

**2011 CAS RATEMAKING PRODUCT
MANAGEMENT SEMINAR**
New Orleans, LA

**Property Residual Markets
North Carolina**

Presented by: David R. Chernick, FCAS, MAAA
Consulting Actuary
Milliman, Inc.
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Property Residual Markets – North Carolina


- Outline
 - Background
 - HB 1305 (August 2009)
 - Residual Market Rates
 - Exposure to Hurricanes
 - Financing a Major Event

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Property Residual Markets – North Carolina

Background

- 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

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Property Residual Markets – North Carolina

Background

- Property Residual Markets
 - NCJUA (Beach Plan)
 - NCJUA (Fair Plan)

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Property Residual Markets – North Carolina

Background - NCJUA

- 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

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Property Residual Markets – North Carolina

Background

Evaluation Date	NCJUA - FAIR PLAN RESIDENTIAL POLICIES ONLY			
	Amount of Insurance In Force (\$ Millions)		Policy Count	
	\$	Annual % Change	#	Annual % Change
September-10	\$4,229	+2.3%	67,018	-0.0%
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	-

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Background – NCIUA

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



Property Residual Markets – North Carolina

Background

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



Property Residual Markets – North Carolina

Background



Property Residual Markets – North Carolina

Background

Evaluation Date	Amount of Insurance In Force (\$ Millions)		Policy Count	
	\$	Annual % Change	#	Annual % Change
September-10	\$58,586	-9.7%	171,292	3.4%
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	-

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Property Residual Markets – North Carolina

Background

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.

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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%

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- 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."

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Property Residual Markets – North Carolina

- Residual Market Rates
 - 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

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- Exposure to Hurricanes – Exposures as of January 1, 2010
 - 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

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

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Property Residual Markets – North Carolina

Financing a Major Event

Beach & Fair Plan Reinsurance

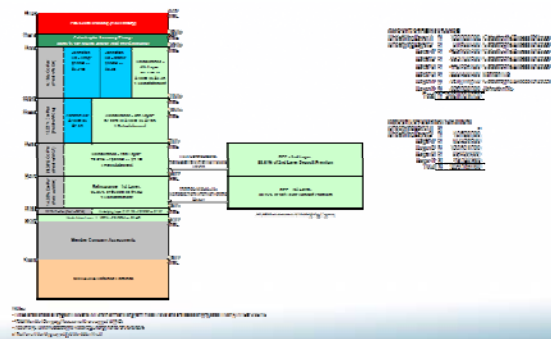
- Program covers both Beach and Fair Plan exposures
- For 2010 storm season, \$2.3 Billion of coverage purchased, displayed on the next page
- Using both traditional reinsurance and two Catastrophe Bonds
- Reinsurance program for 2011 storm season should be finalized by May 1, 2011.

PDF version of Reinsurance Layer Chart is available on NCJUJANCIUA website: <http://www.ncjujanciua.org/>

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Financing a Major Event



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Financing a Major Event

North Carolina Beach & Fair Plan Combined

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

		Remaining Losses
Event Losses		\$5,000
Surplus	\$750	4,250
Reinsurance	2,300	1,950
Member Company Assessments	1,000	950
Policyholder Surcharges	950	0

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