

**2011 RATEMAKING AND PRODUCT MANAGEMENT SEMINAR**

March 21, 2011  
 Scott Romito, FCAS, MAAA  
 Chief Actuary  
 Louisiana Citizens Property Insurance Corporation

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**Agenda:**

- ▣ Louisiana Citizens History
- ▣ Actions Taken
- ▣ Where We Are Today
- ▣ Louisiana Citizens Ratemaking
- ▣ Questions

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### History

- Property Residual Market Started in Louisiana in 1970
  - FAIR Plan
  - Coastal Plan
- In 2003 the Legislature Formed Louisiana Citizens Property Insurance Corporation as the Successor to the FAIR and Coastal Plans
- Citizens Board was Formed in the Fall of 2003

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### History (continued)

- Citizens Board Decides to Build a New System and Use Multiple Service Providers
- Citizens Contracted with PIAL to Manage Operations
- In Late 2004 an RFP for Service Providers was Released
- Awards were Made to Three Vendors to Become Service Providers

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### History (continued)

- Service Providers Began to Gear up to Take Over Underwriting and Claim Functions on October 1, 2005
- PIAL Began to Hire Personnel to Build a Website and to Begin to Perform Insurance Functions
- August 2005 - Hurricane Katrina Struck Louisiana
- September 2005 - Hurricane Rita Struck Louisiana

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### History (continued)

- ❑ Decision Made in September to Proceed to Implement New Operations October 1, 2005
  - Little Insurance Company Experience at PIAL
  - Storms Disrupted Physical Workspace and Employee Lives
  - Service Providers were New
  - System Did Not Work Properly
  - Company Had to Raise \$1 Billion in Debt
  - Storms Generated 80,000 New Claims

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### History (continued)

- ❑ In Early 2007 Insurance Commissioner Hired a Consulting Firm to Examine Citizens
- ❑ Their Report to the Board in March did not Paint a Pretty Picture
- ❑ Board Decided to Employ a CEO and Begin to Separate from PIAL

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### Actions Taken

- ❑ CEO Hired April 23, 2007
- ❑ New Senior Management Team Hired
- ❑ Separation from PIAL Completed 4/1/08
- ❑ Policy Count Grew to Over 170,000 Policies
- ❑ 2005, 2006, and 2007 Financials Completed in 2008

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### Actions Taken (continued)

- ▣ Implemented Changes Resulting from Gustav/Ike Lessons
  - Call Center Improvements
  - New First Notice of Loss System
  - Independent Adjuster Tracking System

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### Where We are Today

- ▣ Staff about 90 People
  - Policy, IT, and Financial Management in Metairie
  - Claim and Actuarial Management in Baton Rouge
- ▣ Financials are Current
- ▣ Manage Two Service Providers who Handle Basic Policy and Claim Operations

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### Where We are Today (Continued)

- ▣ June 1, 2010 Purchased Reinsurance 95% of \$400 Million Excess of a \$100 Million Retention
- ▣ Four Rounds of Depopulation (2008-2010)
  - 8 Companies Participated
  - 57,000 Policies Removed
  - \$11.5 Billion in TIV
  - \$98 Million in Premium

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### Where We are Today (Continued)

- ▣ Current Exposures
  - 119,000 Policies in Force
  - \$200,000,000 in Annualized Premiums
  - \$24 Billion of Total Insured Values

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### Louisiana Citizens Ratemaking

- ▣ Louisiana Citizens Ratemaking procedures have been developed to comply with state law
- ▣ For Commercial, actuarially determined rate levels are used.
- ▣ Personal Lines uses a 3 step approach.
  1. Market rate levels are determined by parish and product
  2. Actuarially sound rate levels are determined by parish and product
  3. The higher of the actuarially sound rate and the market rate level is used to determine the final rate structure.

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### Ratemaking (Continued)

- ▣ Step 1 Market Analysis
  - Original Law
    - Parish level
    - Each product has a separate analysis
    - Annually
    - 10 largest companies in the parish to be included
    - Of the 10 largest companies determine which has the highest rate and use it as the market rate
    - DOI did the analysis

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## Ratemaking (Cont.)

- ▣ Step 1 Market Analysis (Cont.)
  - Current Law
    - Parish, product and timing did not change
    - LCPIC to do the analysis including gathering information for the private market
    - Qualifying Companies write at least 2% of the market in the parish for the appropriate product or have net policy growth of 25 or more in the past 12 months

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## Ratemaking (Cont.)

- ▣ Step 1 Market Analysis (Cont.)
  - Market Analysis Process
    - Four Products- Homeowners, Renters, Dwelling Fire and Mobile Home
    - Direct written premium and inforce policy counts as of the past two years end is collected for each product at the parish level
    - Data collected above used to determine market share and net policy growth
    - Companies meeting the selection criteria are asked for additional information to determine their rate levels

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## Ratemaking (Cont.)

- ▣ Step 2 Actuarial Analysis
  - Actuarial sound rates are determined for each product and parish
- ▣ Step 3 Combining Market and Actuarial Results
  - Original Law
    - Original law required the market rate level be increased 10%

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## Rate-making (Cont.)

- ▣ Step 3 Combining Market and Actuarial Results (Cont.)
  - Current Law
    - Law altered after Katrina and Rita eliminating the +10% increase in market rate level requirement in 12 parishes
    - Law altered requiring 10% be added to the actuarially determined rate level in all but the same 12 parishes before determining final rate level
  - The higher of the market rate +10% or actuarial rate +10% becomes the new LCPI rate level

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## Rate-making (Cont.)

- ▣ Rate Approval Process
  - Rate-making results and formulas are shared with the Board of Directors. They must adopt all formulas.
  - All rate changes are filed with the Department of Insurance.
  - DOI approved rates are presented to the Board of Directors for permission to implement.

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Questions?

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