

The Past, Present and Future of Insurance in Mississippi

**A presentation of
The Mississippi Insurance
Department
August 2008**

Mississippi Insurance Department (MID)

- Created by the Mississippi Legislature in 1902 MID remains one of oldest state agencies
- Today has the Mississippi Insurance Department is authorized for 124 employees (one of the smallest staffs in State Government)
- Operates on a budget of less than \$10 million
- Generates over \$20 million in revenue for the state general fund
- Contributes an additional \$11 million in revenue to state special fund
- Premium taxes collected for the general fund over \$190 million
- **Contributes Over \$ 220 million in tax revenues to State Government**

Structure of MID

Commissioner of Insurance

Deputy Commissioner of Insurance

Regulatory Activities

Legal and Investigative
Division
Statutory Compliance/Life
& Health Actuarial
Division
Examination Division
Licensing Division
Property & Casualty
Rating Division
Consumer Services
Division

Support Activities

Management
Information Systems
Division
Administrative Services
Division
Public Relations
Division

Other Regulatory Activities

State Fire Marshal Division
includes Manufactured
Housing and Residential
Electronic Protection
Divisions
Fire Services Development
Division
Liquefied Compressed Gas
Division
State Fire Academy (sub-
agency)

State Fire Academy



- **The Mississippi State Fire Academy (MSFA) is responsible for the training and education of persons engaged in municipal, county and industrial fire protection.**
- **Operates on a Budget of \$ 5.5 million**
- **In November, 2006, the state of the art, completely computerized, fire and smoke building was completed and is one of the few in the nation with these capabilities. The multi-story building contains four (4) LP gas props that generate fire and smoke on command. The building contains a four (4) story drill and rappelling tower.**
- **Accomplishments of the Fire Academy for calendar year 2007 are summarized as follows:**

| | |
|------------------------------|------------------|
| Total Students: | 11,863 |
| Total Training Hours: | 255,614 |
| Total Fees: | \$247,087 |

FIRE REBATE PROGRAM

From Premium Taxes

- Total State Fire Rebate Funds distributed to cities and counties totaled \$6.05 million in 1975.
- This year's distribution will reach \$14.7 million mark marking the largest since rebate funds were established by the State Legislature.
- These funds along with the passage of HB 693 have contributed to the establishment of 811 new fire stations and more than 8,000 volunteer firefighters.
- This increase in protection coverage has reduced the cost of insurance to consumers reduced the loss of life and property and increased the state's revenue by more than \$80 million.

RURAL FIRE TRUCK ACQUISITION ASSISTANCE PROGRAM (RFTAAP)

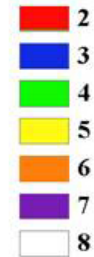
Purpose of RFTAAP was two fold.

- To reduce fire insurance rates class A fire apparatus must be purchased and the volunteer fire departments needed help with funding these purchases.
- Many of these rural departments were operating with homemade apparatus and used fire trucks that were more than 20 years old. These trucks were a safety hazard and needed to be replaced.
- Currently 1,161 fire stations provide fire protection services in this state
- Each station operates at least 1 fire apparatus.
- To date 561 applications have been received of which 519 have been completed.
- The state has contributed \$27,057,726.02 towards the purchase of these 519 Class A Fire Apparatus.

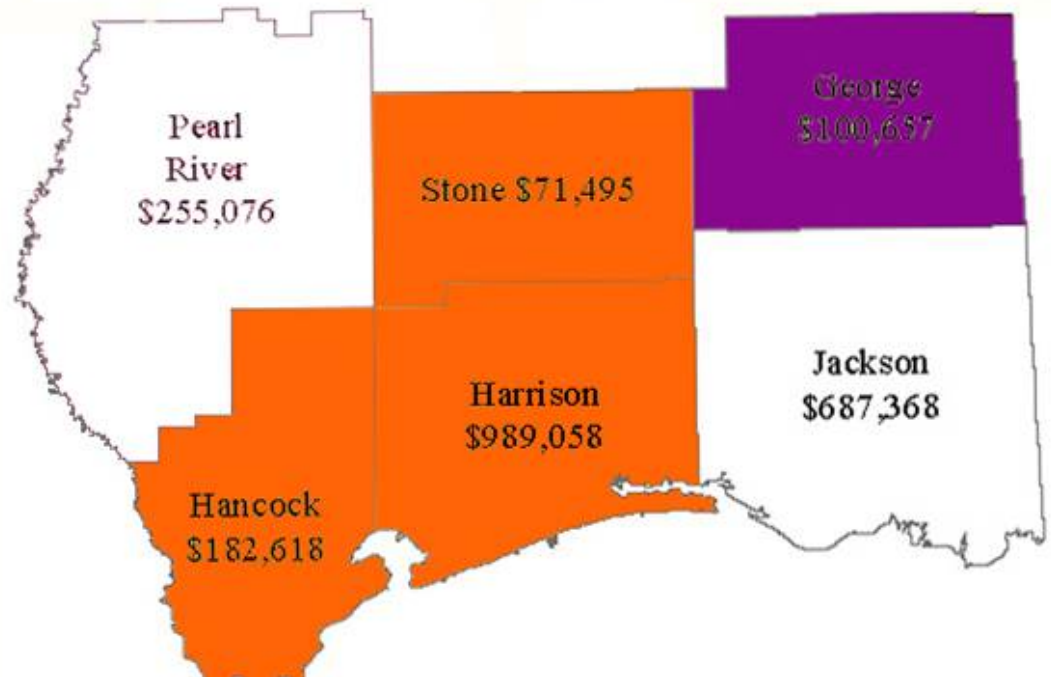
FIRE REBATE and RURAL FIRE TRUCK ACQUISITION ASSISTANCE PROGRAM (RFTAAP)

- Each county is labeled with total Mississippi Insurance Department Fire Insurance Rebate Fund amounts for 2008 totaling \$14.7 million.
- Counties eligible for 8 rounds of grants.
- Number of total grants awarded per county color coded.

RFTAAP.ROUND



2008 Proposed Distribution



MISSISSIPPI INSURANCE DEPARTMENT



Data provided by Larry Barr, State Fire Coordinator

2008 Legislative Accomplishments

SENATE BILLS

2475- Health Insurance policies; remove repealer on law requiring reimbursement for marriage/family therapist services **(Effective 7/1/08)**

2502 –Commissioner of Insurance; authorized to establish expedited review procedure for life, health and accident filings **(Effective 7/1/08)**

2507 – Bail agents; revise continuing education requirements **(Effective 7/1/08)**

2914 – Bonds; revise distribution of bond proceeds between the Supplementary Rural Fire Truck and the Rural Fire Truck Fund **(Effective 3/31/08)**

2979- Commissioner of Insurance; increase certain fees paid by insurance companies for services performed by Commissioner **(Effective 4/7/08)**

2985 – Foreign Insurance Companies; authorizes Commissioner of Insurance to contract with third party to assist in regulation of **(Effective 5/12/08)**

2987 –Insurance Companies; include credit property as a classification of insurance **(Effective 7/1/08)**

2008 Legislative Accomplishments

HOUSE BILLS

1388- Commissioner of Insurance; authorized to establish bonding/insurance requirements for factory-built home licensees **(Effective 7/1/08)**

1405- Mississippi Trauma System; require participation by hospitals and increase fees earmarked for trauma care fund **(Effective 7/1/08)**

1435- Factory-built homes; authorize Commissioner of Insurance to charge manufacturers an installation inspection fee **(Effective 7/1/08)**

1465- Building Codes; require adoption by local governments, allow fire protection funds to be use for compliance **(Effective 7/1/08)**

1617- Appropriation; provides Commissioner authority to grant paid internship **(Effective 7/1/08)**

1640- Appropriation; Department of Insurance, Windstorm Reinsurance; additional for FY 2008 **(Effective 3/2008)**

The Present

Some of the Risks



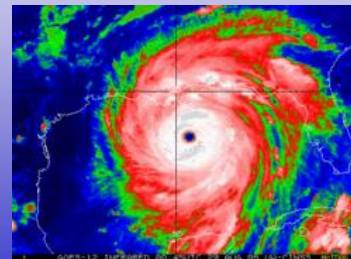
Wind/Hail



Earthquakes

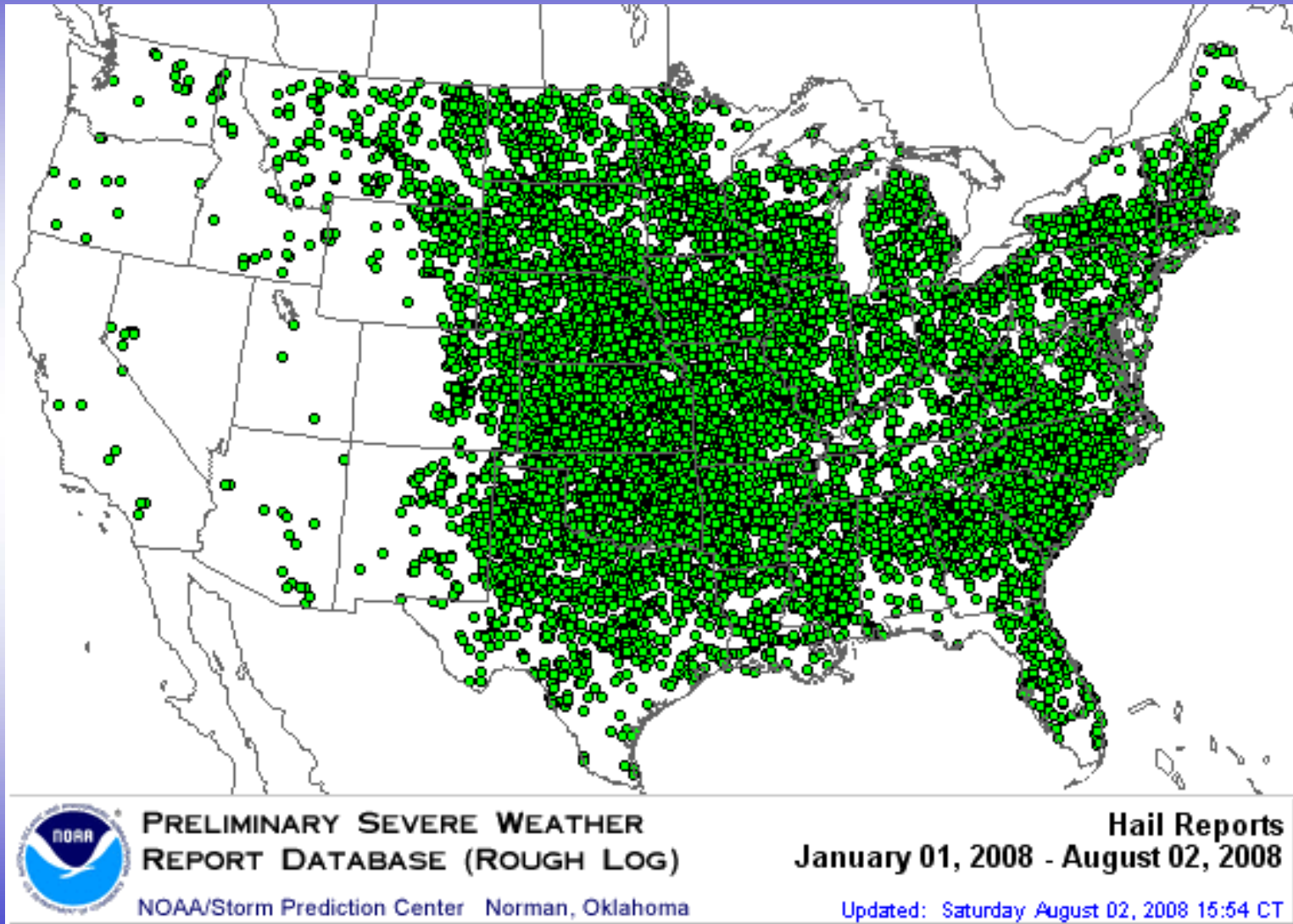


Tornadoes

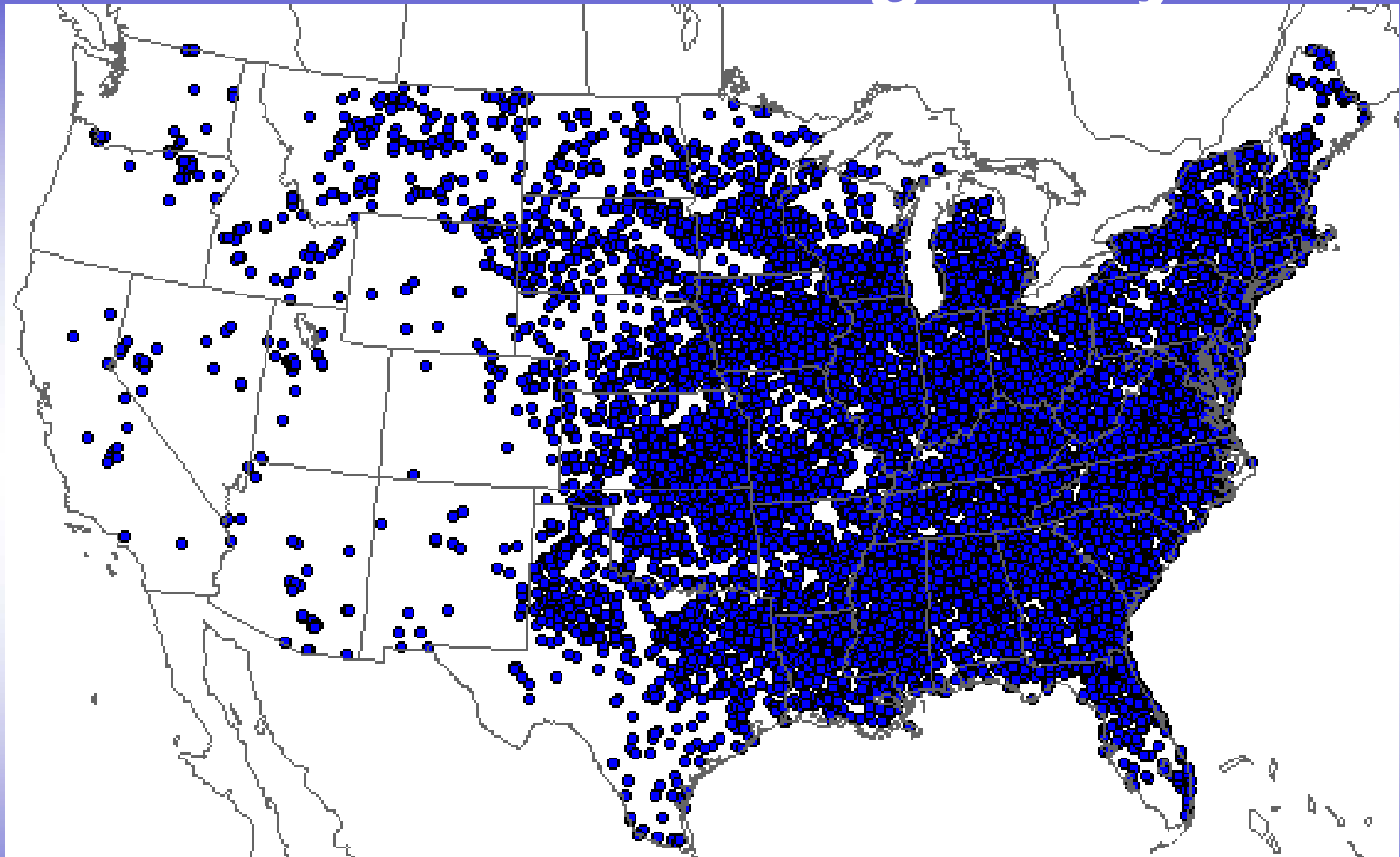


Hurricanes

Severe Storms through May 2008



Severe Storms through May 2008



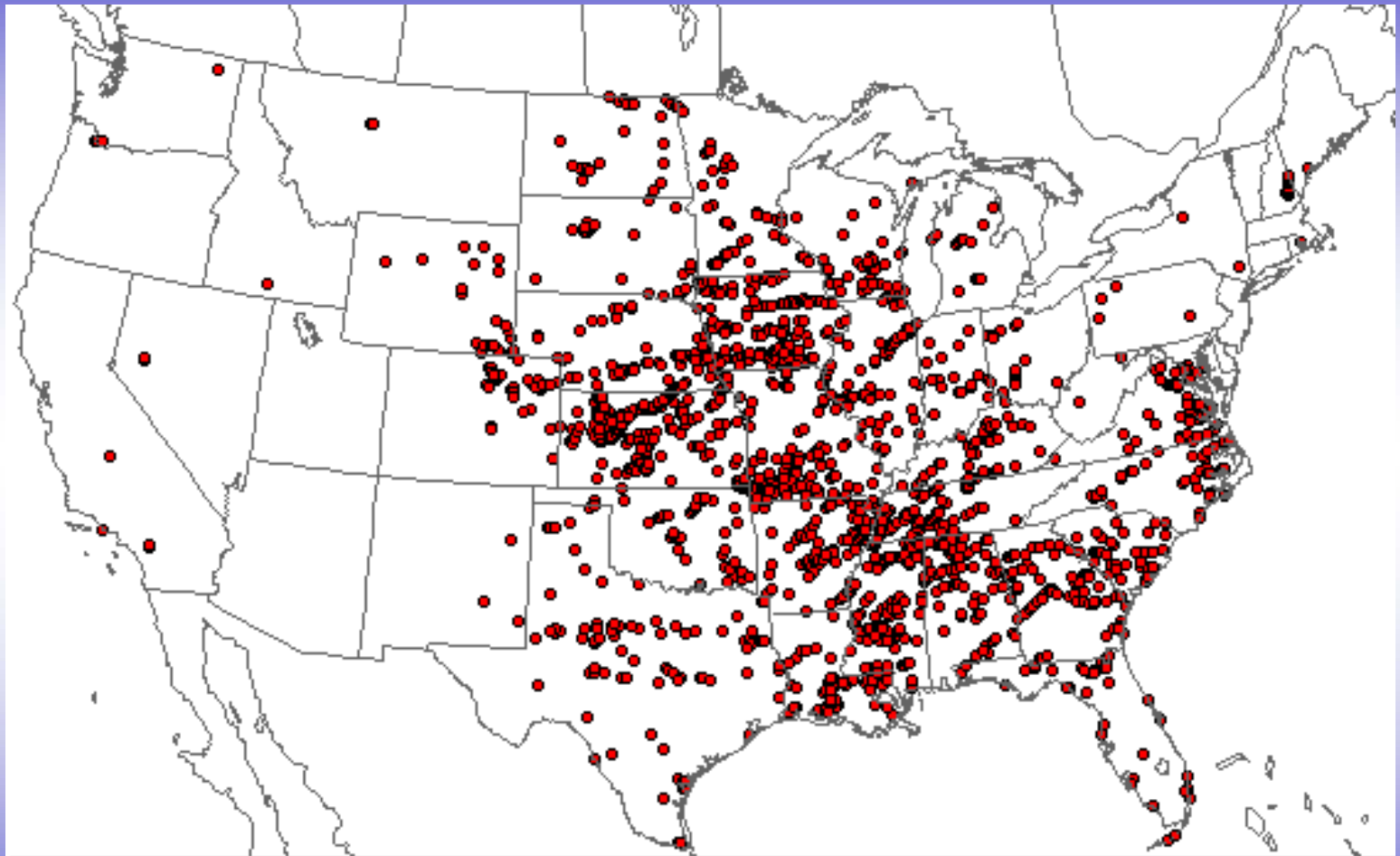
**PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)**

NOAA/Storm Prediction Center Norman, Oklahoma

**Wind Reports
January 01, 2008 - August 02, 2008**

Updated: Saturday August 02, 2008 15:54 CT

Severe Storms through May 2008



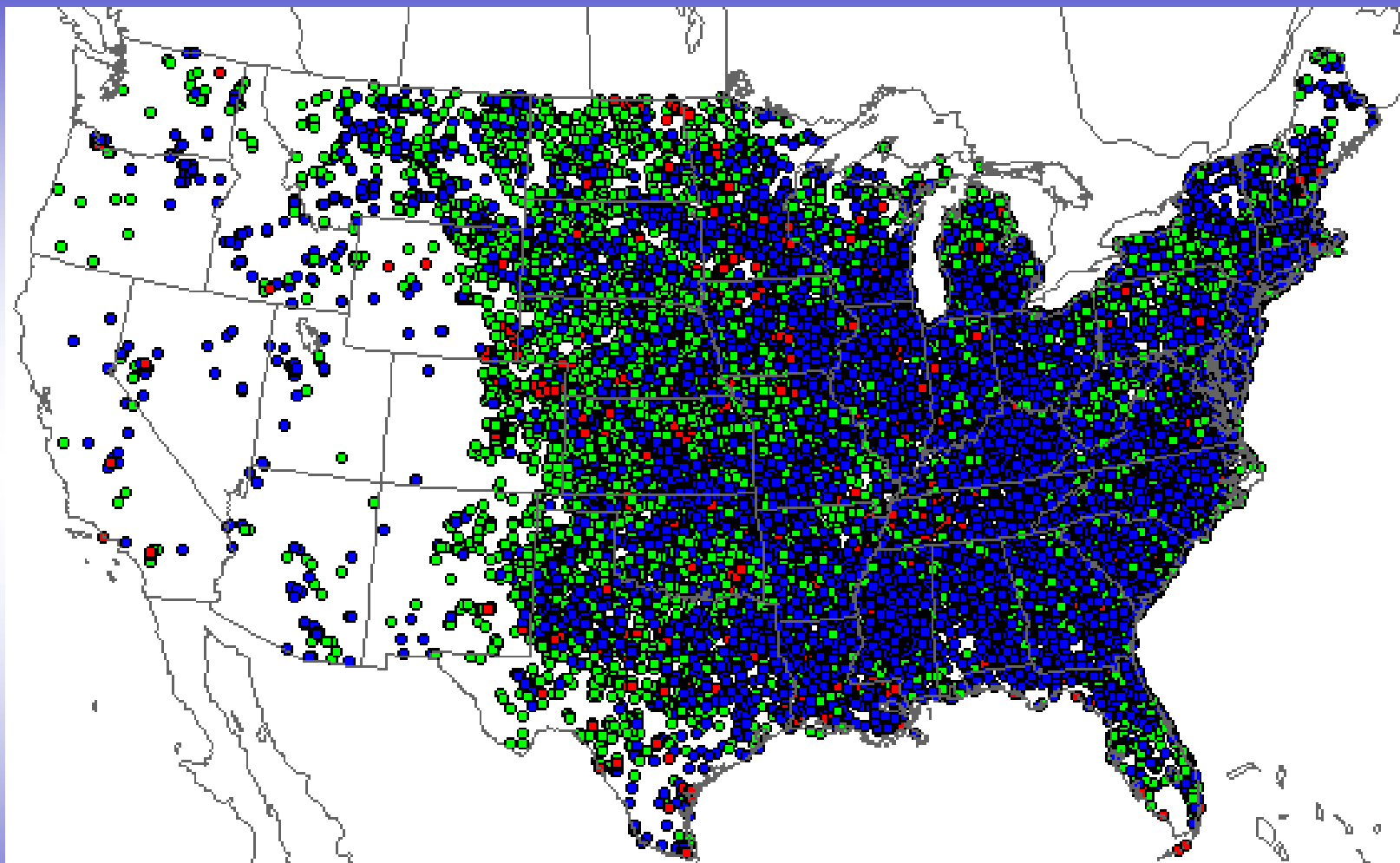
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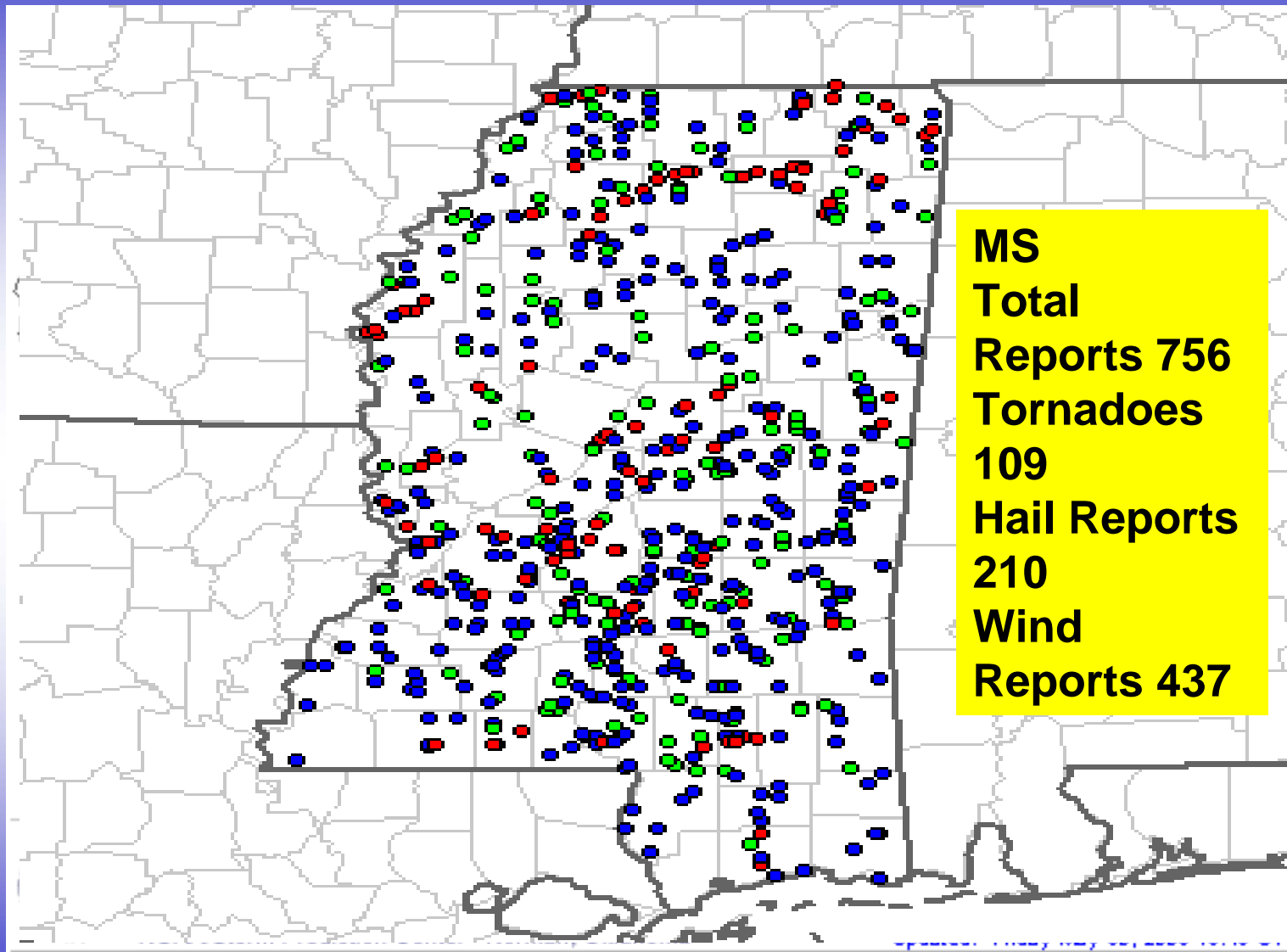
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Earthquake

Standard Homeowner Policy Earthquake Exclusion:

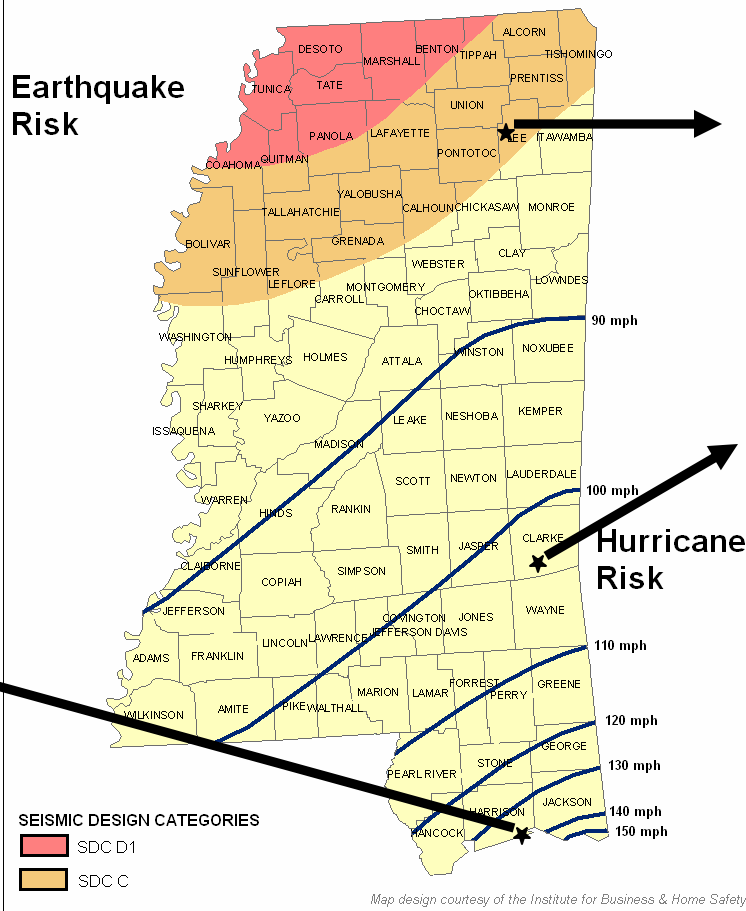
“Earth Movement means:

- Earthquake, including land shock waves or tremors before , during or after a volcanic eruption;
- Landslide, mudslide or mudflow;
- Subsidence or sinkhole; or
- Any other earth movement including earth sinking, rising, or shifting;

caused by or resulting from human or animal forces or any act of nature unless direct loss by fire or explosion ensues and then we will pay for the ensuing loss.”

MS Earthquake and Hurricane Risks

State of Mississippi International Residential Code
Seismic Design Categories and Hurricane Wind Speed Lines



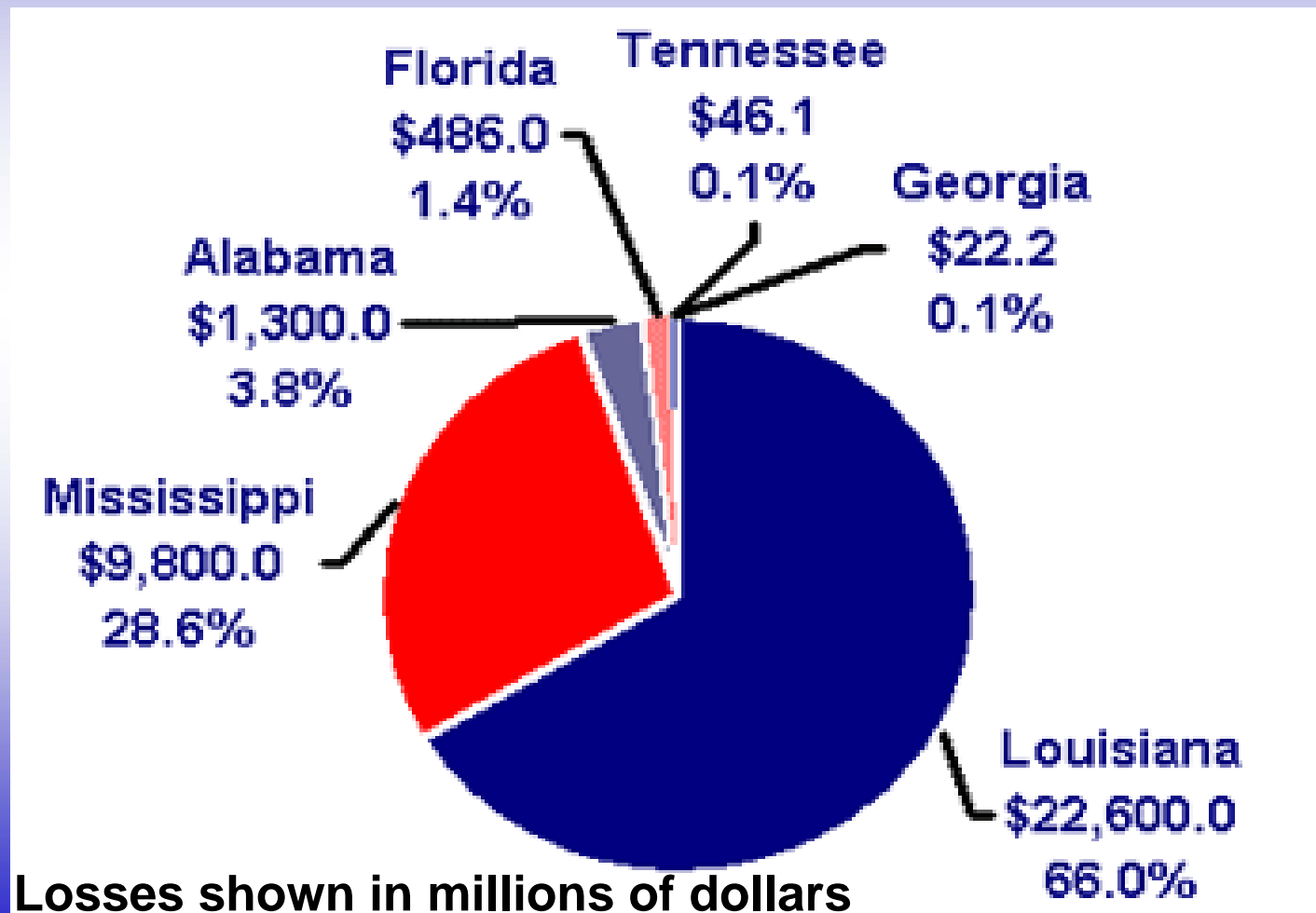
May 10, 2008 – 12:53 p.m.-
3.1 Magnitude earthquake
strikes near Sherman,
Mississippi

1/3 of all earthquakes in
Mississippi have occurred
in Clarke County
(source: Mississippi
Department of Environmental
Quality Office of Geology)

The 3rd strongest
earthquake
registered in
Mississippi
happened in
Gulfport, MS in
February, 1955.
(source: Mississippi
Department of
Environmental Quality
Office of Geology)

Insured Property Damage by State

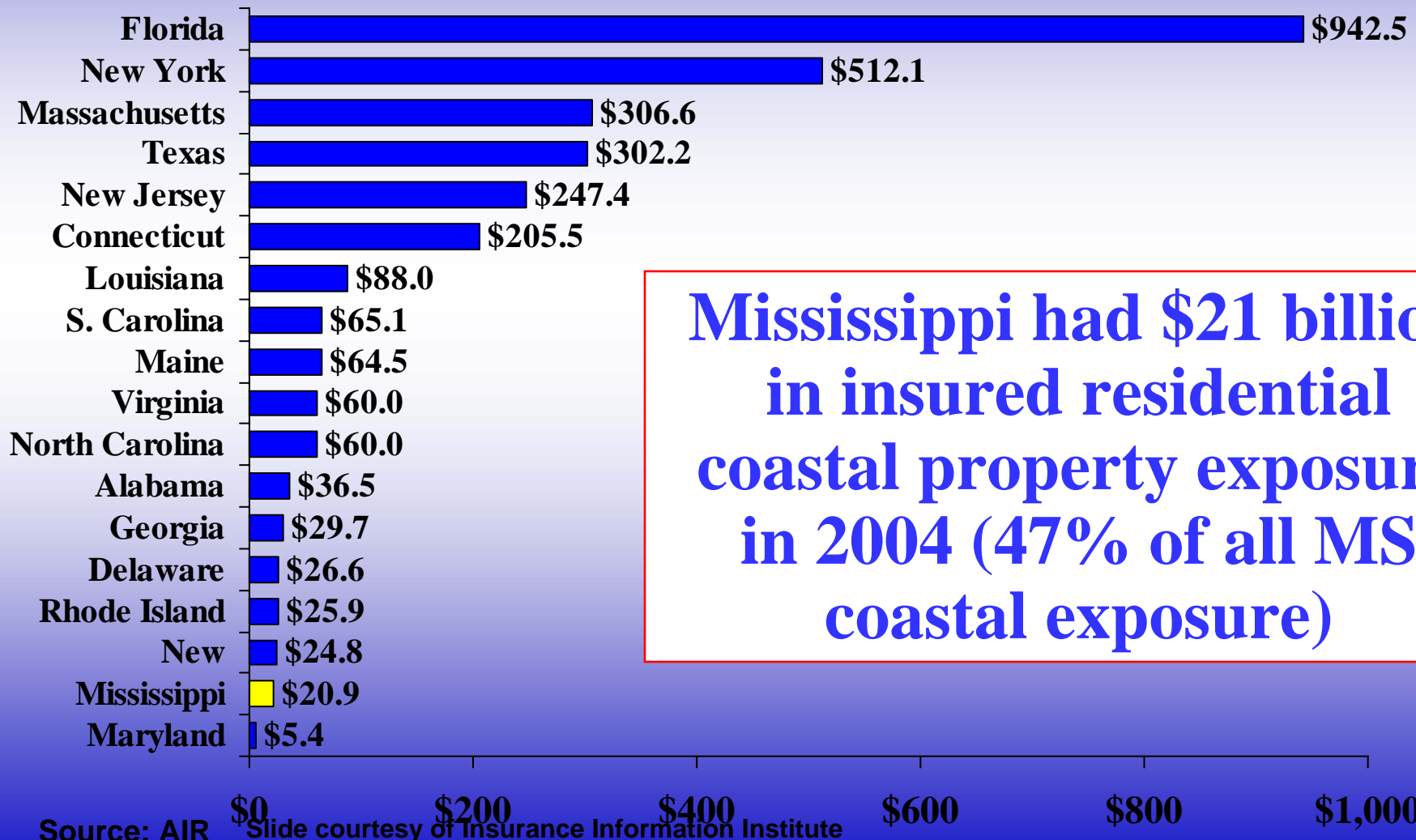
From 2005 Hurricanes



Losses shown in millions of dollars

Courtesy ISO, Insurance Information Institute

Value of Insured Residential Coastal Exposure (2004, \$ Billions)



**Mississippi had \$21 billion
in insured residential
coastal property exposure
in 2004 (47% of all MS
coastal exposure)**

Mississippi Insurance Market Facts

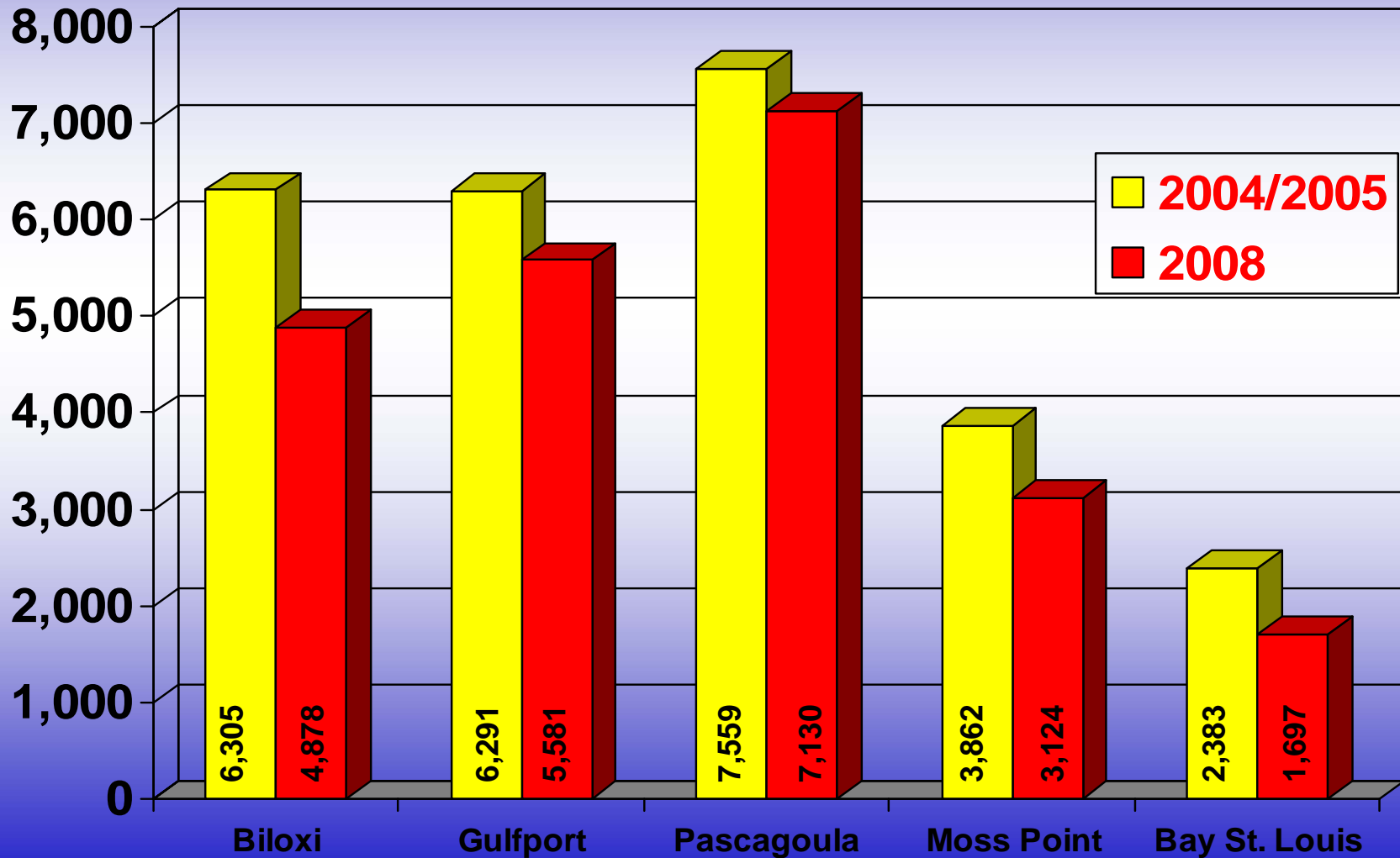
- **MS P/C insurance premium volume in 2005 was \$3.76 billion, or 0.8% of the US total of \$478.5 billion**
 - LA Homeowners insurance premium volume in 2005 was \$580 million, or 1.0% of the US total of \$57.5 bill.
- **Insured Katrina & Rita homeowners losses of \$5.5 billion in MS were more than 9 times the 2005 homeowners premiums of \$580 million**
- **The 2005 hurricane losses in MS homeowners insurance wiped out 17 years of premium and every dollar of profit ever made in the history of the state in this line**

2006 Coast Population according to U.S. Census Bureau

- **Hancock County** – population declined by 6,125; the most significant decrease of 13.2%
- **Harrison County** – population declined by 21,312; an 11% decrease
- **Jackson County** – population declined by 4,994; a 3.7% decrease
- These three counties experienced the highest population losses in the state, with a total population decline of 32,341 persons.
- **Pearl River County** experienced the greatest population growth with an increase of 4,641.

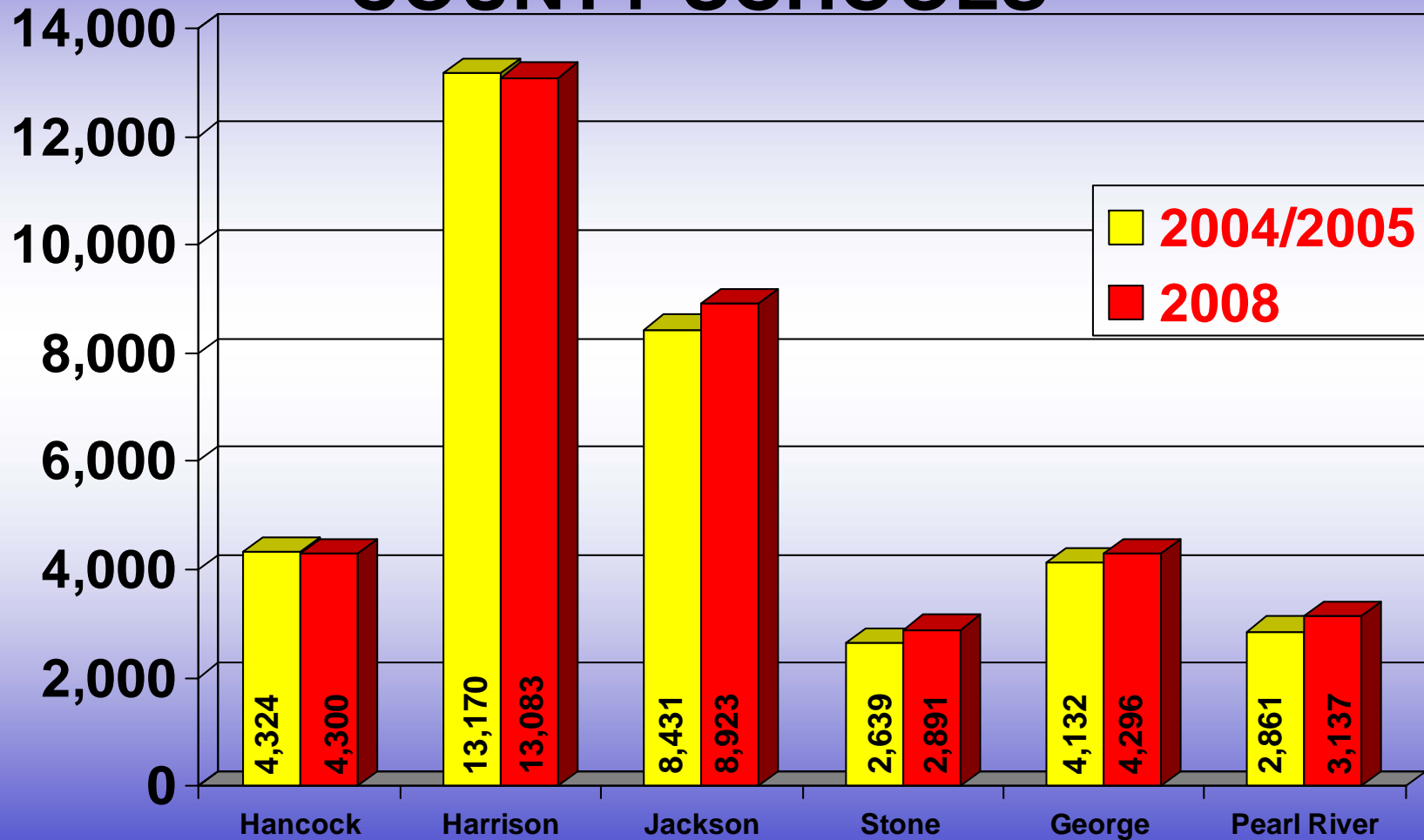
Effects of Hurricane Katrina on School Populations

MUNICIPAL SCHOOLS

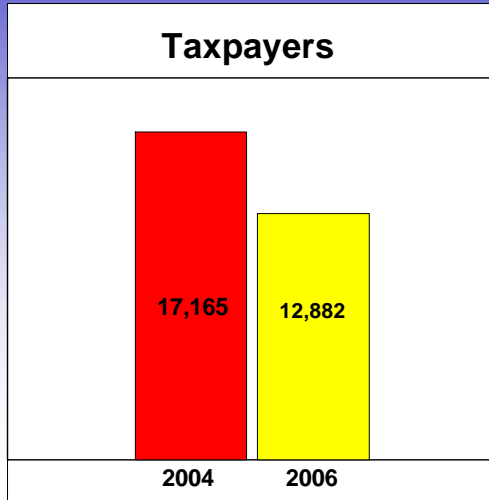


Effects of Hurricane Katrina on School Populations

COUNTY SCHOOLS

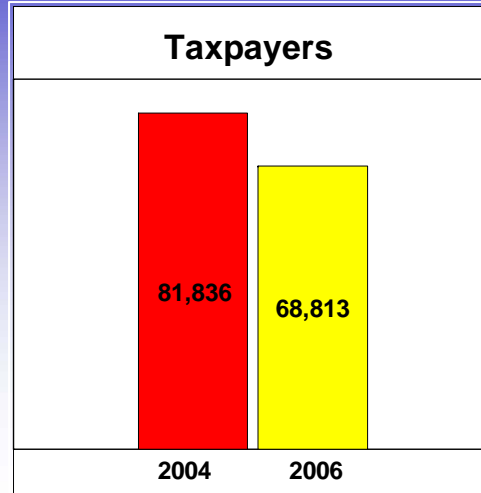


Taxable Income



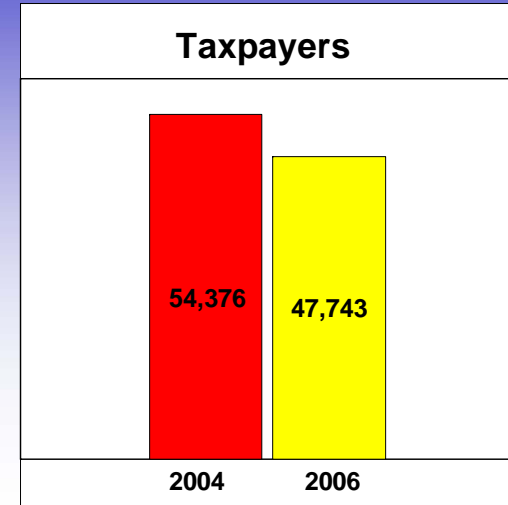
Hancock County

- From 2005 to 2006 Hancock County continued to lose taxpayers
- End of 2006 total taxable income had declined \$108 million – or a per capita decline of approximately \$2,550 per taxpayer



Harrison County

- As 2006 came to a close, total taxable income fell by approximately \$320 million since 2004.
- Leaving a per capita decline of approximately \$1,177 per taxpayer.



Jackson County

- As 2006 ended, Jackson County's total taxable income fell by approximately \$250 million.
- This represented a per capita decline of approximately \$2,494 per taxpayer.

THE FUTURE



**How can Mississippi
protect lives and property
in the event of future
disasters?**

Potential Answers

- Mitigation of Hazards
- Building codes
- Zoning
- Uniformity in Laws
- Land use
- Reinsurance Risk management
- Consumer Education
- Federal Backup Program for Catastrophic events
- CRIA (similar to Terrorist Reinsurance Act)
- Strict enforcement of NFIP
- Gulf State Compact

Hurricane Prone States Adopting Building Codes

- **Louisiana**

- 2005 - 4% enforcing updated codes
- 2008 - **100%** enforcing updated codes

- **Alabama**

- 2005 - 6% enforcing updated codes
- 2008 - **Legislation pending to adopt statewide**

- **Mississippi**

- 2005 - 5% enforcing updated codes
- 2008 - **27%** enforcing updated codes
- **Need support from Supervisors to adopt statewide!**

Federal Building Code Legislation

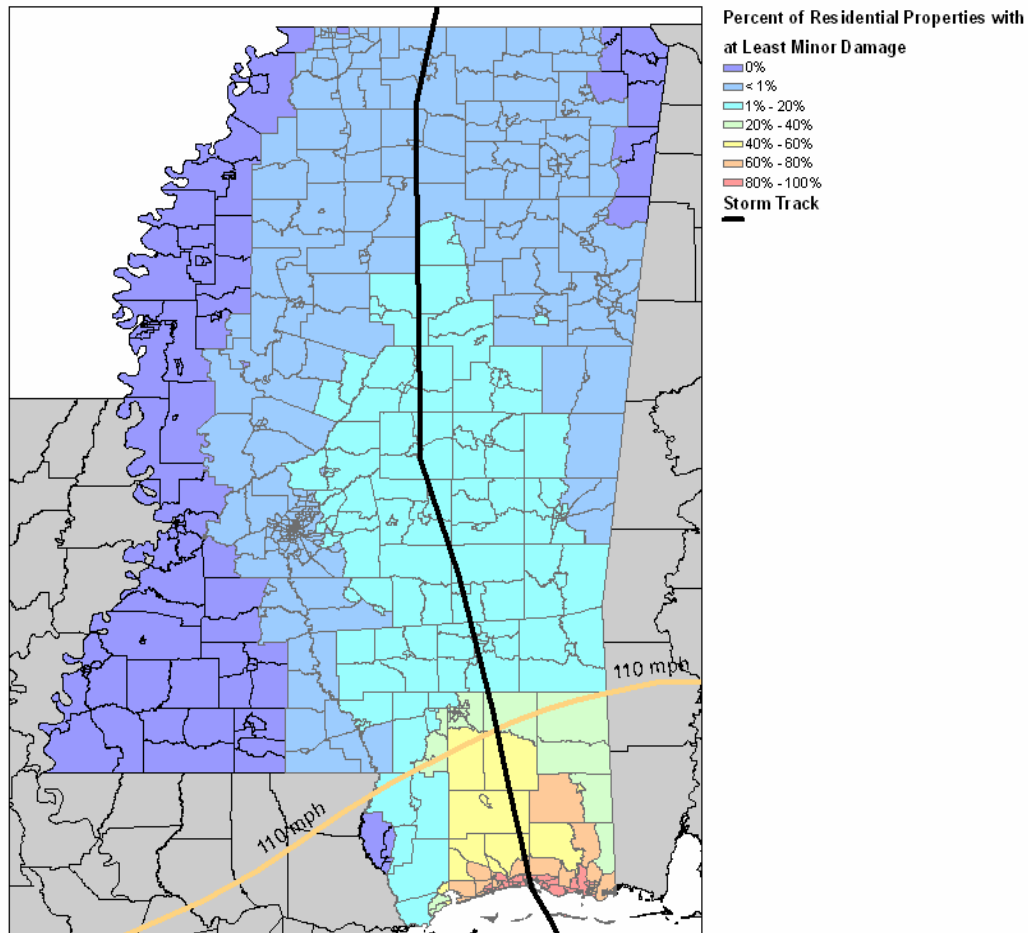
H.R. 4461, The Community Building Code Administration Grant Act of 2007

- **Community Building Code Administration Grant Act of 2007 (H.R. 4461) would promote and enhance the operation of local building code enforcement administration across the country by establishing a competitive Federal matching grant program.**
- **Requires the Secretary of Housing and Urban Development to award grants, on a competitive basis and with federal matching funds, to qualified local building code enforcement departments to increase staffing, provide staff training, increase staff competence and professional qualifications, support individual certification or departmental accreditation, or for capital expenditures specifically dedicated to department administration. Sets forth criteria for rating and ranking of grant proposals.**
- **Latest Major Action: 7/10/2008: Referred to Senate committee. Status: Received in the Senate and Read twice and referred to the Committee on Banking, Housing, and Urban Affairs.**

What Codes?

- **The International Residential Code (IRC)**
 - Adopted and enforced in **45 states**
 - Including Louisiana, Florida, Georgia, North Carolina, South Carolina, and Texas.
- **The International Building Code (IBC)**
 - Adopted and enforced in **47 states**
 - Including Louisiana, Florida, Georgia, North Carolina, South Carolina, and Texas.

Why Does MS Need Codes?



A Category 3 hurricane is expected to damage **128,000 homes**

Upgrading to 2003 IRC could save **20,000** homes from destruction or severe damage and save **\$3.1 Billion in damages**



LSU HURRICANE CENTER

*Addressing Hurricanes and Other Hazards and Their Impacts
on the Natural, Built and Human Environments*



© 2004 Institute for Business & Home Safety®



© 2004 Institute for Business & Home Safety®

Here are two photos taken in Punta Gorda, FL, following Hurricane Charley in 2004 that dramatically depict the power of modern building codes. One shows what used to be a bridal shop. The other is of a dental office right across the street that suffered only minimal damage from the storm, which was a Category 3 hurricane.

Photos Courtesy of the Institute for Business & Home Safety®

Wind Mitigation Program

What is it?

- To help Mississippians identify how they can strengthen their homes against hurricanes, the mitigation program will offer free wind inspections by qualified hurricane mitigation inspectors to eligible homeowners.

NOT an entitlement program

- Homeowners whose homes have undergone wind certification and hurricane mitigation inspections approved by MID may be eligible to apply for matching grants.
- The program will work with local governments to offer low-income homeowners an opportunity to strengthen their homes against natural disasters.
- *Properties not eligible include mobile homes and manufactured homes, apartments, condominiums, multi-family dwellings and businesses.*

A Wind Inspection Will:

- Outline improvements that may be made to the home to increase resistance to hurricane wind damage.
- Provide an estimate of how much each improvement would cost to complete.
- Provide an estimate of insurance discounts that may be available.
- Offer a hurricane resistance rating that shows the home's current ability, and future ability with improvements, to withstand hurricanes.

Insurance Discounts:

- If you provide insurance information at the time you applied for an inspection and you are eligible for an insurance discount based on the inspection of your home, you will receive a mitigation form completed and signed by the MID-approved inspector who conducted your free wind inspection.
- Your wind inspection report will give you an estimate of the discounts you might receive on the wind-portion of your homeowners insurance premium. Savings will vary depending on the improvements you make.
- The homeowner is NOT obligated to make the alterations or repairs.

Reimbursement

- You will be reimbursed when improvements have been completed.
- You must use an approved contractor to make improvements and improvements must be made within 12 months of the grant award date on your letter.

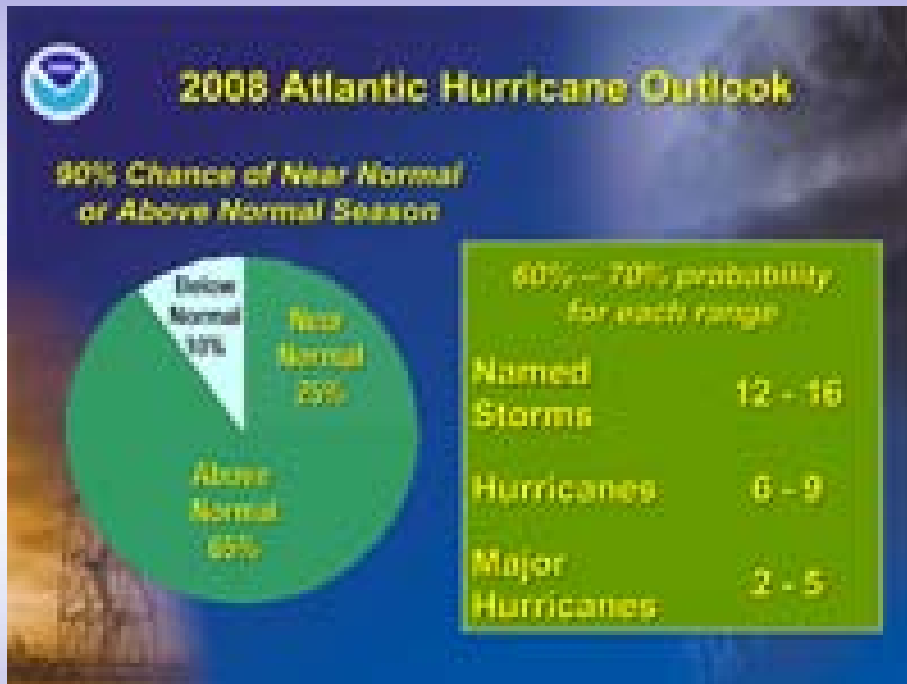
Made possible by an act of the Mississippi Legislature 2007

Catastrophic Insurance Act

- Create a federal backstop similar to what was created for terrorism following 9-11

- The number of Americans residing in a coastal county passed the 150 million mark in 2005, making the coastal population larger than the entire U.S. population in 1950.

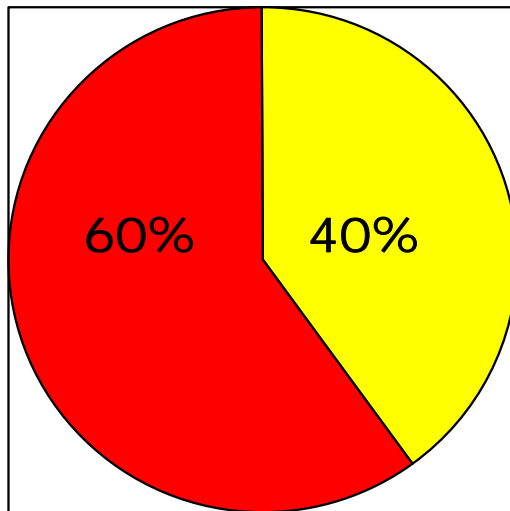
- Today, more than half of the U.S. population lives in a coastal area (as defined by the National Oceanic and Atmospheric Administration – NOAA), even though the 673 coastal counties constitute only about one fourth of the country's landmass.



Source: NOAA and U.S Census Bureau

Coastal Housing

**Hancock, Harrison and Jackson
County residential housing stock
damaged or destroyed by Hurricane
Katrina**



■ Undamaged

■ Damaged or destroyed

- **Total cost of rebuilding the three coastal counties housing stock will exceed \$4 billion**
- **By the end of the second quarter of 2007, permits appear to have been issued for at least 60% of the housing units Katrina damaged**

Source: FEMA

Coastal Housing

What we need to do

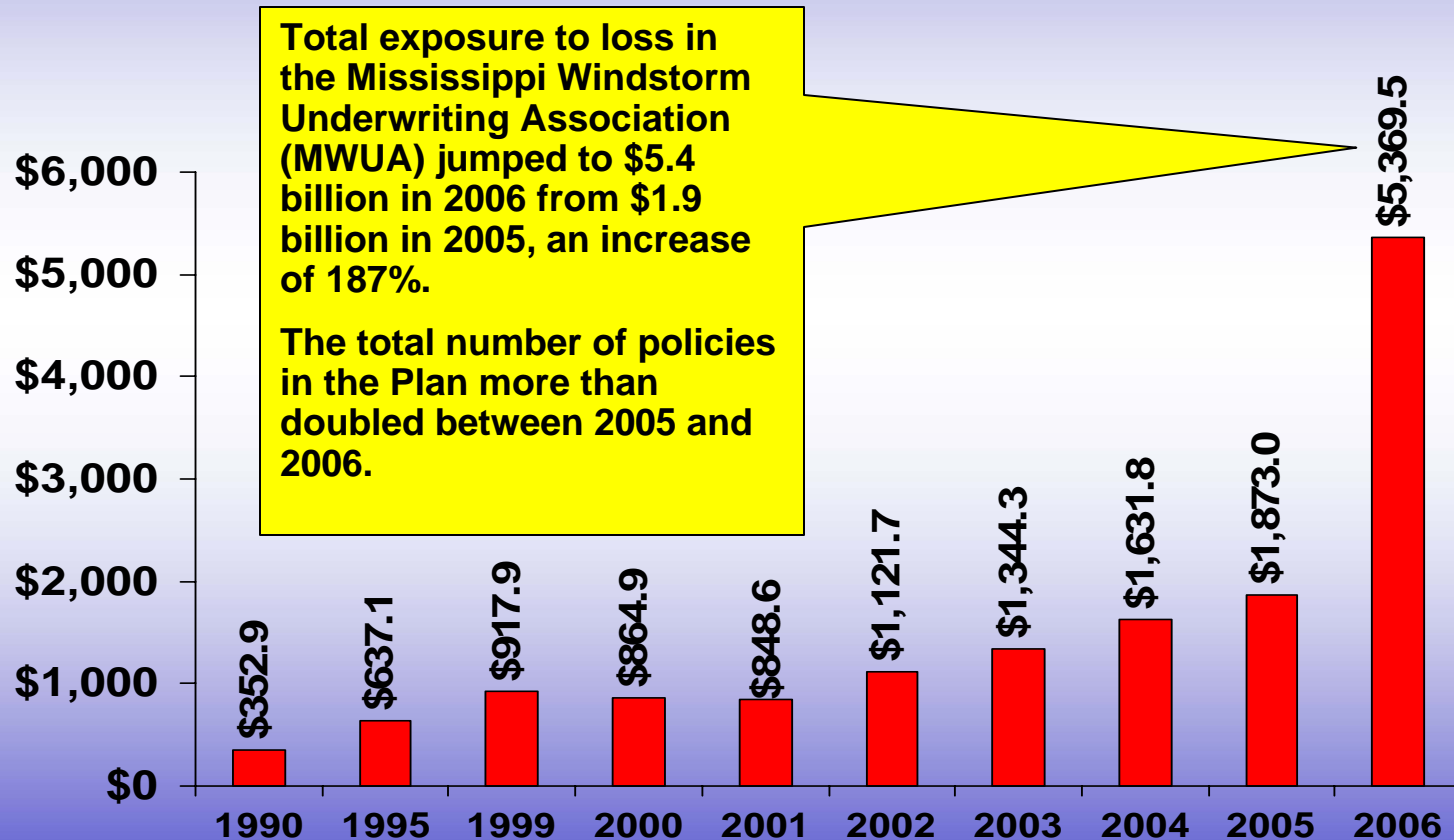
- efforts by state and local governments to limit damages from future storms (e.g., **land-use planning and zoning**)
- enactment of regulations to encourage mitigation of damages to individuals and their housing (**e.g., building codes**)
- better planning for and application of assistance throughout the region to ensure better and faster reconstruction after the next major hurricane

Land Reclamation

- **Alabama - “Living Shorelines”**, an innovative restoration practice NOAA’s Restoration Center will work with a number of organizations including the University of South Alabama, the Association of National Estuary Programs, and Mobile Bay National Estuary Program to use natural techniques to reduce coastal erosion, improve water quality, and prevent future damage from boat wake, storms, and climate change (Source: NOAA)
- **Louisiana – in 2006 La. Senator Mary Landrieu wrote, passed through Congress and got signed by the President legislation that requires the federal government to share revenue collected from energy production off Louisiana's coast so that the state can restore coastal wetlands and build a safe and reliable hurricane protection system (Source: Baton Rouge Morning Advocate**
- **Mississippi** – Officials want to restore its chain of undeveloped federally protected islands to about their 1917 size. A \$348 million project to restore the barrier islands of Petit Bois, Ship and Horn is part of a proposed \$950 Mississippi Coastal Improvement program. The barrier island project would take about six months and has yet to receive approval or funding from Congress (Source: Mobile Press Register)

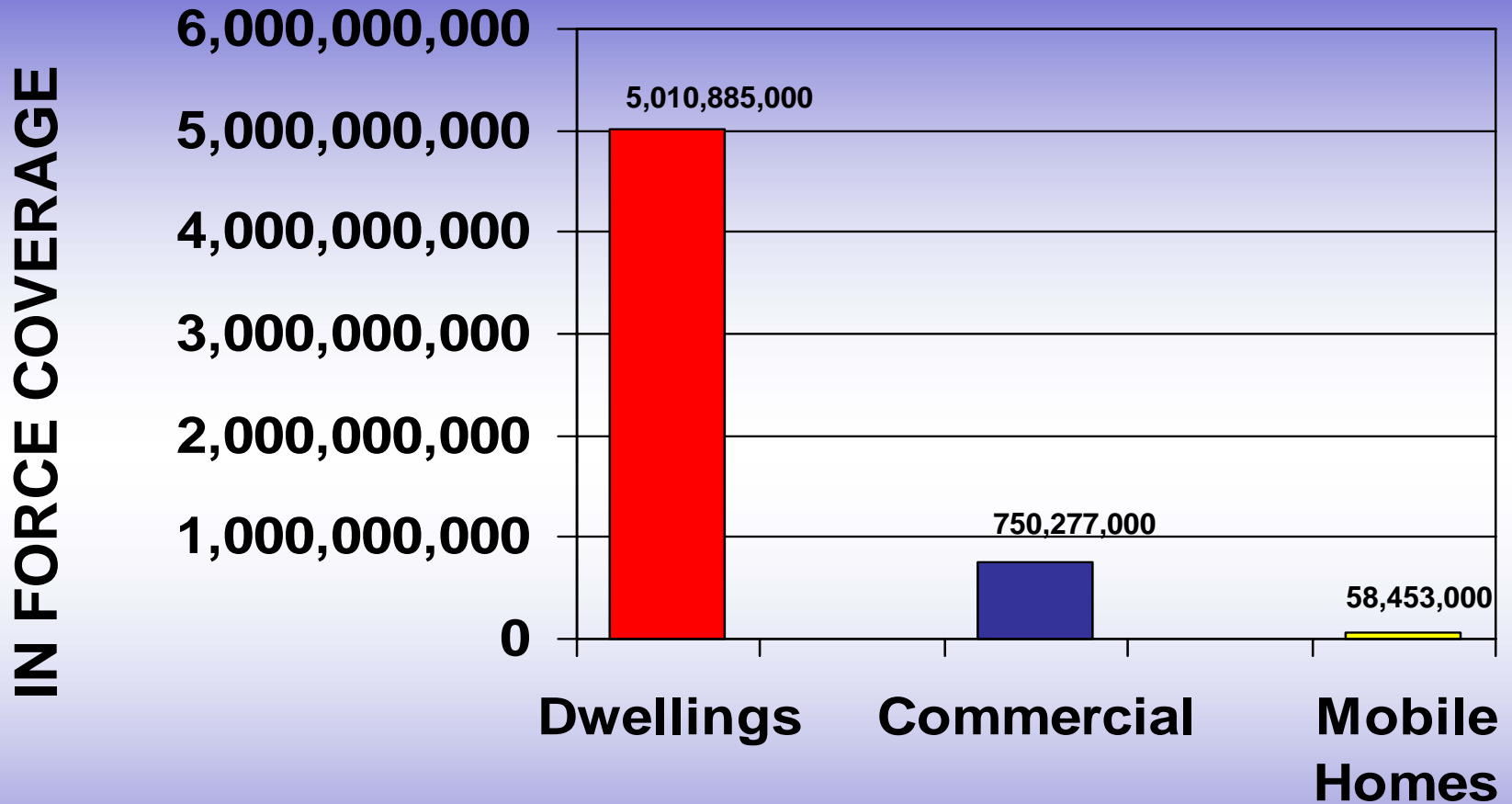
MID is Helping With Recovery

Mississippi Windstorm Plan: Exposure to Loss (\$ Mill)



Source: PIPSO; Insurance Information Institute

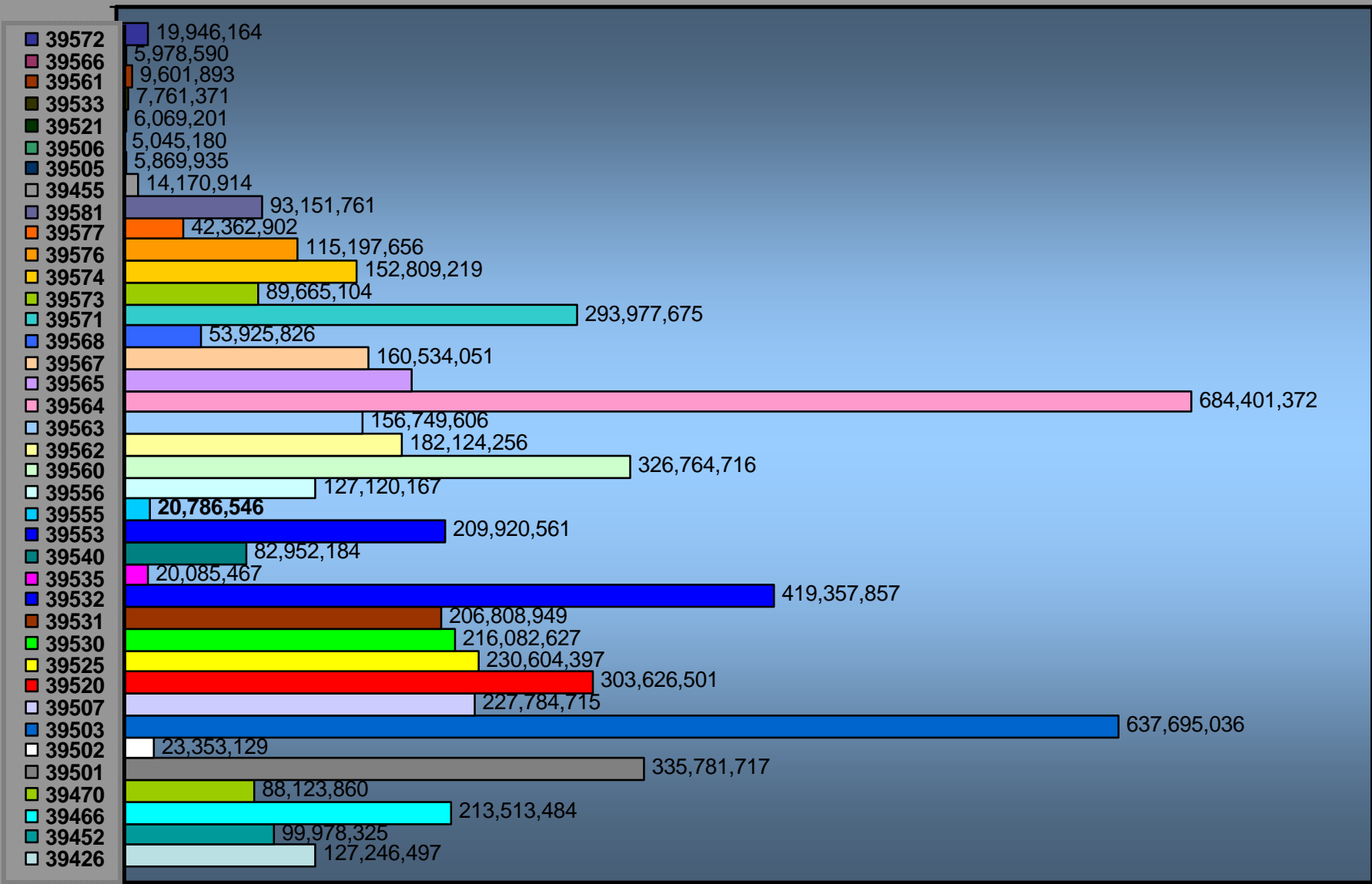
Mississippi Windstorm Underwriting Association



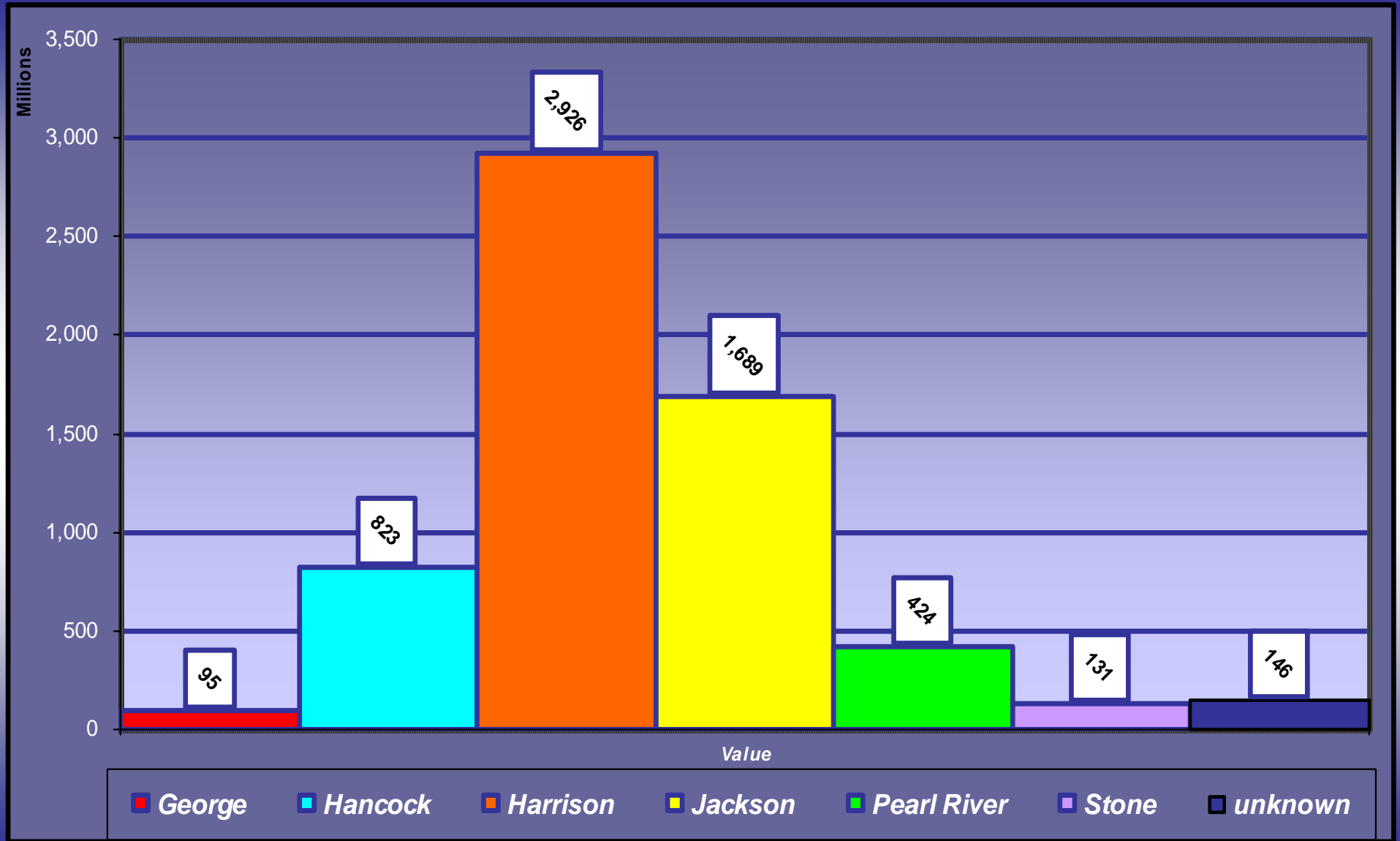
Total In Force = 5,819,615,000

Total Premium = \$80,748,582

Total Value by Zip Code

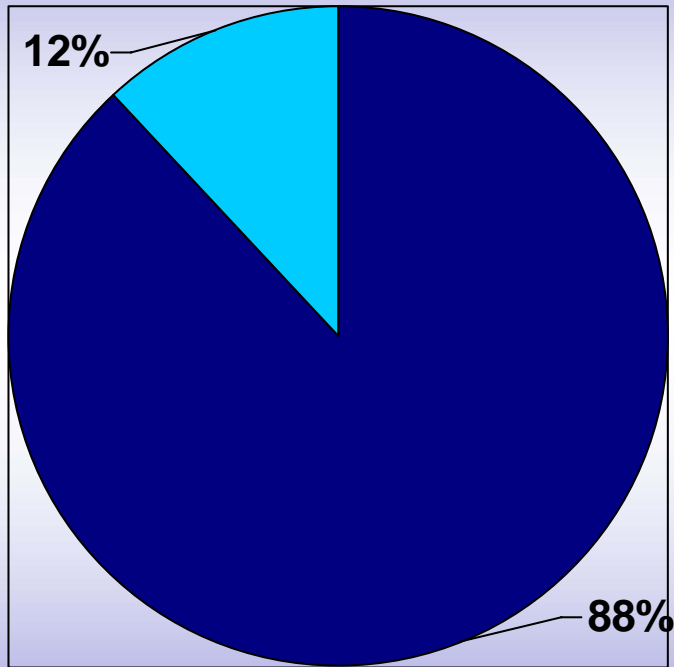


Total Values by County



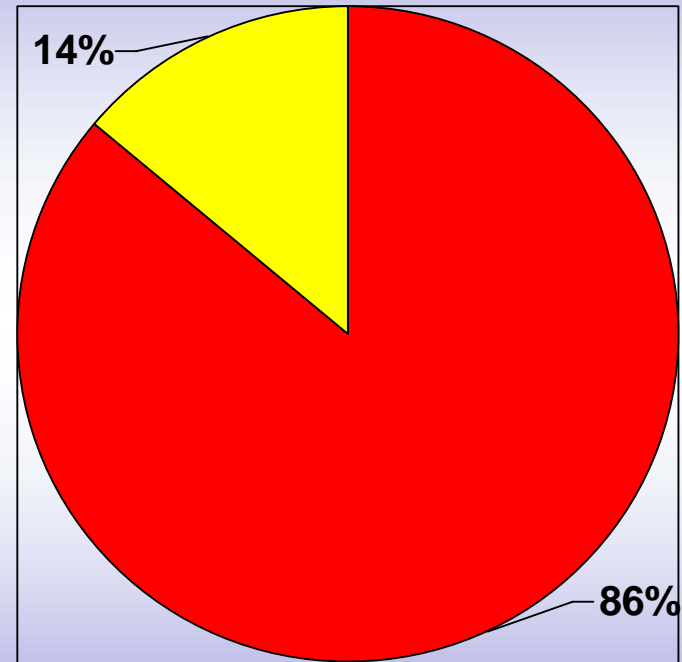
Wind Pool Policies

Total Policy Count



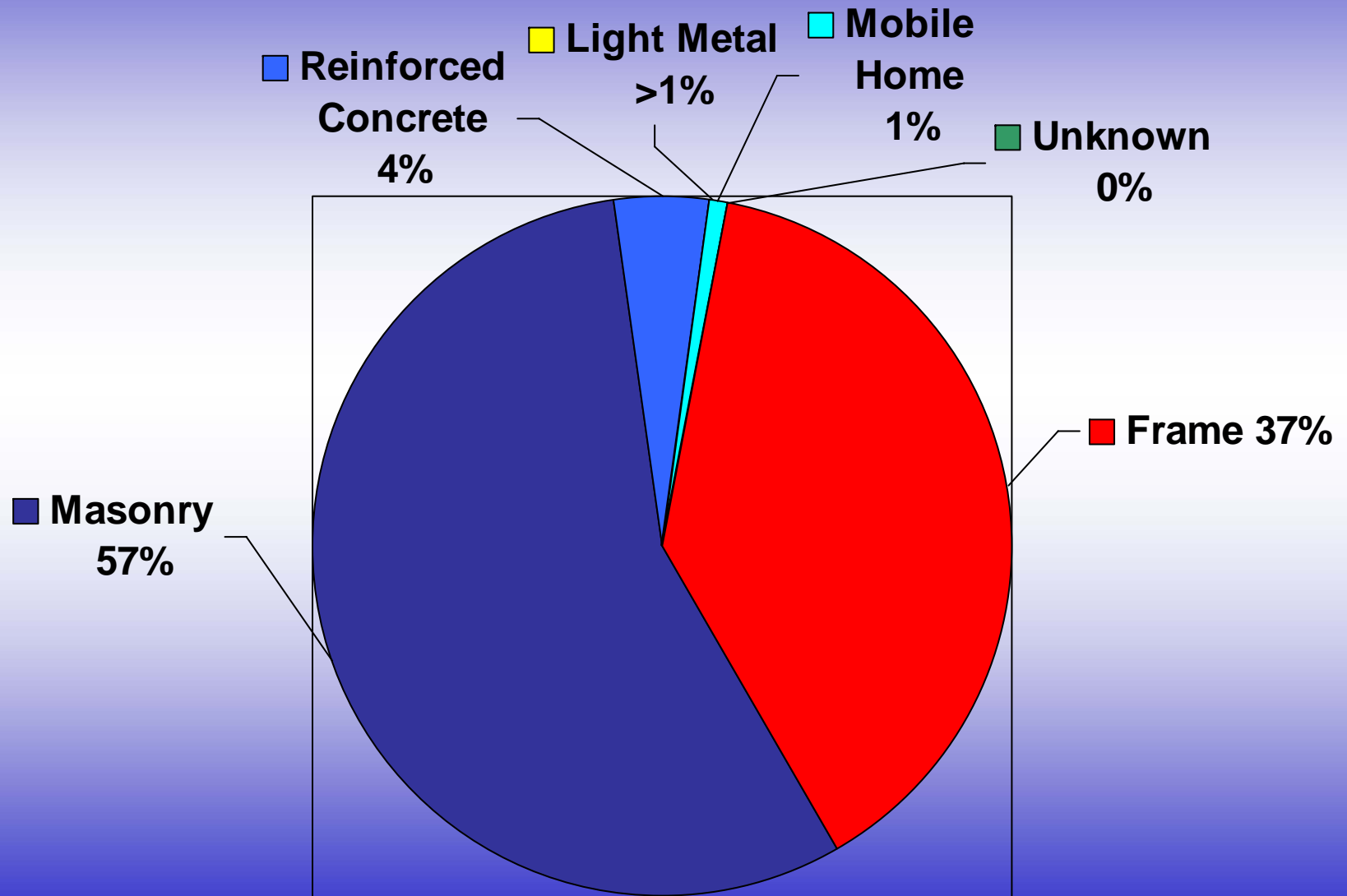
■ Residential 34,801
■ Commercial 4,539

Total Value by Occupancy



■ Residential \$4,788,316,489
■ Commercial \$1,446,434,228

Insurance in Force by Construction



Extended Coverage (Wind Only)

Proposed Rate & Rating Factor Changes

Effective: June 1, 2008

| | | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) |
|-----------------|-----------------------|---------------------------|-------------------------|--------------------------|------------------|-------------------|------------------------|---------------------------|-----------------------------------|------------------------------|-------|--------------------|-------------------------|
| Dwelling | | | | | | | | | | | | | |
| Territory | Description | On-Level In-Force Premium | Current Rate Relativity | Selected Rate Relativity | Base Rate Change | Projected Premium | Overall Premium Change | Subsidy Weighting Factors | \$25,000,000 Subsidy Distribution | Projected Subsidized Premium | Pct | Net Premium Change | Effectiv Territory Fact |
| A | 0 to 2,000 feet | 7,002,020 | 1.000 | 1.000 | 56.1% | 10,926,744 | 56.1% | 1.20 | 4,465,331 | 6,461,413 | 40.9% | -7.7% | 1.0 |
| B | 2,000 feet to 5 miles | 29,940,683 | 1.000 | 0.875 | 56.1% | 40,882,478 | 36.5% | 1.00 | 13,922,551 | 26,959,927 | 34.1% | -10.0% | 0.9 |
| C | > 5 miles | 9,749,553 | 0.869 | 0.750 | 56.1% | 13,128,474 | 34.7% | 1.00 | 4,470,909 | 8,657,565 | 34.1% | -11.2% | 0.8 |
| D | 2nd Tier Counties | 5,226,783 | 0.869 | 0.670 | 56.1% | 6,287,493 | 20.3% | 1.00 | 2,141,209 | 4,146,284 | 34.1% | -20.7% | 0.7 |
| | | 51,919,039 | 0.962 | 0.848 | | 71,225,190 | 37.2% | 1.03 | 25,000,000 | 46,225,190 | 35.1% | -11.0% | |

| Commercial | | | | | | | | | | | | | |
|-------------------|-----------------------|---------------------------|-------------------------|--------------------------|------------------|-------------------|------------------------|---------------------------|--------------------------|------------------------------|------|--------------------|-------------------------|
| Territory | Description | On-Level In-Force Premium | Current Rate Relativity | Selected Rate Relativity | Base Rate Change | Projected Premium | Overall Premium Change | Subsidy Weighting Factors | \$0 Subsidy Distribution | Projected Subsidized Premium | Pct | Net Premium Change | Effectiv Territory Fact |
| A | 0 to 2,000 feet | 8,170,646 | 1.000 | 1.000 | -6.9% | 7,610,103 | -6.9% | 1.00 | 0 | 7,610,103 | 0.0% | -6.9% | 1.0 |
| B | 2,000 feet to 5 miles | 23,877,215 | 1.000 | 0.875 | -6.9% | 19,459,238 | -18.5% | 1.00 | 0 | 19,459,238 | 0.0% | -18.5% | 0.8 |
| C | > 5 miles | 2,862,445 | 1.000 | 0.750 | -6.9% | 1,999,551 | -30.1% | 1.00 | 0 | 1,999,551 | 0.0% | -30.1% | 0.7 |
| D | 2nd Tier Counties | 1,481,547 | 1.000 | 0.670 | -6.9% | 924,537 | -37.6% | 1.00 | 0 | 924,537 | 0.0% | -37.6% | 0.6 |
| | | 36,391,854 | 1.000 | 0.885 | | 29,993,429 | -17.6% | 1.00 | 0 | 29,993,429 | 0.0% | -17.6% | |

| Mobile Home | | | | | | | | | | | | | |
|--------------------|-----------------------|---------------------------|-------------------------|--------------------------|------------------|-------------------|------------------------|---------------------------|--------------------------|------------------------------|------|--------------------|-------------------------|
| Territory | Description | On-Level In-Force Premium | Current Rate Relativity | Selected Rate Relativity | Base Rate Change | Projected Premium | Overall Premium Change | Subsidy Weighting Factors | \$0 Subsidy Distribution | Projected Subsidized Premium | Pct | Net Premium Change | Effectiv Territory Fact |
| A | 0 to 2,000 feet | 61,716 | 1.000 | 1.000 | -22.2% | 47,988 | -22.2% | 1.00 | 0 | 47,988 | 0.0% | -22.2% | 1.0 |
| B | 2,000 feet to 5 miles | 939,073 | 1.000 | 0.875 | -22.2% | 638,915 | -32.0% | 1.00 | 0 | 638,915 | 0.0% | -32.0% | 0.8 |
| C | > 5 miles | 833,552 | 1.000 | 0.750 | -22.2% | 486,104 | -41.7% | 1.00 | 0 | 486,104 | 0.0% | -41.7% | 0.7 |
| D | 2nd Tier Counties | 90,629 | 1.000 | 0.670 | -22.2% | 47,215 | -47.9% | 1.00 | 0 | 47,215 | 0.0% | -47.9% | 0.6 |
| | | 1,924,970 | 1.000 | 0.815 | | 1,220,221 | -36.6% | 1.00 | 0 | 1,220,221 | 0.0% | -36.6% | |

Barrier Island Rate Relativity: 3.50 All Segments

Wind Pool Rates

- Prior to Katrina, wind pool insurance rates were \$1,340 per \$100,000 of coverage;
- Post-Katrina these rates escalated to \$4,945 in October 2006, but were subsequently
- Reduced to \$3,243 per \$100,000 in April 2006.

MID is Helping With Recovery

Coastal Insurance Forum

March 4, 2008



Invited Guests included:

- **Judy Phillips, Stennis Institute of Government**
- **Joe Shumaker, Manager, Mississippi Windstorm Underwriting Assn.**
- **George Schloegel, CEO Hancock Bank**

MID is Helping With Recovery

Gulf Coast Office Opened

January 28, 2008



Contact person:

Roy "Tippy" O 'Bryant, Director of Coastal Office Consumer Affairs

Address:

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228-867-2202 and 228-867-2203

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“Coast residents need a local office that is accessible to them to address insurance problems. By being on site we can do our best to help them resolve those problems more quickly.” –

Commissioner Mike Chaney