

## Underwriting Coastal Homeowners Insurance Policies

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### STATE OF CONNECTICUT *Insurance Department*

## Filing Review Guidelines Related to Underwriting Coastal Homeowners Insurance Policies January 23, 2007

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On December 5, 2006, the Insurance Department (the "Department") published its study entitled *A Report on the Availability of Homeowners Insurance along the Connecticut coastline* (the "Report") (1). The Report provides a detailed analysis of the availability of homeowners insurance along the Connecticut coast and includes a number of the Department's administrative actions intended to protect the interests of coastline homeowners while continuing to maintain a competitive homeowners' marketplace. The administrative actions outlined in the Report are intended to be reflected in these Guidelines.

The Department believes that the following Guidelines will assist companies in preparing their homeowners underwriting rules required under Conn. Gen. Stat. Section 38a-689 and expedite review by Department examiners. They are also intended to provide direction to the industry on the Department's view of acceptable parameters related to coastal underwriting loss mitigation initiatives. Companies are also reminded that the principal components outlined in Insurance Department Bulletin PC-43 dated December 20, 2000 entitled *Availability of Insurance in Urban Areas and Coastline Neighborhoods* continue to apply and are not superceded by these Guidelines. However, the Department believes that additional clarification and direction is needed in light of the findings contained in the Report.

### **A. Homeowners Filing Review Guidelines—Coastal Properties**

#### **1. New Business Located Within 2,600 Feet from the Coast.**

*a. Mitigation Options.* For new business located within 2,600 feet of the coastline, the Department will require companies to allow homeowners to use any number of Institute for Business and Home Safety ("IBHS") recommended window protection measures, such as plywood shutters, to help protect against risk of loss (2). A company's coastal underwriting rules will not be approved by the Department unless they provide an alternative to requiring permanently installed shutters. The Department wishes to make clear that companies are not required to offer all IBHS window protection options provided that prospective insureds are at least given the option of satisfying window mitigation requirements through the use of plywood shutters. In addition, the Department believes that insurers may impose reasonable and narrowly tailored standards for the use of plywood shutters including that anchorage hardware be installed and that the plywood be precut and stored onsite in a dry and secure place.

The Department also wishes to make clear that companies may impose, in addition to plywood shutters, other reasonably appropriate mitigation measures to help protect against risk of loss. It is the Department's position that insurers may refuse to issue new policies within 2,600 feet of the coast if a homeowner fails to undertake reasonably appropriate mitigation measures including, but not limited to, the use of plywood shutters.

*b. Hurricane Deductibles.* With respect to deductibles, companies may offer an actuarially justified hurricane deductible to properties located within 2,600 feet of the coast in addition to requiring mitigation measures. Currently, the Department requires companies to supply actuarial data (including, but not limited to appropriate actuarial data to support the effect of a particular action on a company's Probable Maximum Loss and how its solvency would be impacted by their coastal plans) based on their own exposures to justify requests for the use of hurricane deductibles. When submitting underwriting guidelines, companies are required to provide their trigger for when a hurricane deductible will be applied. The Department would generally view as acceptable a hurricane deductible trigger that applies when the National Weather Service names a tropical storm, declares a hurricane watch or warning or defines the hurricane's intensity. The Department requests that a "timing factor" be included in the trigger definition.

The Department also reminds insurers that if a hurricane deductible is used, a reasonable premium reduction or credit should be applied as provided in A.4. below. The hurricane deductible must be prominently displayed on the declarations page of the policy pursuant to Insurance Department Bulletin PC-33 dated January 2000. In addition, it must provide the insured with the appropriate notification at renewal as required under Insurance Department Bulletin PC-42-04 dated May 5, 2004, Section D. *Guidelines Regarding The Use of Conditional Renewal Notices.*

## 2. New Business Located Over 2,600 Feet from the Coast.

*a. Deductible Limit.* For properties located over 2,600 feet from the coast, the Department will review, on a case-by-case basis, underwriting guidelines that require homeowners to (i) undertake loss mitigation measures; and/or (ii) impose a hurricane deductible not to exceed 2% of the dwelling limit amount. Companies will be expected to provide justification for the need to impose mitigation requirements and/or hurricane deductibles with actuarially sound data. The use of plywood shutters as an acceptable mitigation measure and the requirement to define hurricane deductible triggers as stated in A.1.a. and A.1.b. above will apply to underwriting guidelines for new business located over 2,600 feet from the coast.

## 3. Coastal Renewal Requirements.

The Department will no longer allow companies to non-renew policyholders solely for failing to undertake hurricane-related mitigation efforts (3). In addition, companies must offer their current policyholders options at renewal: (i) homeowners can either implement loss mitigation measures; or (ii) be offered a hurricane deductible provided such deductible is supported by actuarial data. If the policyholder decides not to take either option, companies can then non-renew that policy. The use of plywood shutters as an acceptable window-type mitigation measure and the requirement to define hurricane deductible triggers as provided above will apply to underwriting guidelines for renewal business.

## 4. Credit to Reflect Reduced Exposure—New and Renewal Business.

If a company requests to use a hurricane deductible in its underwriting rules, there should be some reasonable premium reduction or credit to reflect the company's reduced exposure to loss. In addition, if mitigation is undertaken by the insured, a reasonable premium reduction should be considered in the pricing of the risk.

## **5. Defining the Coast.**

As a matter of practice, it becomes very difficult to regulate coastal exposures and the manner in which the definition of "coast" is applied considering the many rivers and other inland bodies of water that flow into Long Island Sound. There is no generally accepted definition of "coast" for property and casualty insurance purposes. However, the Insurance Services Offices ("ISO") has established a method to determine coastal exposures as they relate to rivers and other inland bodies of water. Essentially, ISO uses an "angle of impact measurement" to understand where the highest winds will occur along rivers and, consequently, the most damage that is likely (4).

In reviewing the parameters of an insurer's coastal underwriting guidelines, the Department expects that companies will use an "angle of impact measurement" methodology or a similar method to justify their coastal underwriting practices and to submit their coastal mapping with their coastal underwriting guideline filing. The Department intends to strictly scrutinize other methodologies used to define coastline in circumstances where the Department believes such methodologies create an unreasonably broad coastline.

For the purpose of these guidelines, the term "coast" refers only to a salt-water ocean, sound, bay or inlet with the distance as measured from the median high water mark. The median high water mark is defined by the National Oceanic Atmospheric Administration.

### **B. Refiling of Underwriting Guidelines**

As a preliminary matter, insurers are reminded that any changes to their filed underwriting guidelines must be submitted to the Department for approval in accordance with Conn. Gen. Stat. Section 38a-689. Companies with pending coastal guidelines are directed to withdraw and re-file their underwriting guidelines with the Department consistent with the guidelines established above. Companies whose existing guidelines do not comply with the Department's criteria for new and renewal business are required to re-file their proposed guidelines and supply the Department with the appropriate supporting actuarial data. Insurers currently using a hurricane deductible (with no hurricane mitigation requirements) are not required to re-file their coastal underwriting guidelines with the Department if they comply with the above guidelines. The Department asks that you do so when your next rate filing is made.

### **C. Non-renewal Notice Requirements**

As stated in the Report, the Department will require that insurers print the contact information for the Department's Consumer Affairs Division on all non-renewal notices (or include such contact information on a separate page delivered with the notice) where the non-renewal is based on an insured's failure to undertake hurricane mitigation measures.

### **D. Effect of Prior Insurance Department Bulletins PC-43 and PC-46**

Insurance Department Bulletins PC-43 and PC-46 shall remain in full force and effect. It is important to note that companies with immediate solvency and over concentration problems may request Coastal Exception Plans narrowly tailored to address immediate solvency and/or over concentration problems for a limited timeframe as agreed to with the Department per Insurance Department Bulletin PC-43 dated December 20, 2000. Detailed supporting data is required for a Coastal Exception Plan.