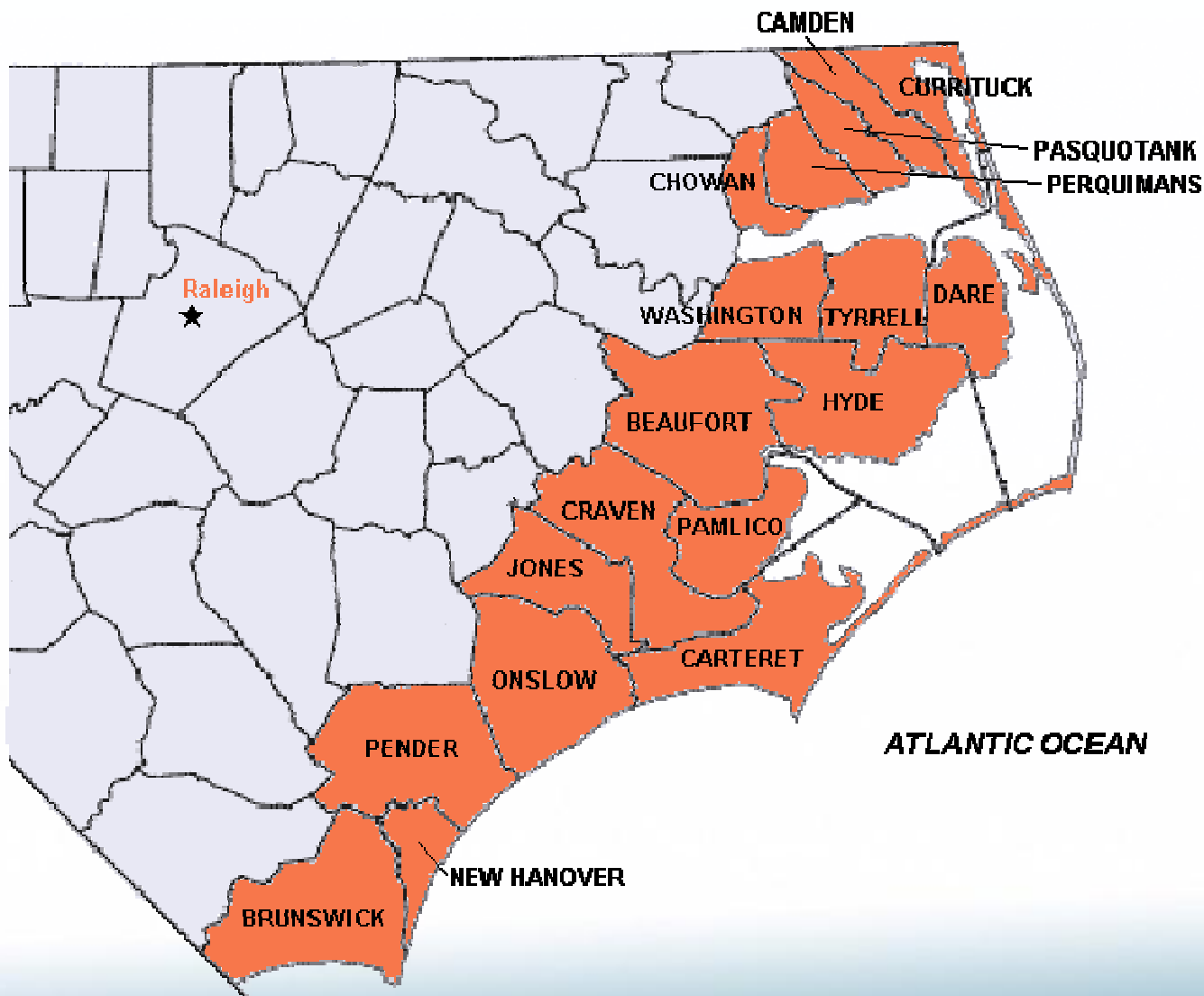
- Created by the legislature to address availability of property insurance in Beach and Coastal areas
- Eligible to write only in Beach and Coastal counties
- Participation separate for four different pools:
  - Personal Beach
  - Personal Coastal
  - Commercial Beach
  - Commercial Coastal
- Volume/growth

# Law, Regulation and Property Residual Markets – North Carolina

## § Beach Plan Eligible Areas

- Beach – All areas South and East of inland waterway, including area referred to as “outer banks”
- Coastal – Non-Beach area of the following counties:
  - Beaufort
  - Brunswick
  - Camden
  - Carteret
  - Chowan
  - Craven
  - Currituck
  - Dare
  - Hyde
  - Jones
  - New Hanover
  - Onslow
  - Pamlico
  - Pasquotank
  - Pender
  - Perquimans
  - Tyrrell
  - Washington

## Law, Regulation and Property Residual Markets – North Carolina





## Law, Regulation and Property Residual Markets – North Carolina

SUMMARY OF GROWTH - BEACH PLAN RESIDENTIAL POLICIES ONLY				
Evaluation Date	Amount of Insurance In Force (\$ Millions)		Policy Count	
	\$	Annual % Change	#	Annual % Change
September-09	\$64,865	2.4%	165,761	0.7%
September-08	63,341	17.8%	164,568	13.1%
September-07	53,769	23.1%	145,443	16.5%
September-06	43,670	25.9%	124,858	13.8%
September-05	34,696	42.9%	109,753	33.0%
September-04	24,280	70.5%	82,494	33.7%
December-03	14,238	-	61,690	-

# Law, Regulation and Property Residual Markets – North Carolina

## § Residual Market – Assessments

- Fair – Operating losses assessed to member companies on single participation ratio. Member companies may also share in any profits.
- Beach – Old law (prior to HB 1305) – Operating losses assessed to member companies separately by the four pools, using different participation ratios for each pool. Any profits could be distributed back to member companies or kept in the plan to be used for future catastrophic losses.

# Law, Regulation and Property Residual Markets – North Carolina

## § Legislation

- HB 1305 – enacted August 2009
  - Limits member company assessments to \$1 B of loss (was unlimited)
  - Ownership of surplus transferred to the Beach Plan; future profits would be retained by the Beach Plan to cover future catastrophic losses
  - Created catastrophe recovery charge – allowed the Beach Plan to authorize member companies to impose a surcharge on residential and commercial property insurance policyholders statewide up to 10% annually
  - Surcharges are collected by member insurers and transferred to the Beach Plan
  - Beach Plan authorized to issue debt to cover insured losses to be paid back through company assessments and the catastrophe recovery charges
  - Coverage limits (\$750K + 40%) and minimum deductible of 1%

# Law, Regulation and Property Residual Markets – North Carolina

## § Legislation

- HB 1305
  - New definition of “nonrecoupable assessment”:
    - “Any assessment levied on and payable by members of the Association that is not directly recoverable from policyholders. Prospective exposure to nonrecoupable assessments shall be considered as an appropriate factor in the making of rates by the North Carolina Rate Bureau.”

# Law, Regulation and Property Residual Markets – North Carolina

## § Rates of the Residual Market

- Based on Industry Rates filed by NCRB
- Surcharged classes (homeowners policies: 15% / wind-only policies: 5%)
- Provisions for:
  - Expected losses
    - Non-catastrophe losses
    - Hurricane catastrophes (customary actuarial procedure using modeled loss costs)
    - Non-hurricane catastrophes (customary actuarial procedure based on actual experience)
  - Net cost of reinsurance
  - Profit
  - Other typical considerations in developing rates
  - Residual market reinsurance charge

## Law, Regulation and Property Residual Markets – North Carolina

### § Exposure to Catastrophes

- Beach and Fair Plan Combined
- AAL
  - AIR                   \$227.7 Million
  - RMS                   \$250.6 Million
- 1 in 1000 Year PML:
  - AIR                   \$12.8 Billion
  - RMS                   \$13.7 Billion

§ Guy Carpenter PML & AAL analysis is available on the NCJUA/NCIUA website: <http://www.ncjua-nciua.org/>, and included in this presentation for reference

**North Carolina**  
**IUA and JUA Combined - AIR**  
*Data Inforce as of 1/1/2010*

*AIR v 11 - IUA and JUA Combined*

Per Occurrence PMLs:

Return Period	Commercial	Personal	Combined
1,000	\$1,460,680,941	\$10,768,815,343	\$12,146,309,932
500	\$1,275,720,142	\$9,210,443,839	\$10,459,513,187
250	\$943,947,302	\$6,458,885,163	\$7,497,224,789
150	\$711,440,179	\$4,785,324,034	\$5,522,514,257
100	\$552,522,162	\$3,593,582,314	\$4,098,333,573
75	\$457,002,273	\$2,957,148,585	\$3,410,807,831
50	\$327,333,142	\$2,147,358,142	\$2,460,651,025
20	\$129,362,444	\$893,433,265	\$1,024,459,784
10	\$48,382,053	\$366,322,681	\$413,330,964

Annual Aggregate PMLs:

Return Period	Commercial	Personal	Combined
1,000	\$1,516,075,678	\$11,330,764,219	\$12,754,840,693
500	\$1,347,288,592	\$9,272,438,109	\$10,666,824,473
250	\$978,764,819	\$6,550,308,857	\$7,573,126,141
150	\$755,082,706	\$4,812,785,119	\$5,687,924,739
100	\$598,015,675	\$3,801,310,086	\$4,419,191,312
75	\$474,368,739	\$3,212,665,668	\$3,693,627,336
50	\$341,849,333	\$2,268,265,665	\$2,628,369,518
20	\$135,578,115	\$954,582,328	\$1,093,980,936
10	\$52,972,396	\$395,426,259	\$447,158,156
Average Annual Loss	\$28,268,816	\$199,447,697	\$227,716,513
Standard Deviation	\$124,438,718	\$865,448,446	\$969,344,890

Exposure Summary:

	Commercial	Personal	Combined
TIV	\$9,380,002,888	\$66,478,009,114	\$75,859,012,002
Premium	\$47,664,814	\$274,544,894	\$322,209,708
Policy Count	10,892	227,727	238,819
Location Count	25,624	245,701	271,325

Modeling Notes:

1. Frequency represents the near term ("stochastic"/"WSST") view.
2. Demand surge ("loss amplification") is included.
3. Storm surge is excluded.

**North Carolina**  
**IUA and JUA Combined By LOB - RMS**  
*Data Inforce as of 1/1/2019*

*RMS v 9 - IUA and JUA Combined*

Per Occurrence PMLs:

Return Period	Commercial	Personal	Combined
1,000	\$2,045,914,736	\$11,394,898,493	\$13,441,487,238
500	\$1,584,658,885	\$8,286,772,307	\$9,873,721,087
250	\$1,040,048,683	\$4,967,512,010	\$6,001,456,600
150	\$772,072,648	\$3,510,629,926	\$4,279,112,148
100	\$617,567,019	\$2,736,017,966	\$3,349,833,161
75	\$527,162,602	\$2,315,863,987	\$2,836,267,304
50	\$419,552,985	\$1,840,282,266	\$2,254,554,696
20	\$233,057,458	\$1,031,080,015	\$1,262,961,451
10	\$120,752,102	\$538,905,488	\$660,670,026

Annual Aggregate PMLs:

Return Period	Commercial	Personal	Combined
1,000	\$2,091,538,212	\$11,608,774,064	\$13,676,034,416
500	\$1,630,765,390	\$8,465,784,369	\$10,114,233,377
250	\$1,093,793,771	\$5,205,169,948	\$6,292,967,174
150	\$821,024,309	\$3,733,470,235	\$4,550,606,682
100	\$661,414,867	\$2,943,705,833	\$3,600,259,046
75	\$566,712,599	\$2,500,345,907	\$3,061,341,275
50	\$452,265,067	\$1,890,138,087	\$2,437,674,309
20	\$249,476,857	\$1,107,898,798	\$1,356,451,167
10	\$127,494,237	\$572,039,833	\$700,672,774
Average Annual Loss	\$44,240,378	\$206,400,641	\$250,641,019
Standard Deviation	\$157,385,362	\$803,353,280	\$958,243,976

Exposure Summary:

	Commercial	Personal	Combined
TIV	\$9,380,002,888	\$66,479,009,114	\$75,859,012,002
Premium	\$47,664,814	\$274,544,894	\$322,209,708
Policy Count	10,892	227,727	238,619
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1. Frequency represents the near term ("stochastic"/"WSST") view.
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## Law, Regulation and Property Residual Markets – North Carolina

Surplus – Calculated Quarterly as part of Financial Statements

§ Latest Financial Statement is as of March 31, 2010

- Beach Plan Surplus: \$696 Million
- Fair Plan Surplus: \$27.8 Million

Complete Financial Statements available on NCJUA/NCIUA website: <http://www.ncjua-nciua.org/>

## Law, Regulation and Property Residual Markets – North Carolina

### Beach & Fair Plan Reinsurance

§ Program covers both Beach and Fair Plan exposures

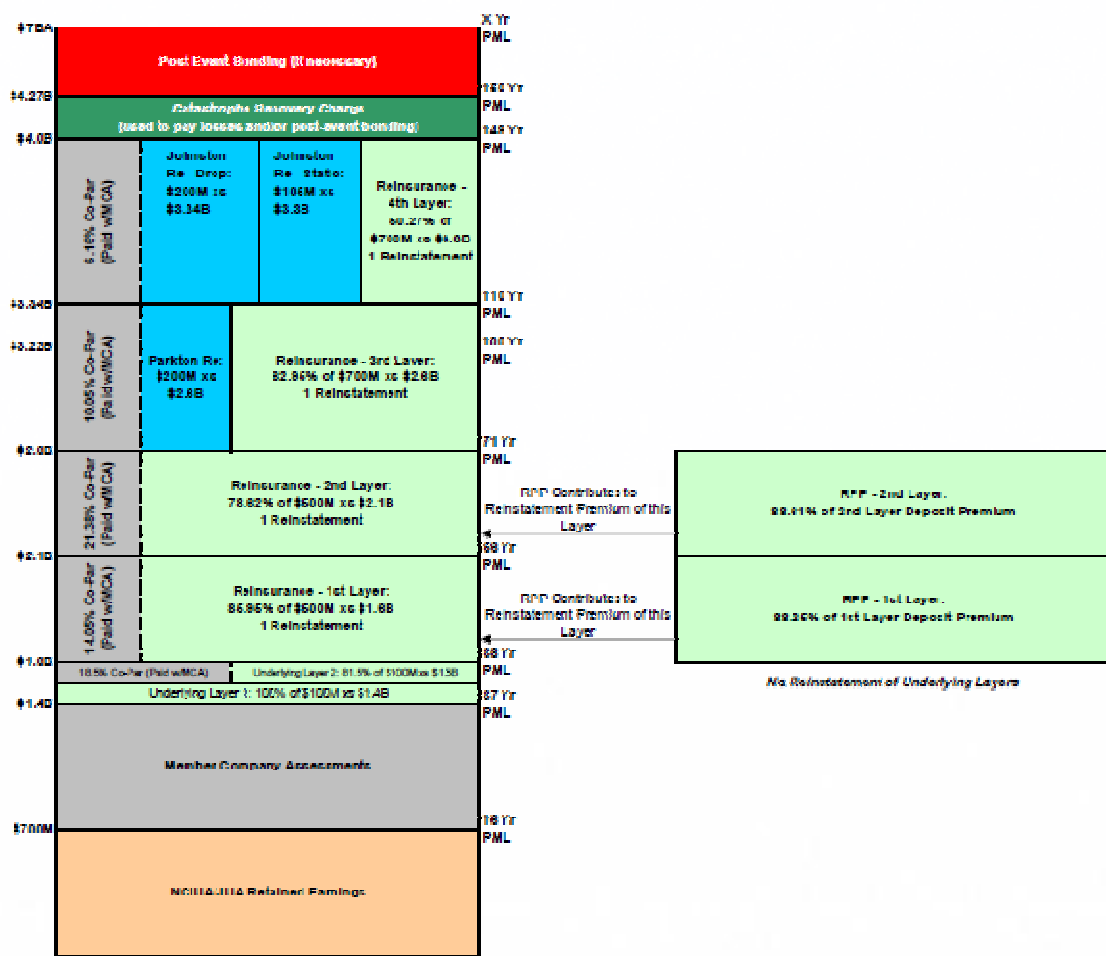
§ For 2010 storm season, \$2.3 Billion of coverage purchased, displayed on the next page

§ Using both traditional reinsurance and two Catastrophe Bonds

PDF version of Reinsurance Layer Chart is available on NCJUA/NCIUA website: <http://www.ncjua-nciua.org/>

North Carolina Insurance Underwriting Association  
 North Carolina Joint Underwriting Association  
 Risk Financing Program Effective May 1, 2010

Final Structure Graph



AMOUNT OF REINSURANCE

Underlying Layer 1	\$ 100,000,000	Catastrophe Excess Of Loss
Underlying Layer 2	\$ 81,500,000	Catastrophe Excess Of Loss
Layer 1	\$ 429,733,500	Catastrophe Excess Of Loss
Layer 2	\$ 303,108,500	Catastrophe Excess Of Loss
Layer 3	\$ 440,004,700	Catastrophe Excess Of Loss
Layer 3	\$ 200,000,000	Parkton Re
Layer 4	\$ 351,874,670	Catastrophe Excess Of Loss
Layer 4	\$ 305,000,000	Johnston Re
<b>Total</b>	<b>\$ 2,301,881,370</b>	

AMOUNT OF CO-PARTICIPATION

Underlying Layer 1	\$ -
Underlying Layer 2	\$ 18,500,000
Layer 1	\$ 70,266,500
Layer 2	\$ 106,891,500
Layer 3	\$ 59,336,300
Layer 4	\$ 43,126,300
<b>Total</b>	<b>\$ 298,118,600</b>

Notes:

- PMLs are blended average of RMS and AIR short term and long term model views and are based on projected TIV of \$71.7B at 9/30/10
- Total Member Company Assessments are capped at \$1B
- Assume \$270M of Catastrophe Recovery Charge funds are available
- Post-event bonding capacity to be determined

# Law, Regulation and Property Residual Markets – North Carolina

## North Carolina Beach & Fair Plan

### Financing of a \$5 Billion Event during the 2010 Storm Season (\$Millions)

		Remaining Losses
Event Losses		\$5,000
Surplus	\$700	4,300
Reinsurance	2,300	2,000
Member Company Assessments	1,000	1,000
Policyholder Surcharges	1,000	0

Questions?