

Coastal Recovery Commission of Alabama Insurance Subcommittee of the Economic Committee

Discussion Note

October 29, 2010 Meeting in Roberstdale, AL

Date of issue
November 4, 2010

Author
Michael Joe

Carl Schneider chaired the meeting in Walter Bell's absence. He opened the meeting by reviewing the Coastal Recovery Commission's purpose, which is to plan a road map to resiliency. The duty of the insurance subcommittee is to come up with short and long-term strategies for a sustainable property insurance system in South Alabama.

The discussion started off with a member indicating the discussion notes from the October 22nd meeting did not include the state fire marshal's comments about the frequency of fires in the northern and southern parts of the state. The notes will be amended to include the comment.

Carl said the meeting would be devoted to identifying recommendations that could be implemented in the short-term and long-term. He noted the chair person had recommended establishing an Insurance Institute in Alabama to continue the work of the subcommittee, and would recommend to the Governor of Alabama to create such an institute.

The discussion turned to a presentation by a member who had created a visual to capture the ideas emerging from the subcommittee. Copies of a sheet with the visual were handed out. In looking at the goals of the subcommittee -- to build awareness, increase adaptation, and develop positive market forces -- they looked at how the individual ideas flow into these goals. For instance, how do ideas such as the transparency bill, or Smart Home Alabama's education effort, flow into the goals of awareness, adaptation and market forces? How does mitigation and building codes relate to adaptation and better risk management? And, in turn, how do we use mitigation efforts to broaden the market and bring in new competition, as well as develop innovative products that may rely on mitigation efforts to give premium discounts to homeowners. Finally, the visual considers the issue of captive insurance and what should a captive offer to homeowners, businesses and, potentially, the government or non profits. The overarching consideration is what legislation will be required to enact these changes. The visual does not need to be used in reporting, but rather that it is used to help people consider the issues.

Although it was agreed the visual was a very good way to present the issues, it was suggested the visual should also include a regulatory body, such as the state Department of Insurance.

The member agreed to update the visual with subsequent cause boxes -- one would be legislation, one would be regulatory agencies, and the third would be consumer groups.

It was also suggested an overarching consideration be a timeline for implementing recommendations. The Coastal Recovery Commission has put forth one suggested way to categorize recommendations. It is a six-box grid that considers both the time it would take to implement a recommendation as well as the cost to implement. It would help organize the many things the subcommittee recommends. He added that regardless of what we recommend, we must have money to see them through.

As we gather recommendations, it was suggested that we could put together another visual of the first draft of recommendations. Then, everyone can send comments and refine it, and we can start to label those recommendations on a timeline.

It was noted the Alabama Independent Agent Association prepared a report released January 2008 recommending policy options for improving affordability and availability. Although it has not been updated to reflect new laws, such as the mandated premium discounts for mitigation measures, it was suggested members review the report.

The meeting moved to identifying vulnerabilities. Part of the discussion about vulnerabilities should consider what would happen if there is a storm which directly strikes the Alabama coast. The basic question is: How do we recover? To help answer this question, experts from Mississippi had been invited to the meeting in order to share their experiences about how a community recovers from a massive loss. Given the economic situation the country is in -- limited budget, large debt -- the state may not be able to rely on much help from the federal government.

As noted during the meeting on October 22nd, Alabama's wind pool is the healthiest in the nation, while having the smallest number of policies. But if the wrong storm hit, it could be overwhelmed if the insurance industry pulled out of the market. It was further clarified that although the industry could be overwhelmed with the volume of claims it might receive; it should still be able to pay those claims.

The meeting continued with a discussion about the vulnerability issue being one of unintended consequences. There are the uninsured, the underinsured and, given the large deductibles in place now, the economically underinsured (those not able to afford their deductible). There is also the potential reaction by the industry and the reinsurers to a major storm. Who would the assessments hit? Who would the claims hit? A member associated with a consumer group said there group fully understands the vulnerabilities and the potential crisis, and have proposed solutions.

Regarding the wind pool, it was also noted it is important to get the word out the wind pool would be able to handle claims, since currently people do not have confidence in the wind pool. Indeed, the wind pool can respond to all the claims it might have. Schneider agreed, noting that

while the wind pool may be expensive to consumers, the insurance market is healthier in Alabama than in other states. Private insurers are coming back and consumers have choices through both admitted and non-admitted carriers. In other states, the primary choice is a subsidized wind pool. For instance, the Mississippi wind pool has three times as many policies as Alabama's -- 46,000 policies in Mississippi vs. 19,000 in Alabama -- but with about half the population. After Katrina, the wind pool had no problem paying the claims. Insurance companies were assessed more than \$500 million. However, less than 12 months later, the state was forced to propose a 300 percent rate increase. The problem isn't paying claims; it is what happens to the insurance market after a disaster.

Furthermore, the price of wind pool insurance in Mississippi is less due to the wind pool being subsidized with \$20 million annually. Alabama's wind pool premium is higher than in adjoining states, which makes the market healthier because private insurers do not have to compete with a state-run wind pool. However, compared to those other states, consumers in Baldwin and Mobile County are bearing the brunt of that expense.

A question arose about the number of admitted and non-admitted carriers in the state. There are about 471 admitted carriers licensed to write property insurance in the state and they are members of the Alabama Insurance Underwriting Association. Although no one knew the number of non-admitted carriers (surplus lines carriers), it was noted that not that many surplus line carriers (perhaps 4 or 5) write insurance directly on the coast. It was also noted some surplus line carriers are beginning to come back into the regional market.

A member spoke of his trips to London to try to get others to write insurance along the coast. What he found was that companies which are willing to put aggregate on the coast are already committed to being reinsurers on plans which are already in place. They are just coming in to support what exists right now. He added, because of this reality, the idea is to do enough mitigation so Alabama can get carriers to come in and compete with what already exists. It was further noted the state's insurance commissioner met with a handful of carriers which had reentered the Florida market, but there was not much interest thus far in entering the Alabama market. However, at least one of those companies will be writing along the coast. For the most part, it appears that companies interested in writing along the coast are only interested in writing for high-value homes.

Affordability is our first and number one important vulnerability. We also have the issues of availability, quality and claims handling. The vulnerability of private insurers pulling back from the market in the event of another storm, and consumers' ability to absorb deductibles and holes in consumers' insurance policies was also reiterated.

Another possible vulnerability is adverse selection; if more people decide to go without insurance because their homes are stronger, the risk exposure to insurance companies remains the same.

These self-insured homeowners are a vulnerability affecting government and other taxpayers as well; if the self-insured homeowner suffers a total loss, the government may feel it necessary to offer them relief using taxpayer dollars. Government revenues also decline immediately after a storm because of the loss of economic activity. In the longer run, revenues also decline because the value of real estate declines. Indeed, the cost and availability of insurance is causing havoc in the real estate market because insurance costs factor into whether a buyer can afford a home. Because mortgage holders are required to have insurance, people who self-insure may be putting their mortgage in jeopardy.

It was further discussed that perhaps local businesses should step up to the plate and acknowledge it costs more to live and work along the coast, and perhaps they should pay their workers more to produce goods and services.

Regarding why homeowners are paying more and have fewer insurance options, a member noted condominium owners are paying pre-Ivan rates, but homeowners are paying three times what they were previously paying. The losses to the condos were much lower compared to the homes. The reinsurers are thinking they can write a lower premium and put their aggregate toward the condos -- giving carriers and reinsurers much less risk and a lot more premium dollar overall -- which is leaving individual homeowners fighting for the aggregate available. The insurance industry looks at what they can profit on and what they cannot, plain and simple.

In an effort to tie vulnerabilities to the work of other CRC committees, economic development came up as a topic of vulnerability. How do we attract new businesses and continue to grow along the coast if there is a perception that people can't find affordable insurance, can't find affordable housing and the cost of employing workers is higher?

Some agreed part of the problem is perception. In Florida, although there is rate suppression, the state was able to reach an agreement between home builders and the insurance industry to enact a statewide building code which is strictly enforced. Although insurance companies agreed to offer mitigation credits, it wasn't until the building code was further strengthened beyond the international code that the credits became large enough to significantly reduce premiums along the Florida coast. The only way to reach this point is to change perception, and currently the perception is Alabama does not have strong building codes and is not building good homes. The reason insurers are going after condo business is they know an architect was involved and the structures were built well.

The issue of sustainability came up and if we should consider short-term stop gaps that may be necessary if a big storm hit. After Katrina, the Mississippi legislature set aside \$80 million into the state wind pool, invested in increments of \$20 million over a four-year period, to help stabilize the cost of insurance for coastal residents. The investment gave residents confidence they wouldn't see a big increase in cost of insurance. However, it is not sustainable to ask the entire state to continue to supply \$20 million annually. The state has run out of the \$80 million. Thus far, insurance companies have not had a large amount of claims since Katrina. The question is what will happen next. Will the state's coastal residents see a bump in the cost of

insurance? Although they have yet to see a bump, it could be a consequence of having messed with the free market.

In Alabama, immediately following Hurricane Ivan there was as much as a thousand percent increase in insurance rates. A subsidy similar to what Mississippi did may have helped. The recommendation is for the state to provide some sort of short-term subsidy or inducement to help stabilize the market immediately after a storm.

It was also suggested to look at the possibility of providing homeowners with a three or four-year homeowner policy, rather than a typical one-year policy. Consumers would know what they were getting for several years, rather than dealing with volatility. It was agreed this could be a good idea. It wasn't that long ago when there were three-year flood and homeowner policies. However, if a consumer had a three-year policy, when they renewed the policy, they may suffer from sticker shock from the jump in price. Schneider noted the chair's company will be studying this issue.

Another vulnerability related to other CRC committees is the mental health challenge after a big storm hits. How do we have an economically viable community when people are in doldrums and scared to rebuild? A member said he is putting together a model for a proactive resilience approach to deal with mental health issues. The issue impacts everything. It is like bubble gum in the economic engine. Experts at trauma indicate you do not really see the worst of the effects until three or four years after a disaster.

Regarding the possibility of a three or four-year policy, if a consumer has several claims over a period of time, their insurance may not be renewed. Then they would have to go out and most likely pay a higher premium somewhere else.

Regarding mental health issues, it was suggested we should address the emotional effect the cost of insurance is having on people. People are worried about their homes and basic living expenses. We need to figure out how to work with various agencies and groups on mental health issues. We'll have to find funding for it if the money does not come from BP.

RECOMMENDATIONS

Moving on to recommendations, there was agreement to use the grid mentioned earlier to categorize recommendations. (The six-box grid has a Y-axis representing cost and an X-axis representing the amount of time to implement.)

Building Codes

It was decided recommendations addressing building codes was a good place to begin. Building construction is the foundation for everything else - mitigation, new markets, etc. Schneider noted he had hoped that some home builders, realtors and bankers could have been at the meeting. Others agreed, stating these groups are important because they pull many of the strings. Highlighting the urgency of the issue, a member warned if we continue to ignore building codes in Alabama, it will negatively affect overall economic activity.

A member suggested to move the building codes discussion to the end of the meeting agenda, and their consumer group's transparency proposal be considered first. They indicated there is an immediate need to know why rates are currently so much higher. Others disagreed, saying building codes are important to giving homeowners choices and that they represent a basic issue of human safety. Schneider assured the subcommittee member that transparency would be addressed today during the legislative section.

The discussion turned to Mississippi's five southern counties which have adopted a uniform code and implemented Building Code Effectiveness Grading Schedule (BCEGS) credits, where in cities are recognized for adopting and enforcing strong building codes. As a result, homeowners can receive up to a 20 percent reduction in their premium.

A question followed asking about building codes in Mississippi. In response to the question it was noted consumers, home builders, and local governments are starting to embrace the new uniform code that has been adopted by Mississippi's coastal counties. Especially because of enhancements provided by the industry through discount programs (IBHS, BCEGS, etc.), homebuilders and homeowners are demanding that city officials inspect their homes. Years ago, in contrast, mayors would have rejected new building codes because their constituents do not want to pay for the additional cost of construction. Today it is just the opposite.

It was suggested the subcommittee try again to get home builders to the table. A member in the real estate industry said he thinks he could get all the players to attend. It was further suggested there be a recommendation to have a discussion with home builders, realtors and bankers.

It was decided the first recommendation would be for a follow up meeting with the home builders and realtor communities to spell out the needs. The second recommendation would be to work with the homeowners, realtors and local officials to create a statewide building code -- or at least develop a uniform code for Baldwin and Mobile counties, and perhaps neighboring counties to the north. The third recommendation would be to have every jurisdiction adopt the 2006 international building code. The fourth recommendation would be to adopt that code with no reductions in the code.

Other recommendations include having a model ordinance for local jurisdictions to adopt; a uniform process for plan review; a series of recommendations from code officials to achieve uniformity; adopting additional mitigation features (code plus); fortifying existing structures to code; an ongoing involvement and dialogue led by an Insurance Institute; training local code officials; and finding funding to boost enforcement.

These things will need to be accomplished to reduce vulnerabilities. It was further added that it is critical to share this information with consumers and the industry through education and communication.

Data is necessary to identify the quality of construction to know which homes are less and more risky. When a consumer brings their construction plan to a building code department for approval, that data goes to the tax appraisal department. Each municipality has a different system for holding the data. As the IBHS research center does more testing, the more data that is collected on new and existing homes, the better we can promote our image of being a much safer place to live and a place for consumers to find affordable insurance. We don't want to add any more vulnerable structures to the mix. Although builders are using much better construction, they are still using staples, plywood on windows, and non-rated shingles. Once we have worked with municipalities to come up with a uniform system, we will start keeping track of homes.

A member encouraged others to read about what is happening in Louisiana, South Carolina and Florida. Alabama has passed an automatic discount for mitigation measures. But the problem is if a house is built to the 2003 building code, it does not qualify for the automatic 10 percent discount. What is missing is that no one is actually taking the next step and building better structures. Regarding the cost of mitigation, in Florida there was no increase in the cost to build, even though the home builders there argued that no one would be able to afford a house. The benefits have increased economic activity, affordable housing and lower insurance rates.

It was also recommended Alabama work with Mississippi and other states on the regional problem of vulnerability. Mississippi has found some innovative ways, especially with BCEGS.

The final recommendation was if there were any necessary changes to the building code, that those changes should be made by the city council or other representative branch -- and not have changes or decisions made by a single building official.

Mitigation

Moving to recommendations for mitigation, it was discussed that an amendment to a bill in Montgomery would allow the state to use a trust fund from oil revenues to build roads throughout Alabama. The trust fund would be used to help the coast and it could be used to help lower-income homeowners carry out mitigation through grants or interest-free loans. Another member said requiring the adoption of the BCEGS program statewide would be quick and easy to implement. He noted, though, that the insurance industry would need to adjust their automated systems which would take some time. Another recommendation was to use public education to help people know about the mitigation discounts and similar programs.

In other states, departments of insurance require fire, wind and hail premiums be separated in order for consumers to know exactly what they are paying for. There are companies in Alabama that already do this voluntarily. This would also help the department of insurance feel more comfortable with the rates being charged. It was noted such a requirement could take more than a year for insurance companies to implement because of changes to their automated computer systems.

It was also noted condo associations have restrictive covenants which forbid members from making changes to the units. It was further noted this might need to be remedied through

legislation. Florida also has this same problem but managed to solve it by changing their home owners association statutes to say that associations could not stop members from protecting their unit, although the associations could have control over architectural review.

A question arose about what else could be done in the short term and at a low cost. One suggestion was to have nonprofits make loans available to people who cannot get loans from a bank. It would most likely take at least a year to get such a program running.

Regarding other ways to fund mitigation programs -- such as a grant program -- other sources could be loans or a tax on premiums. Another member suggested recommending state tax benefits (deductions or credit) for out-of-pocket mitigation costs. The next recommendation was Alabama could eliminate sales taxes on mitigation products, and mitigation grants to homeowners be made nontaxable income. Another recommendation would be to give people a certain amount off their premium in the first year for having built or retrofitted to a certain code.

There may be ways to use millions of dollars in federal funds for weatherization projects to help mitigate homes. However, there is still a question whether the funds can be used for wind mitigation. We need to find ways to work with the Alabama Department of Economic Development and Community Affairs (ADECA) to mitigate a house for weatherization, and to also get the benefit of strengthening the house against wind. The question is: How do you take the weatherization money and turn it into a mitigation discount?

FEMA's Hazard Mitigation Grant Program (HMGP) also offers funding for mitigation efforts. Alabama needs to find a way to administer HMGP grants. The program to achieve this could likely be set up within a year.

A recommendation followed about how the disclosure of mitigation features should be included when selling a home.

Another member noted consumers are saying the cost of having their homes inspected is prohibitive. Or, if they can afford the inspection, they find out that they do not qualify for a credit and can't afford the cost of the mitigation measures needed to get the credits or discounts. In many cases we might have to help them pay the fee to have the inspection since a lot of consumers do not have the money for an inspection.

Schneider recommended continuing education -- working with state associations to train builders, realtors, suppliers, engineers, etc., to get the message out about mitigation. Smart Home Alabama will help get the message out when it uses money donated by insurers to mitigate three different types of homes. This program was announced at the previous meeting.

IBHS and the Home Builders Association need to meet immediately to discuss how to take advantage of credits.

For a jurisdiction to receive a BCEGS rating, it has to have inspectors trained in certain aspects of building inspection and participating in continuing education. But in many cases, there is no money available to send inspectors to training sessions.

The possibility of bankers being able to offer an interest rate discount for mitigated homes was also brought up.

It was suggested Alabama commission IBHS and hurricane modeling companies to more accurately provide what the mitigation discounts ought to be for Mobile and Baldwin counties.

It was also recommended, similar to how the AIUA requires a flood policy, all carriers could be required to ensure that a wind policy and flood policy exists on a home; carriers would not be able to issue a non-wind policy unless they know there is a wind policy. This would help reduce exposure.

Asked whether there was a way to determine what homes should be mitigated first, it was recommended a mitigation study could be completed in about a year.

Legislation

The meeting moved to legislative recommendations. A legislative bill was presented that would require insurance companies make available data that includes aggregate data by zip code -- number of policies, the dollar amount and premiums collected, and the dollar amount of claims paid.

However, that data would not answer why residents in south Alabama are paying more for insurance than residents in other parts of the state. It was suggested, instead, that currently confidential carrier rate filings be made public once the filing is approved. This would allow consumers to see, by each individual carrier by territory, how the insurer came up with the non-wind premium and the premium load in their territory. The wind portion of a premium in Mobile and Baldwin counties is 70 to 75 percent of the premium cost. The wind portion is generated by the hurricane models used by all insurers and reinsurers. It is not generated by the actual claims that have been paid. We can look at the actual hurricane losses over the last 20 years by zip code and county, but it will have nothing to do with the cost of premiums being charged to consumers.

The data would still be useful; people would learn that historical data is unrelated to the premiums being charged. A member who belongs to a consumer group stated he does not want to pay premiums based on models, but on reality. He reiterated an argument, made at the previous meeting, that there are a lot of tornadoes that hit other parts of the state and yet premiums in those places are not as high.

Another stated that the reality is premiums being paid for reinsurance are based on the hurricane models. Another said the exposure from tornadoes is not comparable to coastal

exposure. South Alabama has been relatively fortunate that claims have been low in recent years, but the reality is that insurance pricing is related to the coast.

What are the metrics that people can receive in order to understand their exposure and tie that into their insurance premium? In Japan, potential home buyers receive a schedule -- a one page document that tells you everything about the construction of the house and also ranks your house based on exposure to earthquakes. Is there some way we can help people know how exposed they are? It would not help a consumer much to know what someone located far away was paying; it would be more helpful to know what his neighbor is paying.

Schneider asked where the transparency bill should appear on the grid, noting there were two issues: 1) the time and cost to enact the law, and 2) the time and cost required for insurers to make the data available.

On the issue of making carrier rate filings public, the only way to get the insurance industry to go along is if all insurers, including non-admitted insurers that currently do not have to make their filings known, are required to submit the data. Addressing this, another member noted that public filings would carve out trade secrets. It was asked what the industry would accept in regard to making rate filings public. In response, a member said as long as information that is useful to competitors is not revealed, there is precedent for making rate filings public. These filings are public information in other states.

It was noted that the filing includes claims information. In the filing, if you saw the actuarial data, you would see claims for each carrier's information by territory (not by zip code.) The territories do not match from one carrier to the other though. As a result, the Department of Insurance would not be able to aggregate from the filing data. But possibly could through a special request.

Consumers need to know that the history of past claims has nothing to do with current premium pricing. Another member clarified the wind piece of the premium is based on hurricane models, but other pieces of the premium is indeed based on historical claims data. Furthermore, in some places, the government has hired a third-party modeler to model the exposure on the state; the state could publish the model data, and the third-party model could determine what is charged in the state.

It was suggested the answer might be to do both -- 1) recommend legislation to require insurers release the data previously discussed under the recommended transparency bill, and 2) recommend legislation to allow the Department of Insurance to provide the actuarial data from the filings that are approved, minus certain confidential trade secrets. The transparency bill data would be made available on the DOI website, along with a narrative provided by the DOI explaining to the consumer why the data would not help in understanding premium pricing, and explaining how it is possible that wrong conclusions could be reached from the data. Members agreed to recommend this legislation.

It was suggested the subcommittee discuss potential legislation to address the state's premium tax structure, which was argued is unfair. There are credits that need to be adjusted if they are not justifiable. It was further noted the premium tax is the largest revenue source for the state of Alabama and recommended a study of the premium tax conducted by the state Department of Finance. It was noted Mississippi had recently made some adjustments to their tax as well.

For instance, in Mississippi the premium tax is 4.25 percent for every surplus lines policy written. Four percent goes to the state as surplus lines tax, and 0.25 percent goes to administration. Shortly after Katrina, the legislature passed an additional tax-- an MWUA tax -- which is another 5 percent on top of the 4.25 percent. Now, the state is charging a 9.25 percent for surplus line policies. The idea behind the additional tax was to ensure that surplus lines would not have a competitive advantage in price over admitted carriers. After Katrina, the admitted carriers had to pay \$550 million in assessment. Currently, this tax generates about \$8 million, which is used to subsidize the state wind pool. That \$8 million could mitigate a large number of homes.

The subcommittee had previously discussed whether there could be an advantage to adding recoupment in Alabama. Recoupment is the ability for a company to come in and collect after a storm. Instead of transferring the cost of an assessment to just policy holders in two coastal counties, recoupment would spread the cost of an assessment over all the policy holders in the state of Alabama. Then, when the next storm hits, the cost is spread over all counties in Alabama. If a company writes 10 percent of what it writes in the state along the coast, it can recoup its losses after the next storm. If the company does not, then the company gets nothing and is also assessed part of the loss the wind pool has to pay out.

Another piece of legislation the subcommittee could recommend is a tax free catastrophe fund for individuals.

Schneider said the subcommittee needs to think about regional collaboration and regional issues. In response, a member said the insurance issues are very complex and it is difficult to get the public to understand it. However, he had been successful in conveying that changes to the National Flood Insurance Program were needed. There is also money that is available that communities across the country are competing for. In addition to FEMA's HMGP money, there is a very small pot of money for pre-mitigation that is available. Mississippi has asked its congressional lawmakers if it would be possible to increase that pot of money.

A recent report by the RAND Corporation pointed out some key things – the Private Market needs to create an all perils policy and we need more innovation. While there may not be much help from the federal government in coordinating reinsurance, or coordinating the purchase of larger policies, we can achieve the same thing locally. We can go to reinsurance companies and ask them what information we need to show them to give Alabama the lowest rates possible. Reinsurers have said when they come to the U.S., they have to deal with many different regulatory bodies, so it is difficult to fine tune their rates. We can help reinsurers by setting up

data collection efforts and providing reinsurers with an assessment of risk in coastal communities.

Legislatively, what is also needed is a study looking at the two south counties -- a statistical sampling of the buildings and perhaps a model based on that information. The study would also show the effect of a comprehensive mitigation program in south Alabama, show how such a program directly impacts the rest of Alabama in cost savings -- that there would be less damage and the economy would restart quicker.

A member said the hurricane modeling companies don't know anything about how houses are built in Alabama. The companies assume you have the poorest quality of homes built. The insurance rates reflect these assumptions.

In the My Safe Florida Home program, there were 400,000 inspections that gathered about 220 data points on each house. The data was fed into a computer and the data was given to modeling companies. One company, RMS, said if they had this amount of data on every house in Florida they could drop rates by as much as 30 percent. What companies see when a house is actually inspected is that the situation is not as bad as the assumptions.

Agreeing, another member emphasized the more information we can provide reinsurers, the more tools they have to reward consumers with lower rates. When there is doubt or confusion or misinformation, there are higher rates.

The other thing Florida did was develop a rating score, based on zero to 100, for every structure inspected. Even though the real estate industry there was opposed to the idea, starting January 1, 2010, the rating had to be shown on every Multiple Listing Service listing.

It was further discussed whether perhaps the state legislature would be able to help fund a mitigation study, or at least help the subcommittee tap into existing money. BP money could also be used for a mitigation study.

Other legislative recommendations include grants for local building code departments to help them bolster staff and resources; land use ordinances to halt building structures in the riskiest areas; and an enhanced building code for not only coastal Alabama but, by working with other states, the entire Gulf Coast.

Regarding collaboration, Alabama and Mississippi could meet biannually or annually to work together on insurance reform, mitigation and legislative remedies. A member said there was a meeting last week, sponsored by the National Conference of State Legislatures, of state lawmakers from the region. The lawmakers have agreed to continue those meetings and he suggested that it might be one vehicle for such discussions. The subject matter would need to be focused on mitigation. Similarly, getting local jurisdiction building officials together would allow for sharing ideas and collaboration.

Legislation is needed to combat fraud in the insurance industry. A fraud bill might want to include a limitation of the length of time that a claim can be reported. Currently it is six years, meaning claims could still be reported from Katrina. For automobile insurance claims, the statute of limitation is two years and perhaps Alabama should have something similar for homeowner claims.

Legislatively, in the long term, Alabama should work on having the Insurance Industry rejoin wind and flood policies, as the RAND report suggested.

New Markets / Innovation

The discussion turned to new markets and innovative product recommendations. Schneider noted that Alabama is trying to attract new insurers or retain insurers to create more competition. A captive insurance company has been suggested, as has a reciprocal insurance company. Startup companies have been set up in Mississippi. Electronic Network Systems (ENS) facilities are coming in.

A suggestion was made that if Alabama provided premium tax relief it could help to bring in more companies. A question was asked whether the relief would be statewide or targeted to the coastal counties. Also, would it be directed at only new companies or all companies? Schneider suggested sticks and carrots for insurers. The stick applied to companies would be to require a higher premium tax on companies that do not write in Baldwin and Mobile counties. A carrot would be to give companies recoupment, which is very appealing to companies because they could recoup their losses throughout the state. Another question was whether a higher premium tax on insurers not writing along the coast would in fact get companies to enter the market. A higher or lower premium tax would affect the rate charged to consumers (because it would be passed through to consumers), but it does not appear it would bring in new carriers. Others agreed, although it was argued it would have some effect. A higher tax on insurers not writing in coastal counties would help equalize competition, and carriers that are smart will enter where there is the biggest bang for the buck.

It was emphasized that, in thinking about recommendations on the premium tax, Alabama needs to keep revenues to the general fund neutral or growing in order to get support from lawmakers upstate. It was suggested to recommend some sort of premium tax assessment on companies that do not write in the area and that the generated revenue could be earmarked to mitigate houses in the wind pool.

To attract more companies, it was recommended BP money be used to advertise that there is pent up demand for insurance along the coast. Related to public education, a concerted effort is needed to attract insurers back to the market. A suggestion would be to invite insurance executives to the coast, and emphasize to them that Alabama has a stable legal and regulatory environment.

Another idea to attract new insurers would be to implement a flex rating system. Currently, all homeowner rate filings require DOI approval. The law could be changed so if a carrier's rate

filing is asking for an increase within certain limits, then they would be assured they could get that increase. It might attract them to do business.

Public Education / Communication

The discussion moved to public education and communication. Public education programs should be considered for everyone -- not only consumers, but professional groups, local officials, etc. Alabama needs money from BP to publicize that its seafood, beaches, highways, and homes are safe.

A member associated with a consumer group suggested in order to get the public to buy into any education, there would need to be collaboration between corporations, public entities and grassroots movements. Specifically, it was suggested there should be ongoing community meetings taking place. It was also suggested a pre-disaster and post-disaster marketing effort where trainers could work with community groups, as well as public officials and other stakeholders; the most effective communication is face-to-face dialogue. Another member who supports community meetings clarified there should be a way that brings in the perspective of consumers, so it is not just public and private officials talking to consumers. We need to implement a process where citizens learn how to create change and remedy problems. It was further clarified some funding should be set aside to create a process to empower consumers. It could be funded by a portion of the premium tax or money from BP.

Schneider noted that Smart Home Alabama is working with Sea Grant, private foundations and the industry to help consumers understand the insurance system and inform them about how to drive risk down. The Insurance Institute proposed by the chair would work to do this and more. How do we get the message out about how to improve our risk and lower our risk? It was reiterated there should be a pre and post disaster strategy to educate the community; it has been effective in other communities, but does take a lot of volunteers.

Concluding the meeting, Schneider said another meeting is necessary. It was asked if there would be an opportunity for the subcommittee to review a draft of insurance section of the report. It was agreed another meeting would take place in order for subcommittee members have the opportunity to review a draft of the report.

The next meeting will take place November 11th, from 1:30-3:30PM, location to be provided at a later date.