

**Property Insurance Rates - Legislative Research Commission Subcommittee**

**NC Farm Bureau Discussion**

**December 1, 2011**

**Introduction**

NCFBMIC appreciates the opportunity to address the NC Legislative Research Commission subcommittee to discuss property insurance rate making in the state.

We are the largest domestic property insurance writer in the state, and the third largest writer of property among all companies.

We have offices and serve North Carolinians in all 100 counties of our state.

**Property Insurance Rate Making**

In general, we believe that the current rate structure and approval process in North Carolina works well for lines of business outside of property. And the process itself functions adequately in property; the major issue is really about the rates that the Commissioner ultimately approves and whether adequate consideration has been given to the tremendous catastrophic exposure in property insurance and the cost of reinsurance.

To the question of catastrophic exposure and reinsurance costs, we do not believe that the Department of Insurance gives adequate consideration to these when evaluating property insurance rate requests. The decision to purchase reinsurance and to what level is a business decision. Statutorily, reinsurance is not required. But to operate without reinsurance or some other form of catastrophe protection is to operate recklessly and without regard to actually being solvent to pay claims to insureds when that catastrophe occurs. We will not and cannot operate in that manner.

North Carolina has two significant writers that operate solely in this state and thus cannot subsidize catastrophe risks with premiums and surplus built from other states: us, and the Beach Plan. Due to weather related losses in 2011, our reinsurance costs will almost double in 2012, approaching 40% of property premiums. Our reinsurance costs under current property rates cannot be supported. Farm Bureau provides employment to almost 2,500 citizens, has offices in all 100 counties, and pays over \$25 million in premium taxes to the state. But without adequate consideration of our true cost of doing business, we will be forced to reduce our property insurance writings, and with that, our presence in the state will also shrink. As we retract and other carriers withdraw from coastal areas, the Beach Plan will continue to grow, and the next hurricane will continue to deplete its surplus. Its cost of reinsurance, which already stands at 65% of its premium, will continue to increase.

#### **Specific Discussion Of Committee Directives**

We believe the current regulatory structure provides for an adequate voice to citizens and policyholders regarding rate appeals. Most importantly, the ultimate authority on rates is an official directly elected by the citizens of North Carolina, the Commissioner of Insurance. North Carolina is viewed as one of the most restrictive states in the nation as to the rate making and approval process. Over the last 20 years, there have been multiple mandatory auto insurance premium refunds from the industry to policyholders, as mandated by the Commissioner. This is concrete evidence that the Commissioner has the ability to protect the interests of consumers. In fact, we believe that regarding property insurance the primary issue is rate inadequacy rather than excessive or unfair premiums. The current structure provides balance between consumers and the industry.

Adding additional regulations, hearings, and panels will tip the scale of regulation to an excessive level. Rate increases and decreases take several years before they are fully in effect. The current process cannot be extended further without damaging the industry's ability to be responsive to market conditions.

An additional consideration is that individual citizens and policyholders may not have the breadth of knowledge possessed by the Commissioner and staff at the Department of Insurance. This is why the current structure has been established – to ensure that the policyholders and citizens who may not be sophisticated on insurance markets are protected.

The role of the Rate Bureau is to consolidate industry information and present it to the Department of Insurance as it relates to the adequacy or inadequacy of rates. The Department of Insurance advocates on behalf of the consumer, and the final decision is made by a directly elected official, the Commissioner of Insurance. It is unclear to us how this process could be deemed inadequate in protecting persons affected by rate increases.

We understand that there is concern from both the Department of Insurance and from regional associations regarding the use of models and reinsurance costs in establishing rates. We understand the concern about models and agree that they do not provide definitive results. They are designed to be and are used as risk management tools.

However, there is one component to them that is entirely real and valid: they are used extensively by reinsurers, and are the most critical component of the rates that they charge direct writers. We absolutely require a significant reinsurance program to allow us to offer property coverage in this state. There are no rate regulations over reinsurance. So, we are faced with this: the rates we may charge insureds are capped by the Commissioner. But the rates we must pay for reinsurance are uncapped and based on loss models. So the output of the loss models can be debated extensively, but no matter what we say about the models here in N.C., it does not and will not change the cost of our reinsurance. If the rates that we may charge do not factor in modeled losses or reinsurance costs, then a point will be



reached – and we are on the verge of it right now – where we have to severely restrict writing property coverage.

The same holds true for the Beach Plan as to their reinsurance cost, except they do not have the ability to withdraw from the market. This is why a failure to allow for models and reinsurance threatens all citizens, because if the Beach Plan fails, everyone will pay.

We are not opposed to offering more information to interested parties via the Rate Bureau or the Department of Insurance. We don't believe that such information will still get to the core problem in the property market: that the cost of weather related catastrophes and reinsurance are not adequately priced into property insurance rates.

Again, we appreciate the opportunity to discuss these issues with this legislative group, and will be glad to provide additional information upon request.