

AFFORDABLE HOMEOWNERS INSURANCE COMMISSION
Monday, September 26, 2011
6:00 P.M.

Minutes / Action Items

Attendees:

Judge Tim Russell	Jim Higdon
Commissioner Julie P. Magee	Wayne Parker
Commissioner Jim Ridling	Representative Joe Faust
Senator Ben Brooks	Representative David Sessions
Geoff Plott	Joe Ruffer
Sid Belcher	Commissioner Jim Ridling
Michelle Kurtz	Steve Simkins
Don Price	Jerry Workman
Joe Demos	Representative Steve McMillan
Tom Malone	Rux Bentley
John Caylor	

Joe Demos called the meeting to order and issued opening remarks. After opening remarks, prayer, and the reciting of the Pledge of Allegiance, Judge Tim Russell, Chairman, informed the audience that the Commission was in Guntersville to hear the challenges facing them. Also, Judge Russell emphasized that Governor Bentley is very excited about the report that is going to be created and recommended to him by the Commission. Judge Russell turned the meeting back over to Mr. Demos who then recognized the Mayor of Guntersville. The Mayor thanked all the citizens for coming out and sharing their input.

George Bullock from Mobile was the first speaker to address the Commission. Mr. Bullock thanked Commissioner Magee for a letter informing him that his thoughts were received. Commissioner Magee told the audience that anyone who sends a letter to the Commission will have the letter circulated among the Members and saved as a part of the public record. Mr. Bullock continued by asking the Commission to look into why rates have gone up so much over the past five years. He cited State Farm increasing their rates by 30%, Allstate by 44%, and Farmers Group by nearly 85%. He also inquired as to why he has to pay the same insurance rate when his property value has decreased from \$128k to \$116k.

Stanley Summers, a poultry farmer from Boaz, AL, said problems with insurance availability and affordability is becoming a big concern to the poultry industry. He cited a 40% increase to his insurance costs, which is covered by ALFA. Summers also pointed out that many new poultry farmers are finding that it is very difficult to find coverage. Summers said he lives in a non-incorporated area. Upon hearing this, the Commission was able to identify part of the problem facing Mr. Summers. Mr. Summers is reliant upon a volunteer fire department, which often receives high Insurance Services Office (ISO) ratings. Representative Sessions inquired as to whether a fire hydrant was near Mr. Summers' property. Mr. Summers replied that there is not one near his home. After answering Representative Sessions' question, Mr. Summers also asked that minimum standards be considered for VFDs since they receive public funding. He believes adopting minimum standards would possibly help lower ISO ratings.

Mr. Plott, addressing the increase to poultry farmers' insurance rates, said he has been aware of the problem for some time. Plott said it is not fire that is the main concern, damage from wind and ice are the major problems facing poultry farmers. Mr. Summers said he is aware that some companies are writing policies, but most of the time they only serve an area for a couple of years before canceling policies.

Mr. Cofield said he is in the same situation as Mr. Summers. He lives within feet of the separate water systems but a fire hydrant is not easily accessible. His insurance (with Travelers Insurance) went up \$300 last year and his agent told him that he can expect another rate increase this year. Mr. Cofield's daughter's insurance went up \$1,100 since she had been living there so, she was forced to move. Mr. Cofield asked whose responsibility is it to make sure fire hydrants are accessible when citizens are in need.

Mr. Simkins asked, "What is the difference in protective class from the incorporated and non-incorporated areas?" Commissioner Magee said the protective class is determined by two numbers. The first is based on how far you are away from a primary fire department. The second one is based on how far you are away from a fire hydrant. Commissioner Magee added, "Premiums become lower if those two numbers become lower."

An unidentified resident from Mobile then rose to ask why she does not receive credit for two fire stations located near her home. Mr. Demos replied that one of them is not a primary responder, which means the fire crew would have to leave if a fire began in their primary area of coverage. Commissioner Ridling added that some companies do a subprime rating rule if a city's fire department will respond.

Andy Grimes pointed out that the majority of Alabamians are served by volunteer fire departments and, in order to bring up their ISO number, the voluntary fire departments (VFDs) need to be funded at a higher level. Mr. Grimes suggested that a \$5 fee should be added to water bills to help meet funding challenges.

Representative Sessions said his neighborhood experienced a situation similar to this. His community addressed the issue by creating fire districts and increasing the ad valorem tax to fund the newly created districts. Sessions said the result has been positive for his community.

Representative Faust said some funds may be available from revenue generated by leasing rights of the right-of-ways to utilities companies.

Representative Rich said the VFDs in his district continue to suffer from the decline in revenue generated from the tobacco tax. In the past, a referendum was introduced that would have legally divided the county into fire districts. Representative Rich acknowledged a similar referendum may be needed now.

Mr. Caylor suggested local governments in the Tennessee Valley area look to the Homeland Security Act to see if monies would be available to provide for better training and equipment for VFDs, since fire fighters would be essential in north Alabama's first response if any Tennessee Valley Authority (TVA) infrastructure is targeted during a terrorist attack. Upgrades in this nature may help lower ISO numbers and lower premiums for residents.

Richard Van Valkenburgh, with the Alabama Association of Realtors in Huntsville, asked the Commission to consider captive company surplus lines. He believes the problems faced by homeowners are not just isolated to south Alabama. Mr. Price said that the Commission is looking at captive companies, but noted they do not have to be surplus lines. Judge Russell informed those in attendance that he, Carl Schneider, and Representative McMillan recently spoke at the state convention. Russell said the Commission needs to keep them in mind as they move forward. The Association is concerned as real estate values decline, the tax base for local governments also decline.

Senator Brooks informed the Commission that legislation authorizing captives has been enacted. The difficult part remains finding the needed capital to make the captives financially sound. Brooks further added that the law may need to be amended to make capitalization requirements a little easier.

James Edwards, Chief of a local VFD, said his revenue from the tobacco tax ranges from \$450 to \$650 per month. The cost of fuel last month was \$950. By comparison, five years ago the tobacco tax

generated \$1150 per month in revenue for the VFD. Edwards also had his home owner's policy canceled by ALFA after he did not bundle it with his automobile coverage.

Sid Belcher said ALFA's business model is structured to provide multiple lines of service. ALFA would not be able to provide that type of service to as many customers if they only provided single line coverage.

Mr. Bullock then asked the Chair if he could again be recognized to speak. He asked the Commission how the State's actuaries can adequately review each insurance company's books with such a low volume of actuaries. Commissioner Ridling said all business is reviewed by actuaries who are often employed on an independent basis. Citing other states, Mr. Bullock then inquired about the possibility of electing the Insurance Commissioner. Commissioner Ridling said there are currently 13 states that hold open elections for Commissioner of Insurance. After Mr. Bullock inquired about the composition of the Commission, Judge Russell said the Commission was handpicked by Governor Bentley, who wanted a well-rounded Commission consisting of consumers, industry experts, and public officials.

Barbara Sparkman from Gulf Shores rose to ask the Commission if anyone could explain to her why her homeowner's policy with Allstate was dropped after Hurricanes Ivan and Katrina hit the Gulf Coast. Judge Russell informed Ms. Sparkman that not all insurance companies are represented on the Commission but someone from the industry might be able to address her question. Representative Faust then made an observation that insurance agents do not want to lose their customers' business any more than the customer wants his or her policy canceled.

With no further comments from the public the Commission moved on to their work session.

After a brief discussion, Judge Russell informed the Commission that clarification would soon be given regarding the applicability of the State's Sunshine Laws as they relate to the Commission.

The Agenda Subcommittee then distributed a two-page handout and asked for recommendations from the other members of the Commission. Mr. Simkins said he believes the issue that needs the most immediate attention is identifying topics that need to be addressed so experts can soon be contacted. Commissioner Ridling said experts who can address or educate the Commission need to be identified. Ms. Kurtz encouraged the Department of Insurance (DOI) to be as ambitious as they could in meeting the Commission's requests. Commissioner Ridling gladly accepted and offered to arrange meetings with the different hurricane modeling agencies.

Mr. Ruffer asked that the American Society of Civil Engineers (ASCE) be included in the discussions so the Commission has multiple perspectives. Further, he named Peter Vickery as the source of contact for ASCE. Ms. Kurtz asked the Commission to follow Mr. Ruffer's example when presenting requests to the Agenda Subcommittee.

After acknowledging the Alabama Insurance Information Service, Judge Russell advised that he wants the Commission to hear multiple perspectives in the education portion of the meetings, including the associations representing insurance companies. Commissioner Kurtz asked that the Alabama Insurance Information Service send an outline of topics they want to address. The Alabama Insurance Information Service said it wants to be a resource and will help coordinate educational opportunities.

Commissioner Plott addressed the issue of how the Agenda Subcommittee establishes its agendas. Plott suggested setting up the agenda for further agenda meetings by items and then going line by line. The meetings will begin with listening, followed by education and then solutions.

Senator Brooks suggested that anyone who wants more information on a given topic should e-mail the request to Commissioner Kurtz or Commissioner Plott. The Agenda Subcommittee can then begin to find people that have the knowledge to educate the Commission.

Commissioner Russell began discussing dates and times of the education meetings that will begin following the final consumer forum. Debate followed about beginning with the basics of insurance, or "insurance 101" as suggested by Ms. Kurtz. Commissioner Magee suggested that it might be wise to start at a basic 101 level to get some AHIC members up to speed. Magee also suggested that the morning of the first education day be for those members, and other members can attend later sessions.

The Legislative Subcommittee would like to present an outline of bills that have passed and bills that have been proposed. Senator Brooks said it will take at least three hours to go through to discuss where the ideas for the bills came from and about the politics involved.

It was suggested, instead of waiting until the end of the education phase to go through and discuss the legislation that has passed or was proposed in previous sessions, to discuss it at the beginning so Commission Members will know what has already been done.

Commissioner Price said that the Interstate Subcommittee has not met or had a conference call, but intended to discuss what other states are doing on the issues. The Interstate Subcommittee will identify a list of what other states have done regarding the issues that are on the agenda.

For the next meeting, Mr. Caylor said the format for the Decatur meeting will be similar to the format for the Guntersville's meeting. The meeting is going to be October 17, 2011 beginning at 6:00 p.m. and be held at the Turner Surles Building.

Before closing, Judge Russell informed the group that Neil Shipman has resigned from the Commission and sends his regrets.

After no further business, Judge Russell adjourned the meeting at 8:30 p.m.