

Insurance Federation of North Carolina
Recommendations to the Joint Legislative Committee on the Potential Impact
of Major Hurricanes on the North Carolina Insurance Industry
December 2, 2008

1. The North Carolina Insurance Underwriting Association, the “Beach Plan,” must adhere to the “market of last resort” requirement imposed by the legislature (N.C.G.S. §58-45-1).

- a. Beach Plan should not compete with the voluntary market on coverage options, rate or policy deductibles.
- b. Statutory minimum rate differential (above the voluntary rate) of at least 25% for coverage provided by the Beach Plan.
- c. The rate differential should be reviewed periodically. The Beach Plan shall file any request above the minimum, subject to review and approval by the Commissioner of Insurance.
- d. All Beach Plan filings shall allow for a right of appeal.
- e. Require federal flood insurance relative to certain Beach Plan coverages, as determined by the Beach Plan Board and approved by the Commissioner of Insurance.
- f. Determine potential losses from catastrophic storms by use of hurricane modeling and other actuarially sound methods.

2. The Beach Plan must be fiscally sound. A standard measure of fiscal integrity is the ability to pay claims expected from a 1:150 storm. For losses above this standard, assessments to insurers must be reasonable, predictable, and limited.

- a. Provide the Beach Plan with financial tools to build up reserves adequate to finance catastrophic events. A phased-in approach to assure fiscal integrity can start with the 1:100 storm, with incremental steps to achieve financing for the 1:150 storm.
- b. Diversify the sources of funding to prevent over-reliance on any single source. All sources of revenue to include: surcharges on Beach Plan and other property policyholders, retained surplus, insurance company assessments, purchase of

Insurance Federation of North Carolina
Recommendations to the Joint Legislative Committee on the Potential Impact
of Major Hurricanes on the North Carolina Insurance Industry
December 2, 2008

reinsurance, and, in the event of an extreme event, bonds issued by the Plan – each used only as determined to be needed by the Beach Plan Board and approved by the Commissioner of Insurance.

- c. Eliminate the return of Beach Plan surplus in exchange for reasonable and predictable assessments in the event of an extreme storm.
- d. Insurer assessments must be capped at a reasonable and predictable level to maintain incentives to write voluntarily without threatening insurer solvency or disrupting the marketplace.
- e. Grant flexibility to provide for extreme losses through appropriate financing mechanisms as may be needed, and as approved by the Commissioner of Insurance.
- f. Dedicate a capped amount of Gross Premium Tax for a Beach Plan Assistance Fund for pre- and post-storm costs associated with reinsurance, securing credit, as well as for mitigation grants.

3. Provide transparency and efficiency in the operation of the Beach Plan.

- a. Require the Plan of Operation for the Beach Plan to be filed for approval by the Commissioner of Insurance, with right of appeal.
- b. Require all Beach Plan information be available to any member insurer (except proprietary company information or trade secrets).
- c. Limit FAIR Plan coverage to the 82 counties not covered by the Beach Plan.