

# Coastal Recovery Commission of Alabama Insurance Subcommittee of the Economic Committee

November 18, 2010

## SUBCOMMITTEE RECOMMENDATIONS

### ***Building Standards Recommendations:***

Develop a strong statewide building code, or at minimum a strong, uniform code for local jurisdictions in Alabama's coastal counties to adopt. The codes should exceed the 2006 International Residential Code, with no reductions and with enhancements for wind, flood, and other perils that make sense for the coastal region. In addition, the codes should require retrofits during the reconstruction of existing homes to meet the new standard.

Develop and implement a uniform process for localities to review construction plans and to inspect homes and buildings; adopt a series of recommendations from code officials to achieve uniformity; [*\* Will cite the list of recommendations and place in the Appendix to the report.*]

Work with various stakeholders in the construction, sale, appraisal, and financing of homes and buildings to develop and implement the prior two recommendations. Stakeholders should include consumers, home builders, engineers, Realtors, appraisers, and bankers;

Strengthen inspections and enforcement at the local level by developing sources of funding to increase the operating budgets of local building code departments;

Strengthen and develop programs to train and license local building code officials to increase effectiveness of code enforcement throughout the coastal region;

Require insurance carriers to recognize industry-established Building Code Effectiveness Grading Standards (BCEGS) ratings and provide related discounts for communities that achieve certain rating levels;

Develop and implement higher standards for free board levels for flooding, set backs from water, and flood proof requirements;

Adopt and implement more restrictive local land use policies that recognize risks associated with structures in flood-prone areas, with particular emphasis on properties that have suffered repetitive losses;

Encourage code uniformity by establishing that changes to local building standards will be made by the local elected body;

Publicize information about stronger building standards with consumers and other stakeholders;

Develop entities and resources needed to gather data on the quality of construction of homes and buildings in the coastal region;

***Mitigation Recommendations:***

Establish a trust fund to provide incentives and financing for homeowners to take mitigation measures. The coastal mitigation trust concept could be funded with public money to offer homeowners in Alabama's two coastal counties a grant or a loan to complete mitigation on their homes. Grants covering the cost of inspections and mitigation measures would be based on a means test, and low-interest loans would be guaranteed by the revolving trust fund. To limit fraud, default, and poor workmanship by contractors, the state should develop a mitigation model that incorporates best practices by states with similar programs. To create more incentive, the interest on a loan could be state tax deductible. The insurance department would ensure that consumers receive insurance rate discounts;

Commission a study of what hurricane models suggest that mandated mitigation discounts should be for homeowners in Alabama. The study would supply detailed information about the condition of the housing stock in coastal counties, and could help reduce homeowners' insurance costs when the model data is supplied to insurers and their reinsurers;

Require consumers, Realtors and builders to identify to potential home buyers all the wind and flood mitigation features on a home, in order make mitigation measures a factor for home buyers to consider and spur sellers to install those measures;

Require proof of wind and flood coverage in order to reduce uninsured damages, which are often paid for by taxpayer dollars;

Develop a nonprofit entity to utilize the Hazard Mitigation Grant Program (HMGP) of the Federal Emergency Management Administration;

Strengthen local inspection programs for mitigation measures by developing sources of funding to increase the operating budgets of local building code departments;

Encourage accurate mitigation inspections by requiring they be conducted by trained and licensed professionals. Ideally, inspections would be conducted by local building officials;

Eliminate sales tax on materials that are used to retrofit homes against the effects of storms;

Educate consumers and other stakeholders about the potential insurance cost savings and return-on-investment (ROI) that can come from fortifying and retrofitting their homes against storms. The education campaign could be led by a new Alabama Insurance Institute (*see Recommendation in **Related Legislative/Regulatory Recommendations***).

***Related Legislative/Regulatory Recommendations:***

Require licensing of contractors and subcontractors to help ensure that mitigation measures are properly installed and state or local construction standards are met;

Enact an insurance fraud bill to protect consumers from unscrupulous agents and insurers and from consumers who defraud the insurance system. Estimates by the insurance industry show that insurance fraud raises rates between 15 and 20 percent nationwide. Enforcement would be conducted by agents with the Department of Insurance. The law would include an appropriate threshold for initiating investigations;

Increase transparency by making both insurers' rate filings and their aggregate historical data public information, with the purposes of educating consumers, increasing competition, and enhancing knowledge of local local risk exposure;

As part of increasing transparency, require through regulation or statute that insurers offering multi-peril policies show the separate premiums charged for wind and non-wind portions of policies on their declaration pages. Such a requirement would help the Department of Insurance identify the effect that a mitigation discount has on the wind portion of a policy, and would help consumers understand how their rates are determined;

Require insurance companies provide consumers with a uniform disclosure form, or check list, showing what is included and not included in a residential policy;

Enact a reasonable statute of limitation for reporting claims;

Enact and promote at the state level tax-free funds for individuals to help homeowners save for the cost their insurance deductibles and the cost of taking mitigation measures.

Encourage Alabama's lawmakers in Washington, D.C., and Montgomery to find a resolution to wind and flood claim settlements and to increase transparency on all property coverage;

Encourage Alabama lawmakers in Washington, D.C., to support and pursue a tax-deferred catastrophe reserve for insurance companies to lower their cost of capital;

Conduct a study on the concept of "recoupment," which in general would allow admitted insurance companies participating in the state-run wind pool to recoup mandated assessments should the wind pool suffer losses that extend beyond what it has retained and purchased to cover losses. A recoupment mechanism would help alleviate the impact of this assessment on insurers, someone who could face insolvency after a catastrophic event. For example, a recoupment mechanism, such as a fee on policies for a period of time, could pass on the assessment through a fee on policies statewide or only on policies in affected areas;

Conduct a study of premium tax revenues, with the idea that once the study is complete to formulate recommendations for how the premium tax structure in the state could be used to increase competition in the property insurance market, improve property insurance availability, and reduce insurance costs for homeowners in south Alabama;

Conduct a study on the possibility of utilizing a state catastrophe fund or captive insurance company to provide homeowners' with short-term relief from the cost of insurance;

Establish a new Alabama Insurance Institute by governor's decree to develop research, encourage dialogue, and coordinate public education campaigns around aspects of a sustainable insurance system. The entity would provide ongoing study of insurance models and products in other states and countries. It would include the participation of various stakeholders -- consumers, agents, insurance companies, government officials, and various professionals involved in the construction, sale, appraisal, and financing of homes.