



Risk Management for the Coast

CAMPBELL UNIVERSITY

Purpose of Insurance Regulation

- **Assuring Solvency**
- **Regulating Premiums**
- **Regulating Policy Forms**
- **Regulating Bad Insurer Behavior**

Assuring Solvency

- Quarterly and annual financial analysis of the insurers doing business in the state. This includes consideration of the following:
 - Compliance with the Risk Based Capital requirements – a capital requirement calculation based upon each insurer’s overall business risks and size.
 - Compliance with the statutory static minimum capital & surplus requirements
 - Investment Quality & Diversification Laws
 - Identification of financial trends & prospective financial risks to the insurer.
- Financial Examination (at least every 5 years)
 - Onsite financial audit. Includes assessment of inherent and control risks as well as substantive testing.
- Review and approval of transactions that are material to the insurer’s financial condition.

Regulating Premiums

- Under Article 36 of Chapter 58 the Commissioner has authority to set rates for personal lines of insurance.
- Rates are established for the industry as a whole through the N.C. Rate Bureau. All companies writing auto, property, and workers' comp. insurance are required to be members of the Rate Bureau.
- The Rate Bureau is required to file auto rate filings every year on Feb. 1 and to file workers' comp. filings every year on Sept. 1.
- The Rate Bureau can make property rate filings any time they want.
- The filings are required to include the aggregated data of all the company's doing business in N.C. Individual company information is not included in the filings.

Regulating Premiums

- Once a filing is made, the Commissioner must accept the filing, settle the filing, or set the filing for hearing within 60 days (50 days for property) or the filing will “deem,” which allows the filing to be implemented as-is by operation of law.
- If a filing goes to a hearing, the Commissioner or his designee sits as hearing officer and hears the very technical testimony from the expert witnesses of both parties.
- Once the hearing concludes, the Commissioner must issue an order within 45 days or the filing will “deem.”
- The Commissioner may set rates based on the evidence of either party, or he can set his own rates based on the combination of the evidence presented by both parties.
- For auto filings and workers’ comp filings, the Commissioner’s can increase, decrease, or keep rates unchanged. But for property filings, the Commissioner may not decrease rates – he can order only an increase or no change.



Probability and Statistics

- The **probability** of an event is the long-run relative frequency of the event, given an infinite number of trials with no changes in the underlying conditions.
- Probabilities can be summarized through a probability distribution
 - Distributions may be discrete or continuous
- A probability distribution is characterized by:
 - A mean, or measure of central tendency
 - A variance, or measure of dispersion

Probability and Statistics (2 of 4)

- The mean (μ) or expected value $\sum X_i P_i$
- For example,

Amount of Loss (X_i)	Blank	Probability of Loss (P_i)	Blank	$X_i P_i$
\$0	×	0.30	=	\$0
\$360	×	0.50	=	\$180
\$600	×	0.20	=	\$120
Blank	Blank	$\sum X_i P_i$	=	\$300

2 Appendix: Basic Statistics and the Law of Large Numbers

<i>Amount of Loss (X_i)</i>		<i>Probability of Loss (P_i)</i>		<i>$X_i P_i$</i>
\$ 0	×	.30	=	\$ 0
\$360	×	.50	=	\$180
\$600	×	.20	=	<u>\$120</u>
		$\Sigma X_i P_i$	=	\$300

Thus, we could say that the mean or expected loss given the probability distribution is \$300.

Although the mean value indicates central tendency, it does not tell us anything about the riskiness or dispersion of the distribution. Consider a second probability-of-loss distribution:

<i>Amount of Loss (X_i)</i>		<i>Probability of Loss (P_i)</i>		<i>$X_i P_i$</i>
\$225	×	.40	=	\$ 90
\$350	×	.60	=	<u>\$210</u>
		$\Sigma X_i P_i$	=	\$300

Probability and Statistics (4 of 4)

- The standard deviation $\sqrt{\sigma^2} = \sigma = 216.33$
=
 $\sqrt{\sigma^2} = \sigma = 61.24$
- Higher standard deviations, relative to the mean, are associated with greater uncertainty of loss; therefore, the risk is greater

Probability and Statistics (4 of 4)

- The standard deviation $\sqrt{\sigma^2} = \sigma = 216.33$
=
 $\sqrt{\sigma^2} = \sigma = 61.24$
- Higher standard deviations, relative to the mean, are associated with greater uncertainty of loss; therefore, the risk is greater

Law of Large Numbers (1 of 2)

- The **law of large numbers** is the mathematical foundation of insurance.
- Average losses for a random sample of n exposure units will follow a normal distribution because of the Central Limit Theorem.
 - Regardless of the population distribution, the distribution of sample means will approach the normal distribution as the sample size increases.
 - The standard error of the sampling distribution can be reduced by increasing the sample size

Probability and Statistics (4 of 4)

- The standard deviation $\sqrt{\sigma^2} = \sigma = 216.33$
- Higher standard deviations, relative to the mean, are associated with greater uncertainty of loss; therefore, the risk is greater

EXAMPLES OF The Unexpected Risks

- The Industry does not work efficiently with the unexpected or catastrophic losses.
- Regulation with AI will have plenty of issues, especially navigating through the ethics of AI. Discrimination will be the largest issue because data will reveal too much of the adverse data, allowing insurance companies to pick only the most desirable risks. Thus, the law of large numbers theory will be skewed.
- Regulators and Insurers dealing with these evolving risks.

Pandemic

- Restaurants and Business Income
- Travel Insurance

Healthcare

- Long Term Care
- Affordable Care Act

Human Trafficking

- Commercial General Liability
- Directors and Officers



What Types of Homeowners Forms?

Forms:

Mobile Home

Dwelling policy

HO-4 Renter's policy

HO-6 Condo policy

HO-3 policy form

HO-2 policy form

HE- 7

Dwelling

Named Perils – It isn't a comprehensive policy. So, please understand that you need to know that even though it is cheaper, it may not provide the best coverage.

Ask Agent for best form for Risk!

HO-3?

Does not cover flood

Ask for Replacement cost-

125%

Mold – \$5,000

No coverage for wind driven rain...on personal property... but it should be covered for structure. There is no wind driven coverage under a DWELLING POLICY!

LOSS OF USE (Evacuation)

Additional Living Expenses:

If a loss covered under Section I makes that part of the “resident premises” where you reside not fit in, we cover any necessary increase in living expenses incurred by you so that your household can maintain its normal standard of living.

HO OO3 05 11, page 5 of 24

HO-3? – Refrigerator coverage

- Ask for endorsement for refrigerator/ freezer - \$500

Named Storm – Regulations

Deductibles – the Named storm just really changes the amount of the overall deductible. So, it does not affect the other coverages.

Some do not have this.

Check policies! 2% or 5% of coverage A

Named Storm – Regulations

\$100,000 dwelling (Coverage A)

\$1,000 deductible

Named stormed 2% - \$2,000

Check policies! 2% or 5% of coverage A

Flood & Water Losses

Key Facts

What Qualifies as a flood?

“A flood is a general and temporary condition where two or more acres of normally dry land or two or more properties are inundated by water or mudflow.”

What is NOT Flood?

- Erosion from regular tides and currents
- Sewer backup
- Burst pipes or other running water inside a structure
- Rain that enters a structure due to damage to the structure's roof or walls
- Wind-driven rain
- Sinkholes or subsidence of land not defined as flood

What is Wind-Driven Rain?

- Rain that penetrates a building that has not sustained damage
- Rain that seeps in around windows during a windstorm is wind-driven rain
- Some NCIUA policies have coverage for wind-driven rain with an opening, others do not – consult your policy documents

Water Damage from Windstorm

Damage from rain (water) that enters the home through an opening caused by damage from windstorm, is covered under your wind and hail or homeowners' policy, not your flood policy

Named Storm Coverage Writing Restrictions

No new or increased coverage (including, without limitation, temporary binders of insurance) shall be bound or application for new or increased coverage accepted for properties otherwise eligible therefore after 12:01 AM on the day immediately following any day when the center of a Named Storm is located within Longitudes 65° West and 85° West, and Latitudes 20° North and 37° North.

A named storm is defined as a weather-related event involving wind that has been assigned a formal name by the National Hurricane Center, National Weather Service, World Meteorological Association, or any other generally recognized scientific or meteorological association that provides formal names, public use and reference. A named storm includes hurricanes, tropical depressions and tropical storms.

Flood Coverage Restrictions

There is a 30 day waiting period for flood coverage to be in effect once it has been applied for and approved.

National Flood Insurance Program

- Administered by FEMA
- Policies are sold by insurance agents through insurance companies who service the policies
- Flood policies, procedures, and rules are dictated by Federal law.
- All disputes go to FEMA and/or Federal court
- The NC Commissioner of Insurance can't override NFIP decisions

NFIP – New Rule on Principal Residence

- In order to be considered a **primary residence**, the policyholder or policyholder's spouse must live in the house more than 50% of the time.
- In order to be considered a **principal residence**, the policyholder or policyholder's spouse must live in the house at least 80% of the time.
- Only PRINCIPAL residences qualify for replacement cost insurance.

Mandatory Flood Coverage

- Structures secured by a FEDERALLY INSURED mortgage must carry flood insurance if they are in the Special Flood Hazard Area – Zone A or Zone V
- Other structures in Zones A and V may purchase flood coverage, but it is not required by federal law
- Structures in other flood zones (B,C, or X) may purchase flood coverage, but it is not required by federal law

NFIP Information for Lenders

Federal Banking Agencies issued a final rule on July 1, 2019 implementing the requirement in the Biggert-Waters Flood Insurance Reform Act for the acceptance of private flood insurance on covered properties.

Specifically, the final rule requires regulated lending institutions to accept policies that meet the statutory definition of “private flood insurance” in the B-W Act.

Permits regulated lending institutions to exercise their discretion to accept flood insurance policies by private insurers and plans providing flood coverage issued by mutual aid societies that do not meet the statutory definition of “private flood insurance”.

Reference:

<https://www.fema.gov/information-lenders>

<https://www.federalregister.gov/documents/2019/02/20/2019-02650/loans-in-areas-having-special-flood-hazards>

NFIP vs. NCRB: Forms

The following notable differences exist between NFIP and NCRB:

Program Detail	NFIP	NCRB
Coverage A: Dwelling Limits	\$250,000 Maximum	No Limit
Coverage C: Personal Property Limits	\$100,000 Maximum	No Limit
Coverage D: Additional Living Expenses	Not Covered	Optional
Deductibles	Separate deductibles by coverage type	Single Deductible per Policy
Replacement Cost	Single Family Dwellings Only Detached Garage & Personal Property not covered	1-4 family dwellings, with 1 detached garage Optional Endorsements for Personal Property and Other Structures
Basement/Below Ground Areas - Dwelling	Covered	Covered
Basement/Below Ground Areas- Contents	Not Covered (exception for certain appliances)	Optional
Detached Garages/Structures	Up to 1 (Within of Coverage A Limit)	1 detached garage (Within of Coverage A Limit) - Optional (ex. 10% in additional to Coverage A for <u>all</u> structures, or scheduled structures)
Increased Cost of Compliance	\$30,000 Maximum	\$30,000 minimum, with higher limits available
Ordinance or Law	Not Covered	Optional



High-Value Homes

- Maximum Coverage under NFIP for a home is \$250,000
- Excess coverage is available from private insurance companies
- This does mean that the federal government has oversight of the NFIP policy and the NC Commissioner of Insurance has oversight of the excess flood policy

Coastal Barrier Resources System

- NFIP will not allow flood insurance to be placed on structures in the CBRS area unless the structure being insured was built prior to 1982 and it is located in a participating community in the NFIP
- If coverage is in placed in error and a claim occurs, the claim will NOT be paid. (Premiums should be refunded)

Flood Maps

You can find the flood zone of your property using the FEMA Flood Map Service Center:

<https://msc.fema.gov/portal>

FEMA Grant Programs

- Highest priority are Severe Repetitive Loss properties
- Application is made through your local government
- FEMA may pay up to 90% for repetitive loss property mitigation
- Can be coordinated with state and local grants and ICC (Increased Cost Compliance) coverage
- ICC provides up to \$30,000 to elevate, demolish, and relocate your home.

Claims Handling

Wind or Water?

NFIP Claims Handling

- Adjusters are independent (not Federal employees)
- Must file the proof of loss form before deadline!
- Dispute resolution
 - Appeal to FEMA
 - Federal courts have jurisdiction

No Flood Insurance – FEMA Assistance

- Take photos of everything
- FEMA will ask you to apply for a Small Business Loan (you don't have to take it)
- Any money > \$25,000 will put a lien on your house
- Must be current with IRS

NCIUA Claims Handling

- NC allows 3 years to file a claim
- Dispute resolution:
 - Appeal to NCIUA 919-821-1299
 - Appeal to NCDOI 855-408-1212
 - Appeal to NC courts 919-831-3600
 - Flood Plan 800-427-4661

Claims Handling – Wind & Flood

- Separate adjusters
- Rely on inspection of property, expert opinions
- Flood disputes handled in Federal Court
- Wind and Hail disputes handled in State Court
- There is NO easy way to resolve a claim if wind adjuster and flood adjuster come to different conclusions

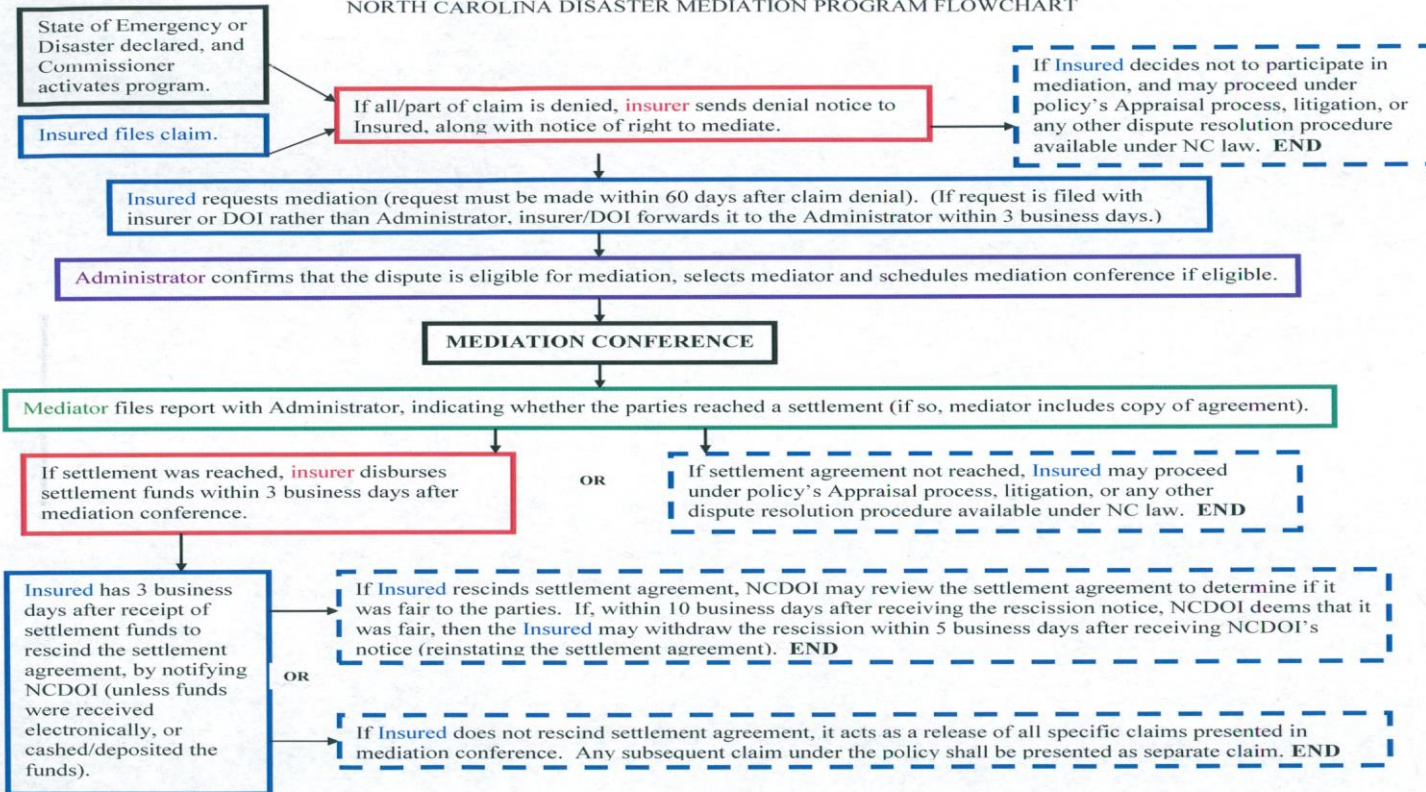
Three Policies

- Homeowners Standard Policy- HO -3 with endorsements
- Wind and Hail
- Flood
- Recommend: An Umbrella policy

Disaster Mediation

The Commissioner of Insurance may issue an order establishing the Disaster Mediation Program following a state of disaster proclaimed by the Governor or declared by the President. Eligible individuals who have had a homeowners insurance claim partially or completely denied can request a mediation conference in which an independent mediator with no connection to the insurance company will facilitate discussion between the insurance company and the policyholder to help them reach a resolution.

NORTH CAROLINA DISASTER MEDIATION PROGRAM FLOWCHART





NCIUA UPDATE



COASTAL PROPERTY INSURANCE POOL PURPOSE DECLARED BY GENERAL ASSEMBLY



- An adequate market for essential property insurance is necessary to the economic welfare of the beach and coastal areas of the State of North Carolina
- and that without such insurance the orderly growth and development of those areas would be severely impeded
- ...the market for such insurance is not adequate and is likely to become less adequate in the future

§ 58-45-1



FAIR PLAN COASTAL PROPERTY INSURANCE POOL PURPOSE DECLARED BY GENERAL ASSEMBLY

The General Assembly further declares that it is its intent in creating and, from time to time, amending this Article that the market provided by this Article not be the first market of choice, but the market of last resort.

§ 58-45-1

§ 58-46-1



NCIUA BOARD OF DIRECTORS

- Seven (7) Member Insurers, elected by Member Insurers annually
 - Alex Garate
Nationwide
 - Eric Hammons
State Farm
 - Sarah Maestre
Auto-Owners
 - Steve Hall
Allstate
 - Allen Houck
NC Farm Bureau Mutual
 - Eric Vaith
USAA
 - John Milette
The Travelers





NCIUA BOARD OF DIRECTORS

- Four (4) Insurance Agents, appointed by Commissioner of Insurance

- Charlotte S. Hicks

- Steve Smith

- Rod Evans

- Franklin Rouse





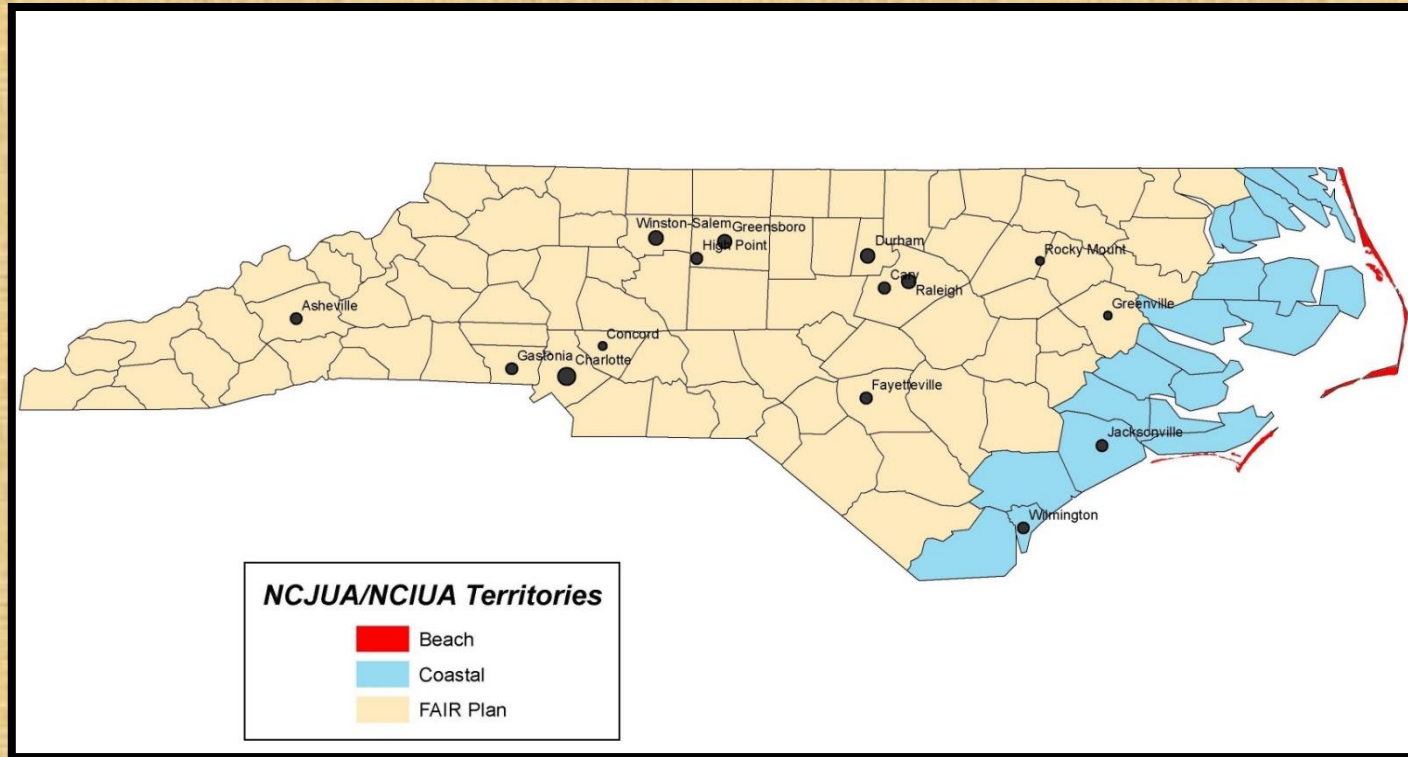
NCIUA BOARD OF DIRECTORS

- Three (3) Public Members, appointed by Commissioner of Insurance
 - Donald Hornstein
 - Becky Pollard
 - William Long





NCJUA/NCIUA COVERAGE TERRITORIES



Coastal Area is served by the NCIUA and the NCJUA. The NCJUA provides Dwelling Fire and Commercial Property coverage forms and the NCIUA provides Homeowners and Wind Only coverage forms in the Coastal Area.

The NCIUA provides Dwelling Fire, Commercial Property, Homeowners and Wind Only coverage forms in the Beach Area.





NCIUA - RATES

NORTH CAROLINA GENERAL STATUTE

- **§ 58-45-45(a1) § 58-46-55**
- Surcharges developed to assist in maintaining status as Market of Last Resort, General Statute **58-45-1(c)**

Commercial Fire	ISO Manual Rate
Commercial Wind	ISO Manual Rate
Dwelling Fire	NCRB Manual Rate
Dwelling Wind	NCRB Manual Rate X 1.05 (5%)
Homeowner	NCRB Manual Rate X 1.15 (15%)
Homeowner Wind	NCRB Manual Rate X 1.05 (5%)





NCIUA MARKET SHARE

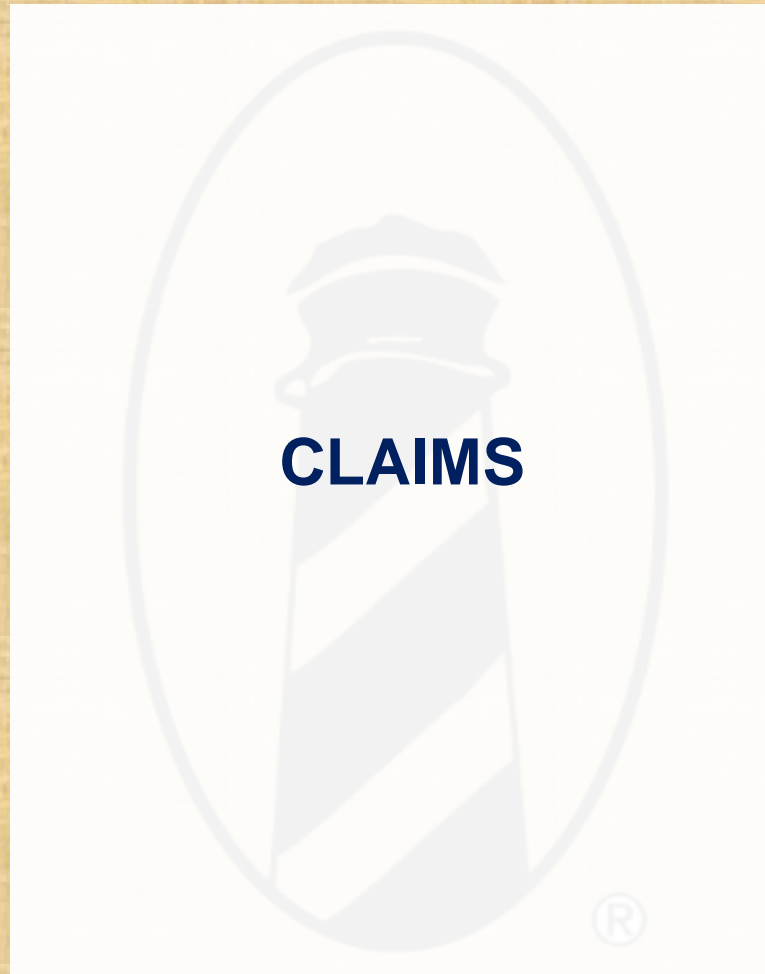
CALENDAR YEAR	BEACH AREA	COASTAL AREA
2012	78%	46%
2013	80%	49%
2014	79%	51%
2015	76%	50%
2016	71%	48%
2017	68%	45%
2018	63%	43%
2019	58%	42%
2020	56%	42%
2021	58%	43%
2022	58%	45%

Note: Based on premiums reported to Coastal Property Insurance Pool



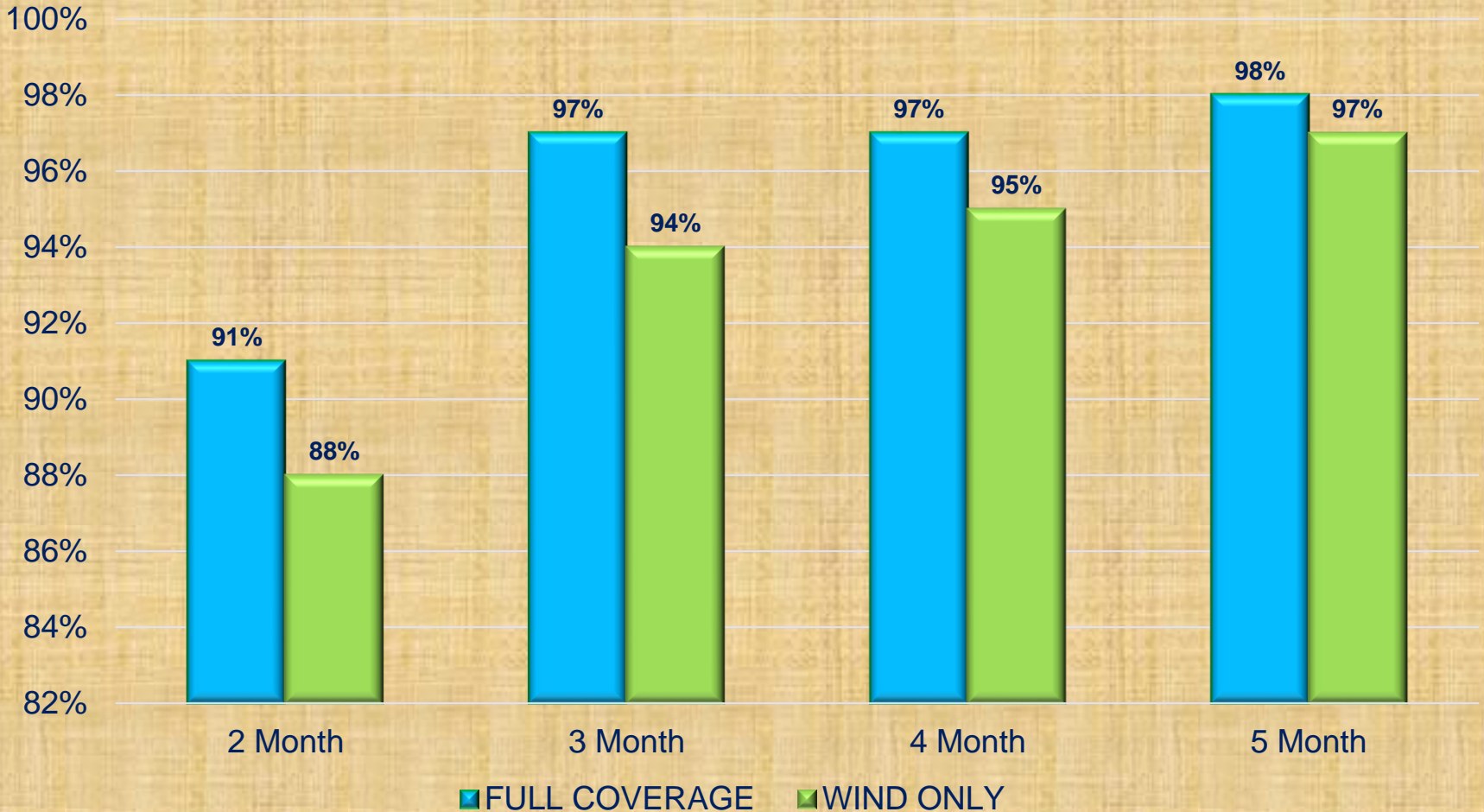
NCIUA EXPOSURE AND POLICY COUNT

CALENDAR YEAR	EXPOSURE	POLICY COUNT
2022	\$ 96.4B	209,411
2023	\$125.7B	235,313





HURRICANE FLORENCE CLOSE TREND





KEY FINANCIAL INFORMATION



OPERATING EXPENSES PER POLICY ISSUED

- | | |
|--------------------------------------|-------|
| ■ NC Coastal Property Insurance Pool | \$ 69 |
| ■ National Average for Beach Plans | \$173 |
| | |
| ■ NC FAIR Plan | \$ 49 |
| ■ National Average for FAIR Plans | \$143 |

Note: All National Averages exclude North Carolina

Source: 2022 PIPSO Data



RISK FINANCING UPDATE

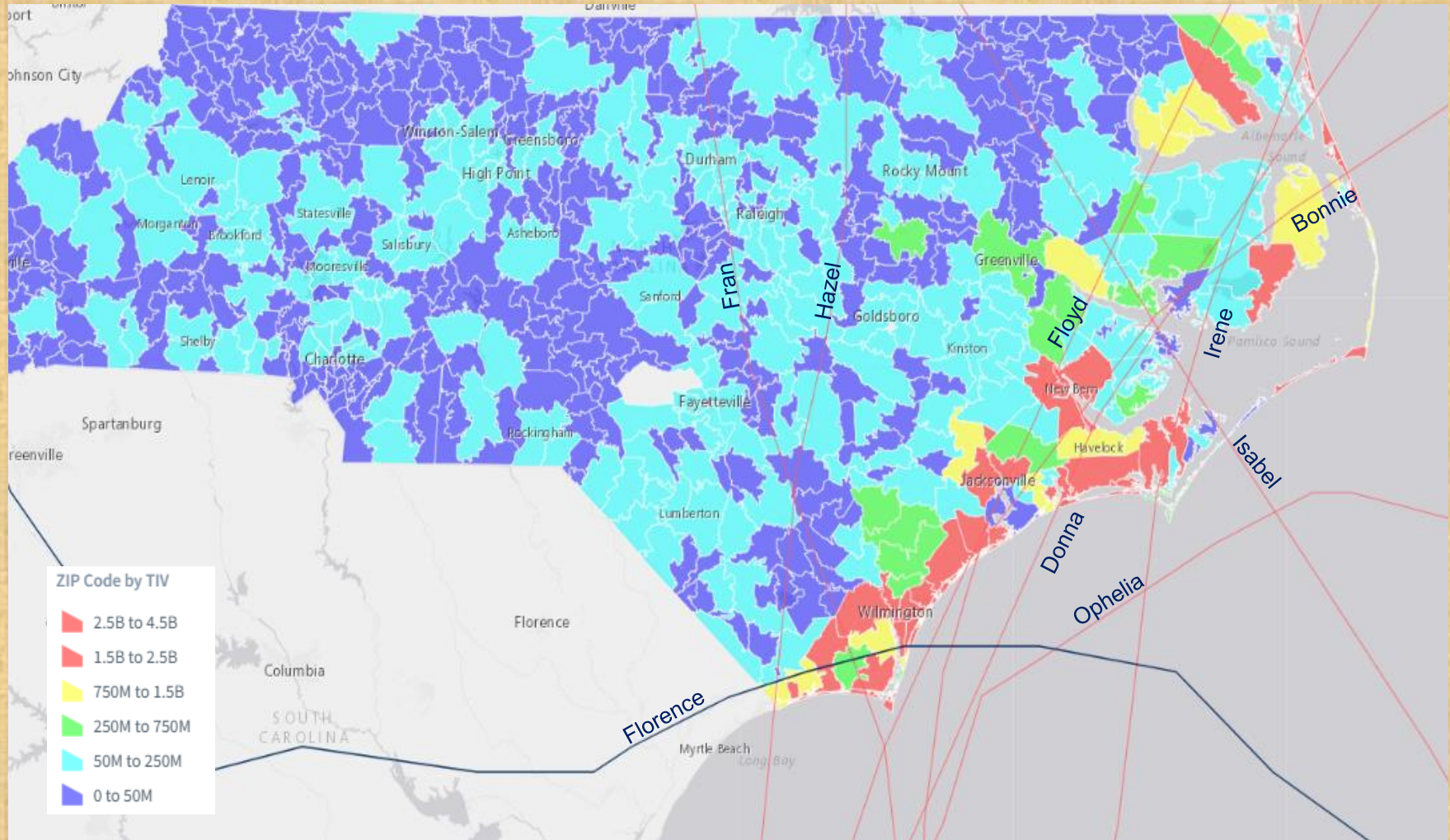


COSTLIEST US HURRICANES

Year	Storm Name	Adjusted Costs (USD)
2005	Katrina	\$186.3 billion
2017	Harvey	\$149.8 billion
2017	Maria	\$107.1 billion
2012	Sandy	\$81.9 billion
2021	Ida	\$78.7 billion
2022	Ian	\$67 billion <i>anticipated</i>
2017	Irma	\$59.5 billion
1992	Andrew	\$55.9 billion
2008	Ike	\$40.2 billion
2004	Ivan	\$31.6 billion
2018	Michael	\$29.0 billion
2005	Wilma	\$27.9 billion
2018	Florence	\$27.8 billion



PAST HURRICANE EVENTS



*Coverage as of November 1, 2022

Written consent must be requested from and given by NCIUA/NCJUA prior to copying, reproducing, displaying or transmitting any material from this presentation.



PRINCIPAL OBJECTIVES FOR DEFICIT FINANCING

- To implement a risk financing program to provide coverage to the 100-year storm level based on a blended average of RMS and AIR models
- To secure aggregate protection for multiple event scenarios for the risk transfer plan
- To allocate money to attritional losses from full peril policies
- To increase retained earnings for expected losses in the Association's working layer
- To promote the financial soundness of the Association in order to meet obligations that may arise in the years following a major first-year event



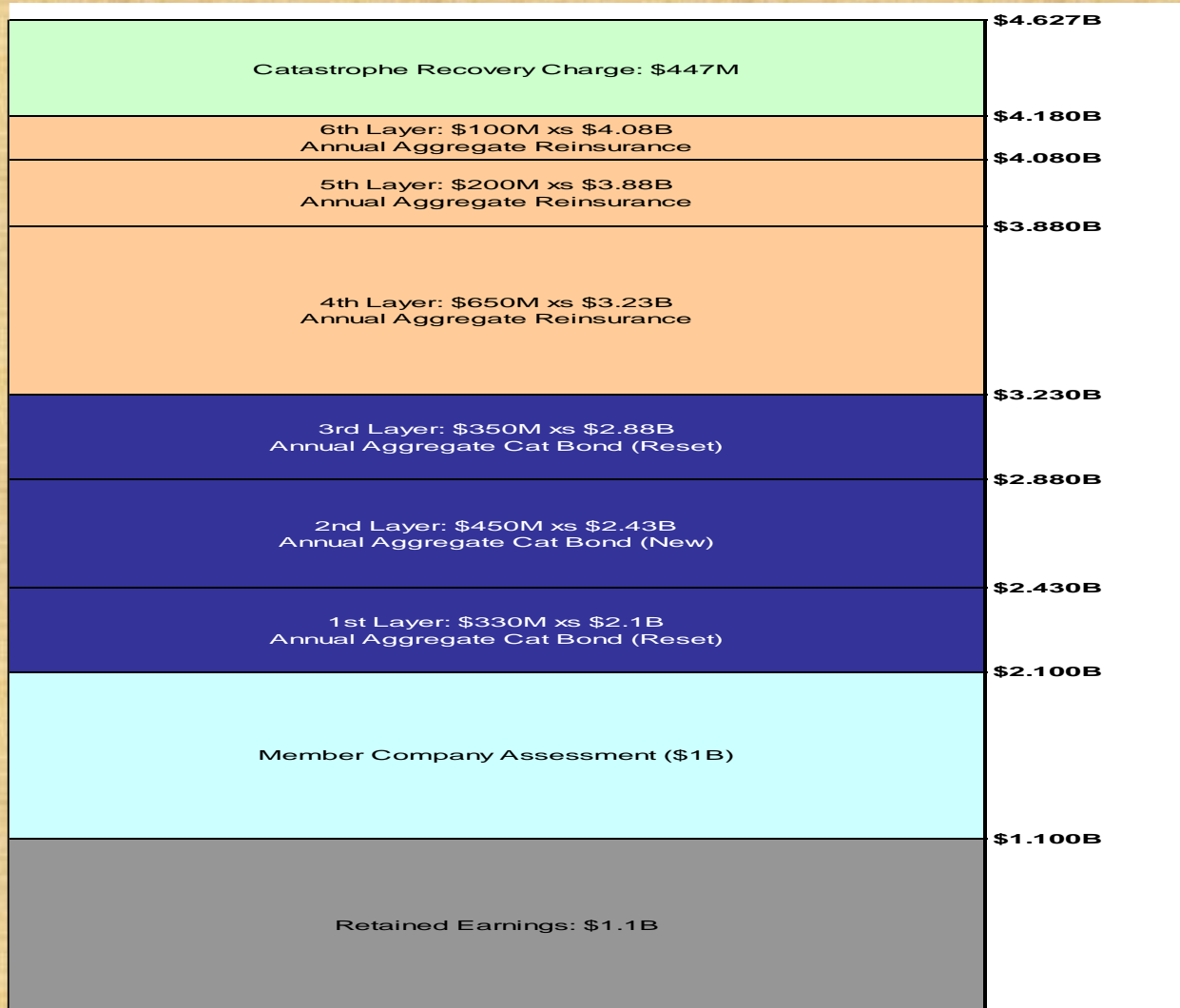
2024 INSURED PROPERTY VALUES COMPARED TO NCIUA HISTORICAL HURRICANE PATHS



*Coverage as of January 1, 2024 - \$125.7B



NCIUA PROPOSED 2024 RISK FINANCING PROGRAM



Projected Retained Earnings as of September 30, 2024 (less two operating expenses)



MITIGATION: CREATING MORE RESILIENT COMMUNITIES



\$44.0 Million Total Investment – Outer Banks and Barrier Islands

Started 2019



\$14 Million Total Investment Composed of a Matching Grant from NC General Assembly for remainder of Territories Served by NCIUA

Started September 2022



OVER 11,000 FORTIFIED ROOFS COMPLETED OR IN PROGRESS

SYR Grant Roofs Completed 5,008

SYCR Grant Roofs Completed 700

Endorsement Roof Completed 2,877

Total Fortified Roofs Completed 8,585

SYR Grant Roofs In Progress 1,660

SYCR Grant Roof In Progress 1,291

Total Grant Roofs In Progress 2,951

Total Including Grants In Progress 11,536

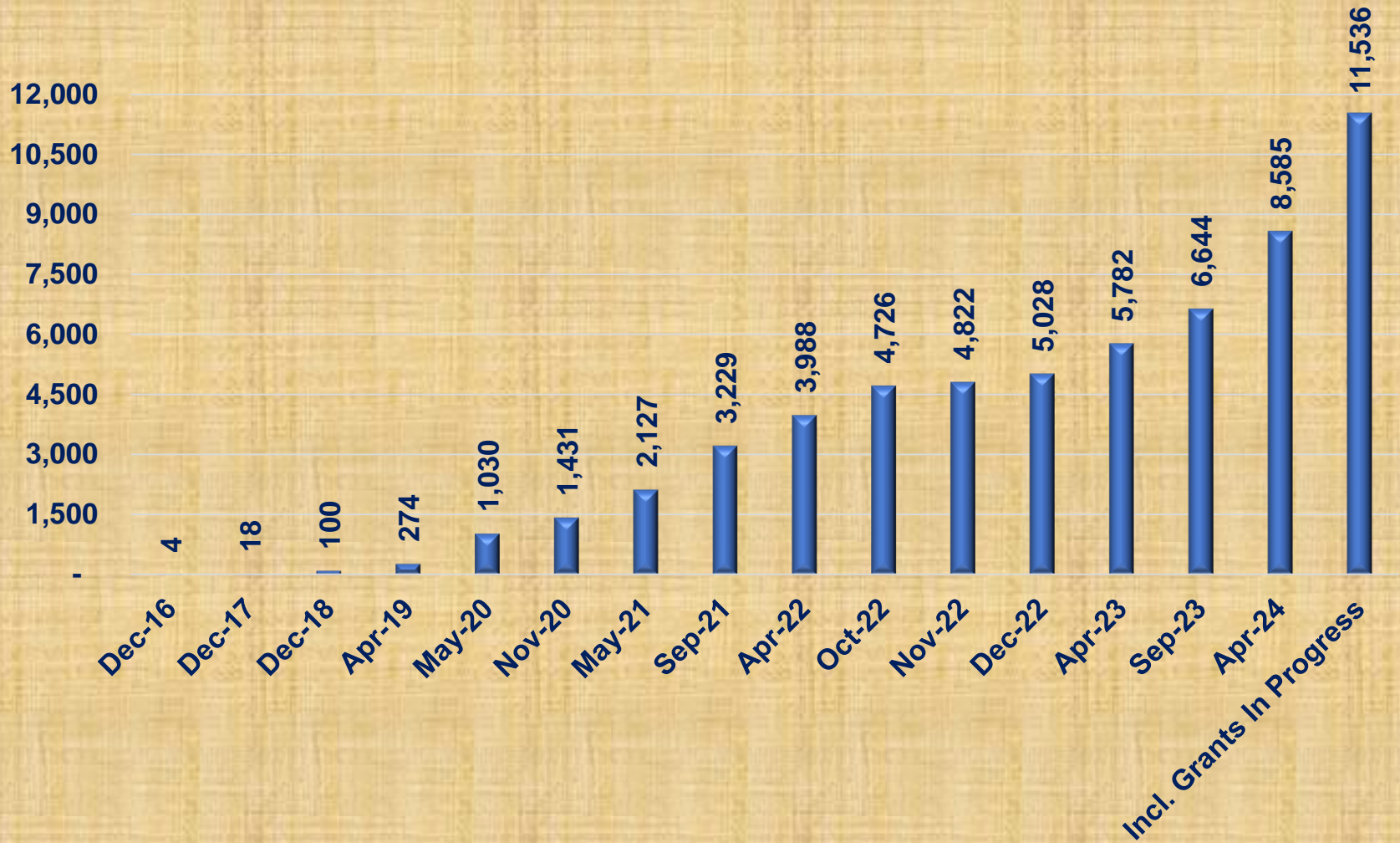
As of April 30, 2024

Written consent must be requested from and given by NCIUA/NCJUA prior to copying, reproducing, displaying or transmitting any material from this presentation.

NCIUA Update May 2024



NCIUA CERTIFIED FORTIFIED IBHS ROOFS





Analysis of Strengthen Your Roof Mitigation Program



NCIUA worked with Graduate Students at North Carolina State Institute for Advanced Analytics from September 2020 to April 2021.

In this analysis, the team used NCIUA claims data from Hurricanes Dorian, Florence, Matthew, and Isaias and used wind speeds and geocoding per location from RenaissanceRe.

The Team worked with technical and subject matter experts from IBHS, RenaissanceRe, Guy Carpenter, and NCIUA.



SUMMARY OF FINDINGS NC STATE INSTITUTE FOR ADVANCED ANALYTICS

34.5%

**Reduction in
Claims Reported**

22.7%

**Less loss per building
per storm**





DARE COUNTY SYR GRANT RECIPIENT FEEDBACK

Kill Devil Hills

“Thank you for providing us the opportunity to participate in this fantastic program. We are more comfortable with the knowledge of having a strengthened roof, and it was affordable. Thank you again for all you were able to do!”





DARE COUNTY SYR GRANT RECIPIENT FEEDBACK

Avon

“The program is wonderful in two ways. First, it saved me a lot of money on a 20+ year old roof that needed replacement. Second, with the inspections I am confident that this roof was done correctly. Interacting with the program was easy. The web site is incredibly easy to use and well designed. The program was an easy way to save money and protect our home.”





DARE COUNTY SYR GRANT RECIPIENT FEEDBACK

Nags Head

“I received my grant package. Thank you very much for this grant program. It was a huge help in my getting a new fortified roof. I LOVE my new FORTIFIED roof and am very pleased and thankful for the program.”





OPERATIONAL DEVELOPMENTS



OPERATIONAL DEVELOPMENTS

- Recent Legislation

- Increased NCIUA Limits – Residential (\$750,000 to \$1,000,000) and Commercial (\$3,000,000 to \$4,000,000 freestanding structure or any building unit within multiple firewall divisions; \$6,000,000 to \$10,000,000 aggregate on structures with multiple firewalls divisions)
- Credit Card Fees

- Legislative Help Needed

- More Matching funds for Fortified Roof Grants
- Tax exemption for roof grants on the federal and state level



DISCLAIMER

- Not all insurance products described in this presentation and the materials provided in connection herewith are available to all persons in all North Carolina counties. Certain restrictions, conditions, and limitations apply.
- Material from this presentation may be copied, reproduced, displayed, transmitted, and used, but only for the user's personal, non-commercial use and then only with the advance, written consent of the NCIUA / NCJUA. These materials, which are intended for general, informational purposes only, are provided "as is." The NCIUA / NCJUA disclaim all warranties, express or implied, with respect to these materials, the information in them, and the use of them by third parties, including without limitation any and all warranties of correctness, completeness, merchantability, performance or fitness for any particular purpose. In no event shall the NCIUA / NCJUA be responsible or liable for any loss or damage of any kind, howsoever incurred or denominated, arising out of or related to the use of these materials by any person or entity other than the NCIUA / NCJUA.