



### Residual Markets: “Last Resort” Coverage



Gina Schwitzgebel, CPCU, CIC, CRM, ARM, AIC, AMIM

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### RESIDUAL MARKETS FOR PROPERTY EXPOSURES



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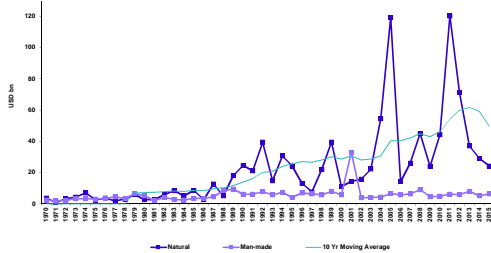
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### OVERVIEW OF GLOBAL CATASTROPHE LOSS ACTIVITY: 1970 – 2015



Source: Guy Carpenter & Company, LLC from Swiss Re Sigma

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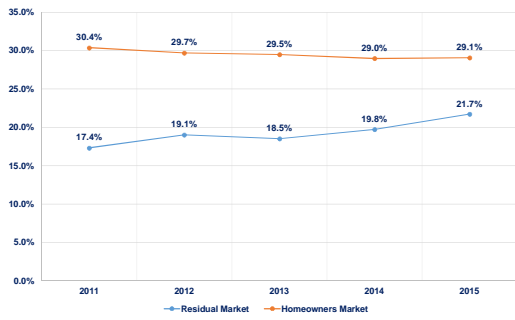
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### EXPENSE RATIO COMPARISONS



Source: PIPSO; 2015 NAIC; 2011-2014 SNL Financial

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### GENERAL OBSERVATIONS

- Lower Storm Losses
- Lower Costs of Capital and Reinsurance

Source: Guy Carpenter Florida Conference

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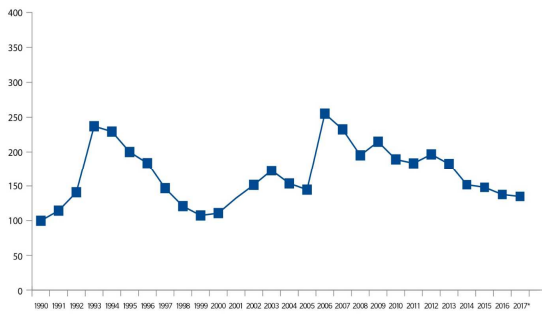
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### US PROPERTY CATASTROPHE RATE ON LINE INDEX 1990 TO JANUARY 1, 2017



Source: Guy Carpenter

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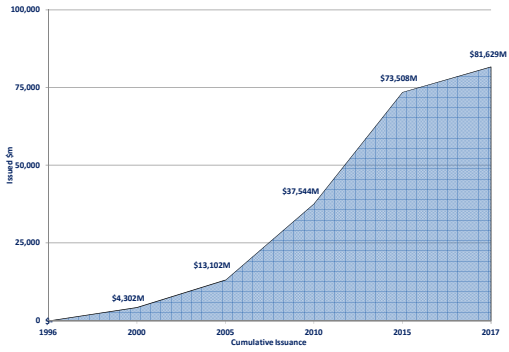
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## CATASTROPHE BONDS AND ILS CUMULATIVE ISSUANCE BY YEAR



Source: [www.Artemis.biz](http://www.Artemis.biz) Deal Directory

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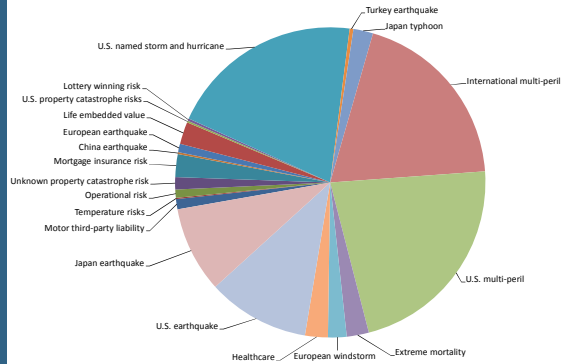
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## CATASTROPHE BONDS & ILS RISK CAPITAL OUTSTANDING BY RISK OR PERIL



Source: Artemis Deal Directory

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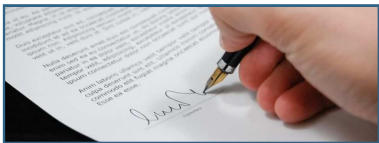
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## THREAT TO RESIDUAL MARKET DEPOPULATION: ASSIGNMENT OF BENEFITS

### What is an Assignment of Benefits?

Assignment of benefits, commonly abbreviated as AOB, originated within the medical billing field, but has moved to the areas of auto coverage and, most recently, homeowners' insurance claims. An assignment of benefits is an agreement which transfers the rights of the policy holder to a third party.



Source: Greenberg Stone and Urbano (Florida Homeowners Insurance Blog)

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### Assignment of Benefits Arrangement

The Following Scenarios Depicts the Assignment of Benefits Arrangement

Source: Greenberg Stone and Urbano (Florida Homeowners Insurance Blog)

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A leaky pipe sends water through the home of an individual insured



Source: Greenberg Stone and Urbano (Florida Homeowners Insurance Blog)

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The insured calls out a water mitigation company to dry out the home on an emergency basis



Source: Greenberg Stone and Urbano (Florida Homeowners Insurance Blog)

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The water mitigation company is dispatched and uses its extensive equipment to dry out the home, which includes removing baseboards and drying inside the house



Source: Greenberg Stone and Urbano (Florida Homeowners Insurance Blog)

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The company presents the homeowner with a document that includes an assignment of benefits, in which the homeowner assigns his or her rights under the insurance policy to recover insurance funds to the water mitigation company



Source: Greenberg Stone and Urbano (Florida Homeowners Insurance Blog)

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At some later point, a claim is filed with the insurance company



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### The Potential Problems of an Assignment of Benefits

There are several ways in which AOB can present a problem for the homeowner.

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At times, the contractor or repair company will over impair or inflate the cost to repair the damage, this increases the cost of the claim



These repairs will often be completed before the insurance company has had a chance to assess the damage, making it difficult to make an accurate claim

At times, the homeowner may find him or herself obligated to pay the difference between what is covered by the policy and what the repair company charged



Source: Greenberg Stone and Urbano (Florida Homeowners Insurance Blog)

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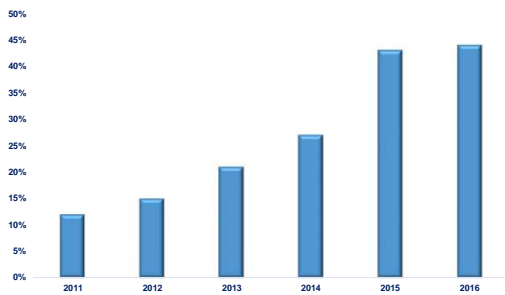
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### FLORIDA RESIDUAL MARKET: PROJECTED % OF CLAIMS IN LITIGATION



Source: Citizens Property Insurance Corporation

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**FLORIDA RESIDUAL MARKET:  
LITIGATED WATER CLAIMS**

**Approximate Claim Cost**

Non-Litigated	\$6,000 - \$9,000
Litigated	\$25,000 - \$30,000

**Representation at First Notice of Loss**

AY 2014	42.9%
AY 2015	61.9%

Source: Citizens Property Insurance Corporation

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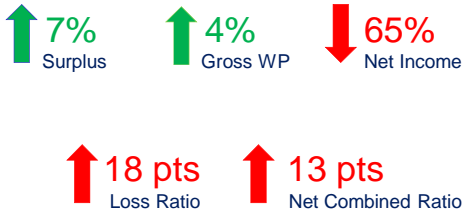
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**FLORIDA MARKET – 2016 3RD QTR FINANCIALS  
(EXCLUDES CITIZENS)**



Source: Guy Carpenter Florida Conference

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**GUY CARPENTER FLORIDA COMPOSITE**

# Of Companies	Surplus Size	9 Months 2016 Avg. CR
5	<\$15M	102.2%
6	\$15 - \$20M	147.7%
6	\$20 - \$25M	105.1%
10	\$25 - \$35M	101.1%
7	\$35 - \$50M	108.5%
8	\$50 - \$75M	94.8%
18	>\$75M	96.2%

Source: Guy Carpenter Florida Conference

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## NORTH CAROLINA RESIDUAL MARKET ENDORSEMENT REGARDING ASSIGNMENT OF BENEFIT

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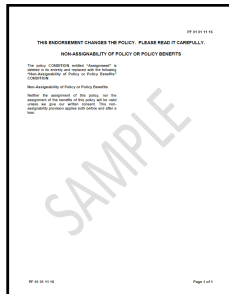
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## NON-ASSIGNABILITY OF POLICY OR POLICY BENEFITS

The policy **CONDITION** entitled "**Assignment**" is deleted in its entirety and replaced with the following "**Non-Assignability of Policy or Policy Benefits**" **CONDITION**:

### **Non-Assignability of Policy or Policy Benefits**

Neither the assignment of this policy, nor the assignment of the benefits of this policy will be valid unless we give our written consent. This non-assignability provision applies both before and after a loss.



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## MITIGATION: CREATING MORE RESILIENT COMMUNITIES



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**IBHS PRIORITIES ARE INSURERS' PRIORITIES**

- Lower the loss exceedance curve
- Better understand vulnerabilities and how to reduce them
- More accurately assess the interaction between weather and the built environment
- Improve catastrophe models
- Provide new claims-related tools
- Reduce contractor fraud

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**PROTECTION FROM THE TOP: FOCUS ON THE ROOF**

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## SEALING THE ROOF DECK

### Duplex damage estimates

Unsealed roof deck side = \$16,935 Loss

Sealed roof deck side = \$5,408 Loss



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## CREATING MORE RESILIENT COMMUNITIES

- Residual Market's Financial Contributions to IBHS 
- Partnership of Alabama Residual Market with Department of Insurance
- North Carolina Residual Market Bronze Roof Endorsement

Source: Guy Carpenter Florida Conference

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## POTENTIAL FINANCIAL IMPACT OF A SIGNIFICANT MITIGATION EFFORT IN NORTH CAROLINA

15% OF BEACH RISKS (8,084 LOCATIONS)  
BRONZE LEVEL  
STORM OCCURS 10 YEARS AFTER MITIGATION



Notes:  
Beach Area Only; Single Family Homes Only; Locations (8,084) selected based on reinsurance cost allocation; Assumes \$12,900 mitigation cost per location; Assumes 15% of all risks have IBHS status at the same time; Based on blended average of RMS v16 and AIR TSVd LTANT wDdGdS

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# NCIUA SPECIAL ROOF ENDORSEMENT

HOMEOWNERS  
PE 00 01 15

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

## SPECIAL ROOF COVERAGE, IBHS FORTIFIED HOME™ BRONZE LEVEL ROOF REPLACEMENT (OPTION TWO), TERRITORIES 110 & 120 ONLY

**INTRODUCTION**  
FORTIFIED Home™ is an engineering and building standard developed by the Insurance Institute for Business & Home Safety (IBHS) to mitigate wind-related hurricane damage. The program also includes evaluation and inspection requirements to ensure the building standards are properly implemented. Fortifying a home is the key to having the FORTIFIED Home requirements.

**COVERAGE**  
If the amount of a "covered loss" to the roof covering of the dwelling or the "residence premises" shown on the declarations is greater than 50% of the replacement cost value of the entire roof covering and the roof resulting in the damage is or was immediately prior to the loss a minimum of 7/16-inch GIB or plywood then this endorsement may apply at the option of the insured.

When the coverage provided by this endorsement applies and the insured opts to have the coverage provided by this endorsement, the Association will pay the costs of the materials and labor, the costs of the wind inspection and government, and the costs of the wind mitigation report(s) necessary to obtain the designation "FORTIFIED Home™ Hurricane Bronze with roof cover". The insured will be responsible for arranging and obtaining the not requirements for arranging and obtaining the not requirements and modifications required by IBHS.

**DEFINITIONS**  
With respect to the coverage provided by this endorsement, "covered loss" means a loss (including deductibles) occurring between January 1, 2017 and June 30, 2017 that is covered by a First Federal Adjusted General under SECTION 1 - PERILS INSURED AGAINST, A coverage as defined and covered by the "Insured" that is not excluded by SECTION 1 - EXCLUSIONS or otherwise excluded by any other provision or condition of this policy.

Territories 110 & 120 represents the Outer Banks and Barrier Islands of North Carolina

# STANDARDS AND FINANCE TO SUPPORT COMMUNITY RESILIENCE

December 2016



# FROM THE DECEMBER 2016 OMB REPORT:

## State, Local, and Private Sector Innovation

In addition to the sorts of state incentives for resilience based standards that produce insurance savings, states are moving to create mitigation funds to support retrofits of existing homes and other assets. Third parties are also undertaking innovative ways to combine finance, construction, and insurance of home retrofits, for the long term benefit of the consumer. Examples of these innovations include:

The North Carolina Insurance Underwriting Association (NCIUA) is the state's coastal "insurer of last resort" and the state's single largest cause of insurer. In 2015, insuring approximately 78% of the properties on North Carolina's Outer Banks and Barrier Islands, and approximately 30% of the properties in the state's other coastal counties. The NCIUA is announcing a new six-month pilot program beginning January 2017. All policyholders in rating territories comprising the Outer Banks and Barrier Islands of North Carolina will receive an endorsement on their homeowner's policy. If the policyholder suffers a covered cause of loss during the pilot program that causes their roof more than 50% percent, the policyholder may elect to upgrade their roof to IBHS Bronze Level Fortified-Roof standards at no cost to the policyholder.

Separately, the NCIUA is conducting research plans that are more ambitious as preliminary modeling indicates savings of \$50 million in mitigation investment in covered properties in the most exposed areas could generate reinsurance savings of \$36 million over a ten-year period and \$16 million of prevented losses from a single one-in-ten-year weather event. For a \$50 million mitigation investment in properties in the most exposed areas, the preliminary evidence suggests the possibility of \$132 million in reinsurance savings over ten years, plus additional savings of \$33 million in prevented losses from a one-in-ten-year weather event.