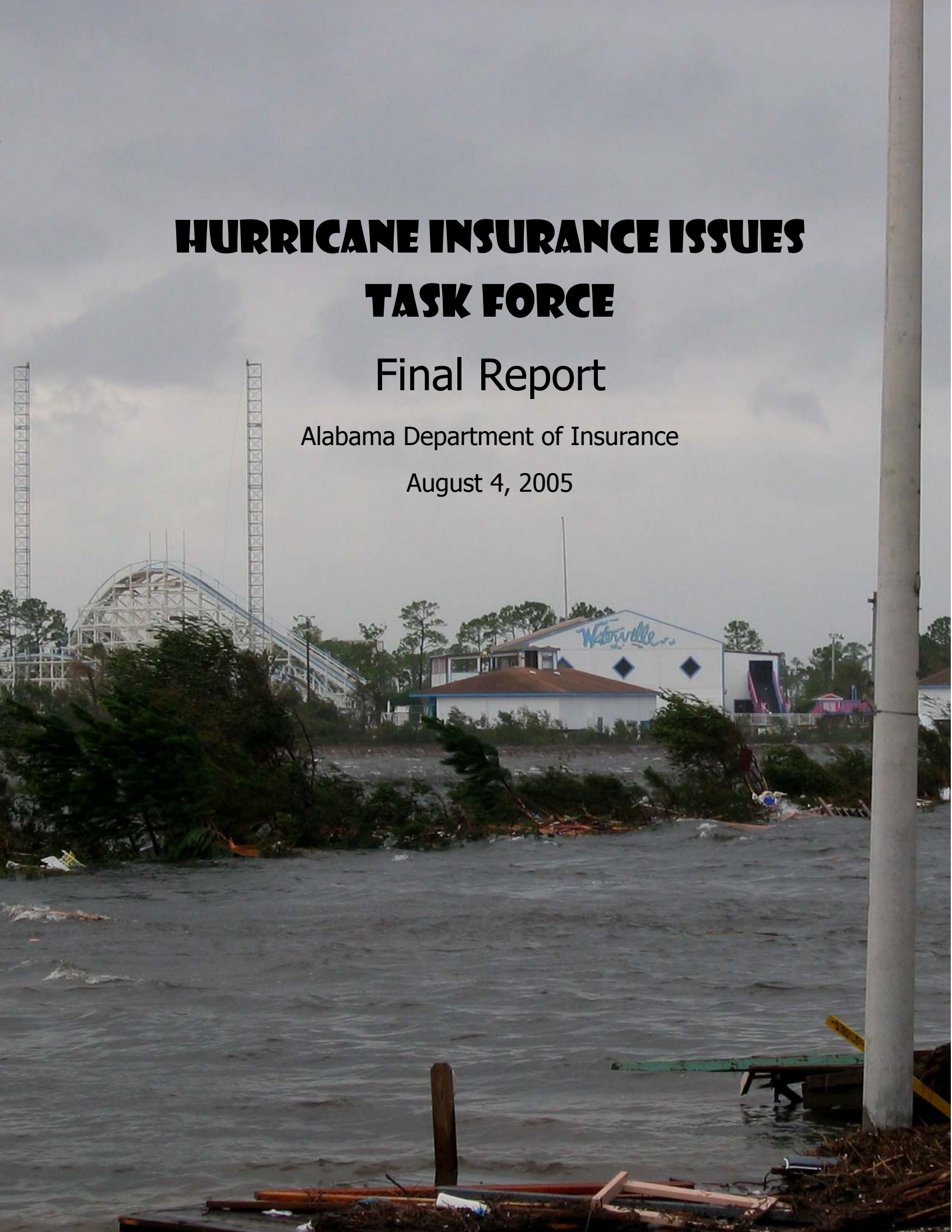


HURRICANE INSURANCE ISSUES TASK FORCE

Final Report

Alabama Department of Insurance

August 4, 2005





The Final Report of the Hurricane Insurance Issues Task Force is a compilation of the activities and represents the recommendations adopted by the Task Force at its June 28 meeting at Robertsdale, Alabama.

The photographs in the report were taken by Assistant State Fire Marshal Jeff Thompson, who was stationed in Baldwin County in the days leading up to and after the landfall of Hurricane Ivan.

The staff of the Alabama Department of Insurance provide assistance to each of the committees:

- ▶ Former Deputy Commissioner Johnny Johnson was the staff liaison to the Claims Coordination Committee.
- ▶ Deputy Commissioner David Parsons was the staff liaison to the Alternative Markets Committee.
- ▶ General Counsel Reyn Norman was the staff liaison to the Coverage Restrictions and Exclusions Committee.
- ▶ Assistant Commissioner Ragan Ingram was the staff liaison to the organizations that created the Market Referral List. He also edited this report.



Dear Governor Riley,

I am pleased to present to you the Final Report of the Hurricane Insurance Issues Task Force. I am deeply indebted to the members of the Task Force, all of whom volunteered their time, for their effort on this important work. I also want to thank you for your help in assembling this Task Force.

It is my belief that work of the Task Force has been beneficial for the parties involved, and will ultimately benefit the people of Baldwin and Mobile counties and the State of Alabama.

The Alabama Department of Insurance will be better prepared for future hurricanes because of our experience with Ivan and with the lessons learned through the Task Force's work.

Yours for Alabama,

Walter A. Bell

Table of contents

Commissioner's Letter, page 2

Hurricane Ivan overview, page 3

Task Force overview, page 4

Committee reports, page 5-8

Proposed regulation, page 9

Ivan: A look back

In the early morning hours of September 16, 2004, Hurricane Ivan made landfall as a Category 3 storm on the Alabama Gulf Coast, punishing the resort areas of Gulf Shores and Orange Beach and other communities in the vicinity.

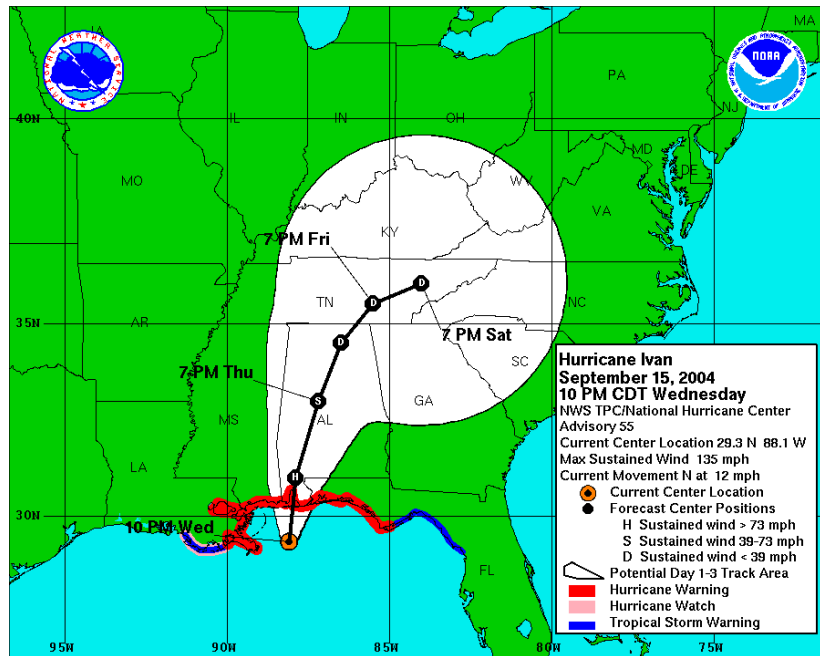
But Ivan did not stop there, pushing through Baldwin County and causing damage throughout southern and southwest Alabama.

In fact, the damage caused by Ivan would result in 65 of Alabama's 67 counties being declared federal disaster areas.

Ivan saw its beginnings as Tropical Depression Nine off the Cape Verde Islands. The next day, Ivan was given his name. On September 7, Ivan battered St. Vincent, Grenada and Barbados on its trek toward the Gulf of Mexico.

As it neared the Gulf, it hit Jamaica with a glancing blow and did serious damage to Grand Cayman.

After its landfall near Gulf Shores and its trek through Alabama, Ivan marched up the East Coast of the United States. Ivan caused storms to reach as far north as Nova Scotia, but



the main part of the storm exited the mainland off the coast of New Jersey.

At that point, Ivan did a “U-turn” tracking southward off the U.S. East Coast and re-entered the mainland in Central Florida and crossed into the Gulf of Mexico for a second time. It made landfall for the third time in western Louisiana.

Ivan was a \$15 billion storm — one of the worst in the nation’s history. It is estimated that half of this was insurable losses.

While Alabama was the first recipient of Ivan’s invasion of the U.S., it was hardly alone in receiving damage. The Florida

panhandle, which was located to the east of the eye wall, was also in the line of fire.

The Escambia Bay bridge on Interstate 10 near Pensacola was damaged severely, serving a testament to Ivan’s wrath.

In Alabama, more than 200,000 insurance claims were filed due to Ivan. The best estimate says Alabama eclipsed the \$1 billion mark in insurable losses due to Hurricane Ivan.

That estimate clearly outpaces the damage done by Hurricane Frederic, which devastated the Gulf Coast 25 years before, and Opal some nine years prior.

Panel of local leaders, industry goes to work to craft solutions

In the months following Hurricane Ivan, it was determined that several issues related to hurricanes and insurance needed to be addressed.

Accordingly, Gov. Bob Riley and Insurance Commissioner Walter A. Bell appointed the Hurricane Insurance Issues Task Force.

A panel representing civic groups and legislators from Baldwin and Mobile counties was grouped with industry representatives to form the Hurricane Insurance Issues Task Force.

“The purpose of the Task Force was to study issues related to affordability and availability of insurance in coastal areas,” Commissioner Bell said, “and to figure out ways to make sure when a hurricane hits that claims are paid in a timely fashion. We were working off the basic premise that the more information people have at their disposal, the better off they will be in a hurricane situation.”

The Task Force divided its work into three committees:

► **Alternative Markets** — This committee studied forms that insurance may take in the future, and ways to make it more available.

This committee was chaired by Randy Delchamps, president of the Mobile Area Association of Realtors.

► **Coverage Restrictions and Exclusions** — This committee studied the market of insurance and what role, if any, deductibles and exclusions should play. Beverly Faulkner, president of the Baldwin County Home Builders Association, chaired the committee.

► **Claims Coordination** — This committee studied the process of how claims are adjusted and paid in order to streamline the process to benefit Alabama consumers. Mark Berson, president of the Alabama Gulf Coast Chamber of Commerce, chaired this committee.

Another work of the Task Force was the Market Referral List, a tool for consumers to use to find new insurance markets.

TASK FORCE MEMBERS

Commissioner Walter A. Bell

Alabama Department of Insurance

Mark Berson

Alabama Gulf Coast Chamber of Commerce

Eric Brewer

Home Builders Association of Metro Mobile

Jack Brunson

National Security Insurance Group

Dr. Louis Buckalew

South Mobile County Chambers of Commerce

The Honorable Bradley Byrne

Alabama State Senate

The Honorable Spencer Collier

Alabama House of Representatives

Tom Curtin

Cooney, Rikard & Curtin, Inc.

Randy Delchamps

Mobile Area Association of Realtors

Beverly Faulkner

Baldwin County Home Builders Association

Rich Golick

Allstate Insurance

Jay Ison

Thames, Batre', Mattei, Beville and Ison

Brad Kading

Reinsurance Association of America

Drew Klasing

Auto Owners Insurance

The Honorable Steve McMillan

Alabama House of Representatives

Al Scott

Alfa Insurance

Jim Sikora

State Farm Insurance

Sylvia Stewart

Baldwin County Association of Realtors

The Honorable Gary Tanner

Alabama State Senate

Richard Thomas

Nationwide Insurance

Alternative Markets group looks at captives law

The Alternative Markets Committee looked at four issues in its work before making a formal recommendation to the full Hurricane Insurance Issues Task Force.

► **Captive Insurance law.** Currently, the state of Alabama does not have a captive insurance law, which is a mechanism for similar entities to form their own insurance company to insure their risks.

If enacted in Alabama, condominium associations, restaurants and other like industries could pool their resources together. Benefits from such a law could be gleaned beyond the coastal area as well as this would apply to the entire state.

The Hurricane Insurance Issues Task Force adopted the Committee's recommendation

ALTERNATIVE MARKETS COMMITTEE

regarding support for such legislation in the 2006 regular session.

► **Disaster Fund.** The committee recommended further study of a disaster fund in Alabama, believing that it was too soon to make a recommendation of the creation of such a fund. Only two states have such a hurricane fund currently -- Florida and Hawaii.

Though the subcommittee acknowledged the advantages of a fund.

► **Modify/Restructure "Beach Pool."** The Alabama Insurance Underwriting Association is the entity known as the "Beach Pool." Several discussion points in a restructuring were brought out, and because of the extent of some of the changes, the committee asked for additional study.



Some of those issues were: expansion or restriction of coverage, change in the make up of board of directors to include non-industry representation, rate review by Alabama Department of Insurance, implement credits for wind mitigation features on homes, required credits for construction under strictest codes, redefining territories of eligibility, and ending of the return of annual surpluses to the participating companies.

The Task Force agreed that these issues merited further discussion before making recommendations to the Legislature or to the Department .

► **Wrap-Around Policies.** The committee, after extended consideration, declined to adopt a recommendation to encourage insurers to offer policies that excluded wind policy to be placed in tandem with a Beach Pool-type wind-only policy. The full Task Force agreed.



Committee recommends new regulation

In the aftermath of Hurricane Ivan, one of the state's largest insurers announced its decision to non-renew 2,300 policies in Mobile and Baldwin counties over the course of a year's time. The insurer offered a substitute policy with a wind exclusion as a replacement.

The result for policyholders was to purchase the new policy and find wind coverage elsewhere, or to find complete coverage elsewhere.

The insurer in question informed the Alabama Department of Insurance regarding its decision several months in advance.

Through discussions with the company, the Alabama Department of Insurance advocated for consumers through negotiating a stricter notice of policy change than currently required in the consumers' policies.

The foundation of that process led the Coverage Restrictions and Exclusions Committee to recommend that Alabama make a formal law or regulation to ensure Alabama citizens receive sufficient notice of such changes in the future.

COVERAGES RESTRICTIONS AND EXCLUSIONS COMMITTEE

Accordingly, the Department researched laws and regulations of other states to determine what is on the books. The committee recommended that the Department adopt a regulation along the lines of a Mississippi law.

The proposed regulation requires insurers to provide notification of a proposed coverage restriction to be imposed at renewal so that policyholders have adequate time to shop for alternate coverage if so desired. The regulation would require insurers to inform the Commissioner 90 days in advance of the proposed change, which for the purposes of the regulation would be the imposition of a wind exclusion, the imposition of a hurricane deductible or the increase of a current hurricane deductible.

While this could be introduced into law, the timeframe for adoption is much quicker through regulation, which the Department is allowed to adopt under its legislative authority.

Education, mediation could aid claims process

One of the largest complications following Hurricane Ivan was the glut of 200,000-plus claims filed as a result of the storm.

While it was a difficult period for consumer and industry alike, it provided an opportunity all involved to learn from the experience.

The Claims Coordination Committee met to propose strategies to streamline the process for the benefit of Alabama citizens.

The committee made four recommendations that were adopted by the full Task Force:

► **Consumer education initiative.**

The committee recommended that the

**CLAIMS
COORDINATION
COMMITTEE**

Alabama Department of Insurance hold “town hall” meetings out of hurricane season and post-events to educate citizens regarding insurance issues. The committee also recommended that public service announcements be created to advertise the Department’s services.

► **After-storm reports.** The committee recommended that companies expand on the reports on claims that they filed post-Ivan to include such information as lessons learned, what worked



for the company in its responsibility to its consumers, and what didn’t work. After Ivan, the companies filed reports regarding claims – total number and those still unpaid.

► **Mediation to settle claims.** In order to prevent litigation, the committee recommended the

creation of a mediation program to help settle claims unpaid within 90 days of filing.

Under the program, mediation would be for first-party claims only, for disputes more than \$500, applicable to catastrophic losses only and other limitations.

► **Coordination of flood and wind claims by single adjuster.** The committee strongly recommended a complete overhaul of the “single adjuster program” – one adjuster for wind and flood claims – that failed after Ivan.



Market assistance plan gives citizens tool to help find insurance options

During the course of the work of the Hurricane Insurance Issues Task Force, a recurring theme emerged from the representatives from Baldwin and Mobile counties.

The citizen representatives on the panel wanted a strategy to advise their neighbors in the two counties of where to turn for property insurance if their current carrier was no longer interested or sufficient to meet their insurance needs.

Thus, the Market Assistance Plan was born. A project of the Baldwin County Home Builders Association, the Baldwin County Association of Realtors, the Home Builders Association of Metro Mobile, the Mobile Area Association of Realtors and the Alabama Independent Insurance Agents.

The Alabama Department of Insurance collected names of companies and agents willing to write property insurance in the two counties. The list is strictly voluntary and can be obtained through the member organizations that originated the plan.

The plan will be updated monthly as necessary



and is available to any Alabama citizen requesting a copy.

The member organizations, nor the Alabama Department of Insurance endorse any of the companies, agencies or agents listed in the plan., but rather offer the list as a resource to Alabama citizens looking for property insurance options.



**ALABAMA DEPARTMENT OF INSURANCE
INSURANCE REGULATION**

CHAPTER 482-1-XXX

**NOTICE REQUIREMENTS FOR COVERAGE RESTRICTIONS
OF EXISTING POLICIES AT RENEWAL**

TABLE OF CONTENTS

	Page
482-1-XXX-.01 Authority.	10
482-1-XXX-.02 Purpose.	10
482-1-XXX-.03 Applicability and Scope.	10
482-1-XXX-.04 Definitions.	10
482-1-XXX-.05 Notice Requirements.	11
482-1-XXX-.06 Severability.	11
482-1-XXX-.07 Effective date.	12

482-1-XXX-.01 Authority. This chapter is adopted pursuant to Section 27-2-17, Code of Alabama 1975.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17

History: New _____, 2005, Effective _____, 2005

482-1-XXX-.02 Purpose. The purpose of this chapter is to require insurers, under certain circumstances, to provide notice of a proposed coverage restriction to be imposed at renewal so that policyholders have time to shop for alternative coverage if so desired.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17

History: New _____, 2005, Effective _____, 2005

482-1-XXX.03 Applicability and Scope. This chapter applies to all insurers providing property insurance in the state of Alabama.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17

History: New _____, 2005, Effective _____, 2005

482-1-XXX-.04 Definitions. The following definitions shall also apply in this chapter:

(a) COMMISSIONER. The Alabama Commissioner of Insurance.

(b) COVERAGE RESTRICTION. Any imposition of a wind exclusion or hurricane deductible, or increasing an existing hurricane deductible, where the restriction applies to a category or group of existing insureds at renewal and is not a result of prior claims history.

(c) INSURER. An insurer, as defined in Section 27-1-2, authorized to provide property insurance on risks located in the state of Alabama.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17

History: New _____, 2005, Effective _____, 2005

482-1-XXX-.05 Notice Requirements.

(1) Every insurer shall provide written notice of a coverage restriction, as defined herein, to the Commissioner no less than ninety (90) days prior to the effective date of any proposed coverage restriction. The notice shall include the type of policies, the type of restriction or restrictions, and the category of consumers to be impacted.

(2) Every insurer shall provide written notice of a coverage restriction, as defined herein, to the named insured on a policy receiving a coverage restriction no less than sixty (60) days prior to the date of renewal.

Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17

History: New _____, 2005, Effective _____, 2005

482-1-XXX-.06 Severability. If any portion of this chapter or its applicability to any person or circumstance is held invalid by a court, the remainder of the chapter or the applicability of the provision to other persons or circumstances shall not be affected.

482-1-XXX-.07 Effective date. This chapter shall be effective upon its approval by the Commissioner of Insurance and upon its having been on file as a public document in the office of the Secretary of State for ten days.

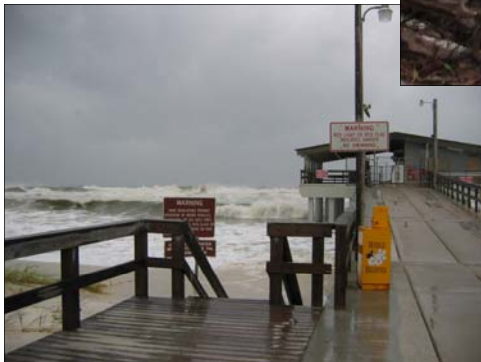
Author: Commissioner of Insurance

Statutory Authority: Code of Alabama 1975, § 27-2-17

History: New _____, 2005, Effective _____, 2005



Scenes from Ivan ...



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