Market of Last Resort

An overview of residual market plans in the U.S. and factors contributing to their growth

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EXECUTIVE SUMMARY

As the world's risk managers, insurers, along with policymakers and the public, share a common desire to expand private market coverage and services to help financially protect consumers, particularly from losses stemming from catastrophic risks. To meet this objective, insurers need to price and underwrite risk based on the current and evolving market conditions and weather patterns. When insurers are not able to price coverage to adequately cover the current risk conditions (whether due to government rate suppression or a critical concentration of increased risk), insurers must often make difficult decisions about how best to manage risk that may include pulling back coverage availability to protect their solvency and ensure their ability to pay future claims. If and when this happens, temporary relief valves such as state residual markets and non-admitted insurance carriers may be increasingly utilized during the transition period while insurers work to close the gap between premiums collected and expected losses.

During the last several years, property casualty insurance markets across the U.S. have experienced significant stress that has impacted the affordability and availability of insurance coverage. While the property casualty insurance industry is well capitalized and solvent, the market has experienced deep and historic losses in the property lines of insurance, combined with a contraction of capital investment amid excessively high loss ratios. These conditions have drawn a variety of responses from individual insurers as they implement strategies for managing losses, including by pausing new business, reducing or halting advertising, tightening underwriting standards, nonrenewals, shifting policyholders from admitted to non-admitted insurance subsidiaries, or selling lines of business (and the corresponding policies) to other insurers and exiting the market. The market has also seen growth in residual market plans which can be an indicator of issues related to availability of certain lines of coverage in the private market.

Today, there are 35 states with residual market plans, including a newly created plan in Colorado. FAIR Plans and beach and windstorm plans as well as two state-run insurance companies make up the significant majority of residual market plans.[1] These programs have largely been responsive to weather related risk and losses, becoming more substantial in regions that have suffered repeated severe catastrophic losses. This has led to a recent expansion of policies and overall exposure of residual market plans since 2019, which significantly impacts state insurance markets and admitted insurers.

Residual market plans often rely on funding mechanisms such as assessments levied on participating insurers when losses are greater than the plan's claims-paying ability. Assessments are frequently directed at admitted insurers, with the amount an insurer is required to provide tied to their market share within the state. The ability for insurers to recoup those assessments via a fee or surcharge passed on to consumers is vital to maintaining stable market conditions for admitted insurers.

APCIA conducted an analysis of the changes in the state residual markets that offer consumers insurance protection when they are unable to obtain policies in the private market. Overall, the data suggests that residual market exposures and market challenges are worsening in the highest climate-risk regions. But comparisons among the states demonstrate that government risk and interference are the primary drivers in determining whether consumers are able to obtain policies from a competitive private insurance market or end up in government-established residual markets. The data suggests that some states are limiting private insurance risk-based pricing while subsidizing government residual markets, masking increasing climate risk and effectively subsidizing overdevelopment in high-climate risk areas compared to other regions.

The data and comparative analysis provided in this paper illustrate that ongoing pressures on affordability and availability in insurance are best addressed through the promotion of private competitive markets. Residual market expansion and growing residual market exposure are detrimental to the health and stability of private insurance markets around the county, and a liability to the states supporting them. What is needed at this moment is an affirmative effort to address the underlying causes of rising exposures and property losses. Mitigation and resiliency efforts at the federal, state, community, and individual property level offer readymade and proven solutions to stem the growing imbalance between risk and price.

1 A description of the current residual markets can be found in the appendix below.

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INSURANCE MARKETS UNDER PRESSURE

The U.S. property casualty insurance industry is solvent but facing rapidly escalating coverage demands at the same time as insured losses are skyrocketing, causing net underwriting losses. It is becoming increasingly challenging for the industry to attract necessary additional investment capital to cover rising exposures. These challenges are particularly pronounced where states suppress or delay insurance rate increases, creating a growing gap between expected insured losses and premiums.

Challenges for the U.S. property casualty insurance industry are illustrated in a forecast by global reinsurer Swiss Re that projects average annual insured losses will grow by 5-7 percent over the long term, similar to actual loss increases over the last 30 years.[2]

The expected losses and limitations of capital availability have created friction in many states insurance markets, resulting in growing attention from media and policymakers. The Washington Post noted "Extreme weather patterns caused by climate change have led [insurers] to stop writing coverages in some regions... [and] say they will cut out damage caused by hurricanes, wind and hail... along coastlines and in wildfire country."[3] However, contrary to such media reports, while climate change has resulted in increased losses, it is not the primary factor causing disruption in the U.S. insurance markets. As APCIA and several other top insurance trades have noted in testimony and published studies,[4] the primary drivers impacting insurance affordability and availability are inflation, overbuilding in high-climate risk regions, legal system abuse, and government controls. States limiting private insurance companies' ability to accurately price risk (known as risk-based pricing) and subsidizing coverage through government-run residual markets has resulted in overdevelopment in high-climate risk areas and contributed to significant growth in residual market plans.

KEY COST DRIVERS IMPACTING PROPERTY INSURANCE

According to Swiss Re,[5] climate change is resulting in a small annual increase in insured losses, but the key factors causing increases are economic growth, accumulation of asset values in exposed areas, urbanization and rising populations. Added to these cost drivers are continuing other man-made factors such as legal system abuse[6] and regulatory challenges. Over the last year, property insurance markets in severely challenged states like California, Florida, and Louisiana are beginning to show some promising signs of reform. These developments are largely because lawmakers and insurance regulators are acting to reign in abusive litigation practices and address regulatory constraints preventing insurers from charging actuarily sound rates.

Data analytics firm Verisk confirms the top driver of insurance losses is the increase in exposure values and replacement costs, represented both by continued construction in high-hazard areas and by high levels of inflation that are driving up repair and rebuilding costs.[7]

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2 Swiss Re Institute, "Natural catastrophes in 2023: gearing up for today's and tomorrow's weather risks", p.2 (2024).

3 The Washington Post, Sept. 3, 2023: Home insurers cut natural disasters from policies as climate risks grow: **https://www.washingtonpost.com/business/2023/09/03/natural-disaster-climate-insurance/**.

4 APCIA, "It's Not Just the Weather: the manmade crises roiling property insurance markets" (Aug 2022) **https://www.apci.org/attachment/static/6783/**.

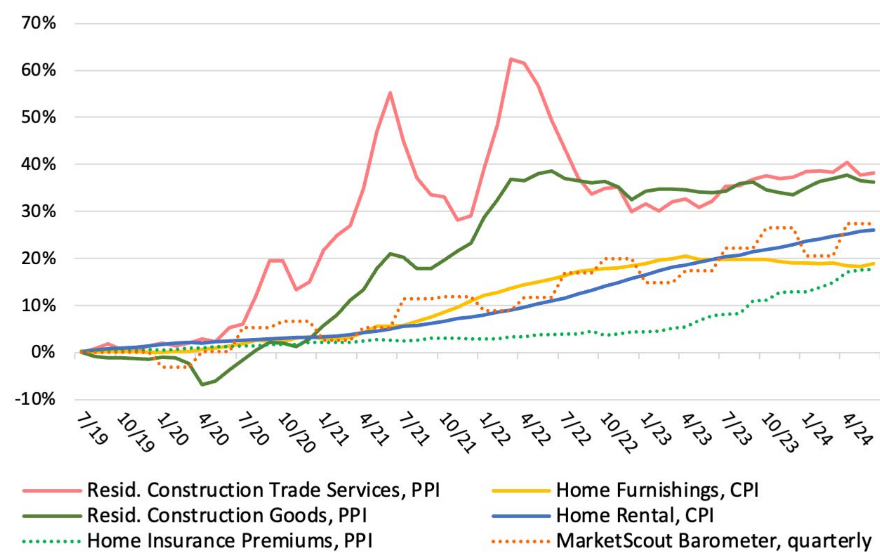
5 Swiss Re Institute, "Natural catastrophes and inflation in 2022: a perfect storm", p.2 (2023).

6 Munich re, "legal system abuse is rampant": **https://www.munichre.com/en/insights/economy/legal-system-abuse-is-rampant-what-insurers-can-do-and-how-reinsurers-can-help.html**.

7 Verisk, "Global Modeled Catastrophe Losses", p.4 (2022).

In the past two decades, the number of people living in high flood risk areas has doubled and the population in high fire risk areas has grown by over 50 percent.[8] Additionally, several states with coastal exposure to hurricanes have had double digit percentage population growth between 2010-2020.[9] From 2021-2022, the U.S. experienced 40-year record high inflation, while building repair and replacement costs surged even higher. These conditions created a shock inflation event that amplified "demand surge" effects (whereby construction costs rise due to limited supply of labor and materials), well above typical industry models. While price increases have slowed, cumulatively over the last five years, costs of residential construction trade services rose 38.2 percent from mid-year 2019 to mid-year 2024. Similarly, residential construction goods rose 36.3 percent over the period, home rental prices were up 26 percent, and home furnishings rose 18.9 percent. Home insurance premium rates rose at a slower rate, somewhere between 17.7 percent (according to the PPI) and 27.3 percent (according to MarketScout Barometer) over the five-year span,[10, 11] as insurance premiums typically lag underlying cost increases.

Cost Indicators: Home Insurance
Cumulative Percent Change over Five Years



Source: APCIA, via Bureau of Labor Statistics and MarketScout Corp.

Producer Price Index: Inputs to Single Family Residential Construction, Trade Services; Goods; Premiums for Homeowner's Insurance; Consumer Price Index for All Urban Consumers: Rent of Shelter; and Household Furnishings & Operations; MarketScout Market Barometer - Home Insurance, quarterly data, average of rates for homes above and below $1 million in value.

Data as of September 19, 2024.

Legal system abuse and insurance fraud are further exacerbating insurance affordability pressures. Lawsuits have become increasingly likely to result in "nuclear" verdicts (verdicts over $10 million dollars), and these exceptionally high jury verdicts — often exceeding what would be considered reasonable

8 https://www.redfin.com/news/climate-migration-real-estate-2023/.

9 https://www.iii.org/press-release/triple-i-population-growth-drives-hurricane-loss-trends-071422.

10 There is no home insurance premium price index under the Consumer Price Index methodology, as there is with personal auto insurance. According to BLS, "homes are considered an investment by (the) CPI methodology, (and since) investments are out of scope and excluded from the CPI sample and insurance on investments is also out of scope and excluded.": BLS Economist, Information and Analysis Section, March 25, 2024.

11 MarketScout Corp.'s Market Barometer publishes a rate estimate for homes above $1 million in value and one for homes below $1 million in value. In this report's charts and narrative, the average of the two is used.

damages — can threaten a company's viability, causing some organizations to go bankrupt. The median nuclear verdict increased 27.5 percent from 2010–2019, far outpacing inflation of 17.2 percent.[12] Even average verdicts are seeing outsized growth. In 2010, average personal injury verdicts were $39,300, and by 2020 they were $125,366. Swiss Re notes that "Unlike economic inflation, which is decelerating, social inflation shows no signs of abating." Social inflation in the U.S., which can include shifting societal trends and behavioral norms that lead to greater use of the legal system and rapid growth in settlement awards, has been on an upward trend over the last decade and reached around 7 percent in 2023, a 20-year high.[13] Additionally, insurance fraud is a continuing and concerning cost driver for the insurance industry. A recent study by the Coalition Against Insurance Fraud, titled "Who Me? Who Commits Insurance Fraud and Why", shows that Americans 45 and younger are more accepting of insurance fraud than older generations.

IMPACT ON HOMEOWNERS INSURANCE AVAILABILITY AND AFFORDABILITY

The cost factors described above have exacerbated recent natural catastrophe events, contributing to significantly higher insured losses. Insurance premiums are related to economic factors such as inflation and loss costs, all of which have been surging.

Homeowners insurance rates are still playing catch-up to cost increases. However, property reinsurance rates, which more accurately reflect market risk estimates without state regulatory rate controls, have been rapidly increasing for the last several years. Reinsurance functions essentially as insurance for insurance companies, providing a crucial safety net for low frequency, high severity natural and man-made events that result in extreme insured losses.

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Since 2017, the Guy Carpenter U.S. Property Catastrophe Rate on Line Index has more than doubled. In 2023, the Index increased by 35 percent, marking the largest increase in risk-adjusted U.S. catastrophe reinsurance pricing in 17 years. Reinsurance rates slowed considerably at the January 2024 renewals to only 5.4%, and just 1.2% at mid-year 2024; but even those smaller increases resulted in breaching another all-time-high for the Index; while reinsurers may need to consider further rate increases following the catastrophic losses from Hurricanes Helene and Milton in 2024 and the fires in Los Angeles in 2025.

Insurance in the U.S. is heavily regulated at the state level. Insurance departments throughout the country oversee rate and policy form review to protect consumers and support a healthy insurance market. Where regulators suppress or delay actuarially sound rate adjustments, climate change risk signals may be masked, forcing other policyholders and taxpayers to subsidize those living in high-climate-risk regions. Unfortunately, insurers' ability to manage their risk in some states has been constrained by government underwriting mandates and delays in the review and approval of adequate rates, triggering temporary, though severe market disruptions.

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12 US Chamber of Commerce, Institute for Legal Reform, Nuclear Verdicts: Trends, Causes and Solutions, (2022) at **https://instituteforlegalreform.com/research/nuclear-verdicts-trends-causes-and-solutions/**.

13 Swiss Re Institute, Sigma, "Litigation costs drive claims inflation: indexing liability loss trends" (Apr 2024) at **https://www.swissre.com/dam/jcr:6bc7d3b7-0f42-4209-a01a-e22787b98685/sri-sigma4-2024-litigation-costs-claims-inflation-final.pdf**.

Long delays in regulatory rate approvals, combined with the additional time to prepare filings that meet new/changing regulatory requirements and the time it takes to implement approved rates into typically twelve-month homeowners policies can create a significant gap between escalating losses and fully realized rate increases. While inflation and cost drivers have begun to slow, insurance rates have not fully caught up to account for higher losses and expenses.

In July 2024, an S&P report[14] projected another unprofitable year in 2024 for the homeowners and commercial multiperil lines. The report noted weather catastrophes continue to weigh on the homeowners business, with the combined ratio (defined as claims paid and incurred plus administrative expenses) for the line pegged at an unfavorable 107.3 for 2024. That's down from 110.9 in 2023, which had been the worst result in a dozen years.[15] A combined ratio above 100 means a net underwriting loss.

AM Best similarly released a report[16] in July 2024 that noted the U.S. homeowner's insurance segment is experiencing its worst underwriting results since at least 2000. The report stated that the segment suffered a $15.2 billion underwriting loss in 2023, more than double the losses seen in the previous year. The 2023 loss was also the worst this century, with $14.8 billion in losses in 2011 the next highest.

With losses ballooning and available capital to pay losses contracting across multiple states, some insurers have decided to scale back their exposure in high-risk areas to make sure they are able to fulfill their commitments to policyholders. There are a variety of risk mitigation steps insurers may choose to take based on their business models, capital needs, and risk appetite, among other factors. These may include pausing writing new business, reducing or halting advertising, tightening underwriting standards, shifting policyholders from admitted to non-admitted insurance subsidiaries, or selling lines of business (and the corresponding policies) to other insurers and exiting the market.

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The collective impact of recent market conditions has contributed to pressures on insurance coverage availability. However, in cases where insurers have pulled back, including through nonrenewals, this is typically not a direct result of properties becoming uninsurable due to climate change, despite policymaker concerns and media coverage to the contrary. While insurers work to close the gap between consumer demand for coverage and the supply of insurance capital necessary to cover expected future losses, this has led to growth in state residual markets where consumers obtain insurance protection when they are unable to obtain policies in the private market. As the cost of insurance increases to more accurately reflect current economic realities, market conditions should ease with more capacity and coverage options available for consumers.

14 S&P Global Market Intelligence 2024 U.S. P&C Insurance Market Report.
15 **https://www.insurancejournal.com/news/national/2024/07/23/785128.htm**.
16 Best's Market Segment Report, "Migration to CAT-Prone Areas Adds to US Homeowners Insurers' Performance Volatility".

OVERVIEW OF RESIDUAL MARKETS

A critical element of properly functioning insurance markets is the ability for insurers to charge an adequate rate for the risk covered. As insurers continue to face increasing pressure in catastrophe-prone states, particularly in states with regulatory constraints that have made it more challenging for insurers to manage growing exposure and costs, the non-admitted market and residual market plans are increasingly serving as a relief valve.

ROLE OF RESIDUAL MARKETS

Non-Admitted Lines

Some insurers choose to do business on a surplus lines (or "non-admitted") basis, which means they are generally not subject to rate or policy regulation by the state insurance regulator in which the property is located. Instead, U.S. domiciled surplus lines insurers are subject to regulatory requirements and are overseen by their domiciliary state but are able to operate on a non-admitted basis in the other states in which the insurer offers policies. As a result, surplus lines carriers experience freedom of rate and form, which enables a surplus lines carrier to have more flexibility to be more innovative, creative, and responsive in developing a product that provides the level of coverage a consumer is seeking, while pricing the product in a financially responsible manner commensurate with the risk.

Historically, surplus lines have been leveraged for more costly and complex risks. More recently, higher value properties, particularly in catastrophe-exposed regions, are increasingly finding coverage in surplus lines where carriers can more adequately price these risks. Surplus lines have experienced six consecutive years of double-digit expansion, reaching a new milestone in 2023 where the segment surpassed $100 billion in premiums for the first time, recording $115 billion in premium for the year.[17]

While coverage placed in surplus lines does not have all the same features as coverage from an admitted carrier (such as the backing of a state Guarantee Association in the event of an admitted carrier's insolvency), the segment is better suited to help fulfill higher and more complex coverage needs and has been financially stable. AM Best released a surplus lines market report which notes that in the last 20 years, there have been 303 admitted carrier impairments versus one surplus lines carrier impairment.[18]

Residual Market Plans

Residual market plans are intended to serve as a coverage source of last resort, providing limited and temporary coverage for residential and commercial properties. These programs are intended to provide insurance to property owners who are unable to find insurance coverage in the admitted market.

Residual market programs were first established in the late 1960s, following civil riots in multiple states that led to insurance availability issues in urban areas. A National Advisory Commission on Civil Disorders was established by President Lyndon B. Johnson, which examined the challenges in accessing insurance coverage stemming from the civil disorders and subsequently led to Fair Access to Insurance Requirements (FAIR) Plans created in many states. (See Appendix I: History of Residual Markets for an expanded background)

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17 **https://www.insurancebusinessmag.com/us/news/breaking-news/surplus-lines-market-hits-new-premium-record-amid-industry-challenges-505610.aspx**.
18 **https://www.propertycasualty360.com/2024/09/18/report-es-insurance-market-demonstrates-ongoing-strength/**.

Additional residual market plans have also been established in response to weather and climate risks. For example, following Hurricane Camille in 1969 and Hurricane Celia in 1970, beach plans or windstorm pools were created between 1970 and 1971, with various plans covering coastal wind risk now established in over a half dozen states. More recently, Colorado passed legislation in 2023 to establish the first new FAIR Plan in several decades, to respond to increasing risk of wildfire and convective storms.

Residual market, shared, or involuntary market programs are intended to provide insurance products temporarily to high-risk policyholders until there is a reduction of risk and policyholders can gain coverage in the private market. These programs, such as FAIR Plans, state run insurance companies (Florida Citizens Property Insurance Corporation, Louisiana Citizens Property Insurance Corporation), as well as beach and windstorm plans serve as a "market of last resort" to offer quasi-subsidized insurance products.

Residual market, shared, or involuntary market programs are intended to provide insurance products temporarily to high-risk policyholders until there is a reduction of risk and policyholders can gain coverage in the private market.

FAIR Plans provide insurance coverage throughout a given state often directed at addressing specific coverage or perils, which typically include fire/smoke, lightning, and explosion, at a minimum. Beach and windstorm plans are primarily focused on providing coverage for coastal areas from wind damage, and state-run insurance companies in Florida and Louisiana provide a hybrid approach, offering property insurance (including coastal wind risk) broadly across their respective states. State residual market plans generally require private insurers in the state on an admitted basis to serve as a financial backstop for the plan, in the event losses exceed a residual market plan's claims-paying capacity. In such cases, assessments might be made against admitted market insurers, forcing those insurers (and ultimately their policyholders) to pay any shortfall. The expansion of policies in residual market plans weighs heavily on admitted insurance companies, as the concentration of high-risk properties could result in substantial losses in any given year.

Residual market plans today

The current landscape of the residual markets is predominantly comprised of FAIR Plans and Beach and Windstorm Plans, as well as two insurance companies that are state run and subsidized in Florida and Louisiana. 34 states and the District of Columbia have a FAIR Plan (including the Florida Citizens and Louisiana Citizens hybrid plans), five coastal states have beach or windstorm plans (Alabama, Mississippi, North Carolina, South Carolina, and Texas), and one state has an earthquake-focused plan (California Earthquake Authority). Additionally, the National Flood Insurance Program (NFIP) is a federal residual market making coverage for flood risk available to individuals and businesses located in the 23,000 participating communities. These communities are approved for participation through the completion of an application, adoption of resolution of intent to participate in the NFIP, and submission of a floodplain management ordinance that meets or exceeds the NFIP's minimum requirements.

One approach the insurance industry considers for measuring market friction and availability trends are shifts in policies from the admitted market to the non-admitted or residual markets. When consumers are unable to obtain insurance from a typical admitted market carrier, they either obtain such coverage in the non-admitted market or from residual markets. Unsurprisingly, as weather risks and losses have become increasingly severe, the non-admitted and residual markets have been significantly growing, particularly in high climate-risk regions.

ASSESSMENTS

Continued pressure on claims-paying ability creates capital availability pressure on the various plans, leaving them with three options to raise additional capital: levy an assessment, issue bonds, or purchase reinsurance.

When residual market plan losses are greater than the plan's claims-paying ability, plans may be required by law to assess participating insurers. Typically, the assessments are directed at admitted insurers, and the amount an insurer is required to provide is based on their market share within the state.

However, not all plans explicitly address whether assessments can be recouped. Some states allow insurers to recoup the amount provided in the assessment, while others do not. Recoupments are typically in the form of a fee or surcharge placed upon policyholders.

In November 2023, Milliman conducted a survey[19] of residual market plans, which noted among its key findings:

> *"Of the 36 residual market plans examined, 12 have explicit provisions that prevent insurers from solely bearing the burden of funding deficiencies. Absent explicit provisions insurers may not always be allowed, or may not be confident that they will be allowed, to include assessments in future rate filings. As long as the plans are relatively small, this may not present an issue. However, uncertainty around assessment and recoupment becomes more significant for residual market plans whose size could represent material risks to member insurers."*

According to Milliman's analysis, the states that include an explicit provision allowing for the recoupment of assessments are Alabama, District of Columbia, Florida, Louisiana, Maryland, Michigan, Mississippi, New Jersey, North Carolina, Ohio, and Texas (FAIR and Windstorm). However, as states have been required to confront varying degrees and causes of pressure on claims-paying ability and how to account for the long-term health and stability of insurance markets, states have adopted different approaches to recoupment.

For example, for assessments by the Citizens Property Insurance Corporation (Florida) recoupment takes the form of a separate recoupment factor on policies of the same line or type as were considered by the residual markets in determining the assessment liability of the insurer or insurer group. Recoupment is provided in full and can be done over one year or longer if the insurer elects to do so. Louisiana Citizens Property Insurance Corporation, which utilizes a multi-tiered approach to assessment allows for recoupment of regular assessments (which are distinct from emergency assessments) through a policyholder surcharge, which is a percentage of premiums, resulting in less than full recoupment. The Maryland Joint Insurance Association provides a recoupment factor to companies, who can recoup an assessment by either a surcharge or rating factor being added to direct premiums written for essential property insurance and homeowner's insurance covering property located in the state. Rating factors are also used in recoupment under the Ohio FAIR Plan Underwriting Association for basic property insurance and homeowner's insurance through premium adjustment.

These various approaches illustrate the lack of uniformity in assessment and recoupment processes of the various states contributing to insecurity amongst insurers about their ability to recover money assessed. (See Appendix II: Current Residual Market Plans by State for more details on the recoupment of assessments)

19 **Milliman, 'A Survey of Residual Market Plan Assessment and Recoupment Mechanisms' (Nov 2023)**.

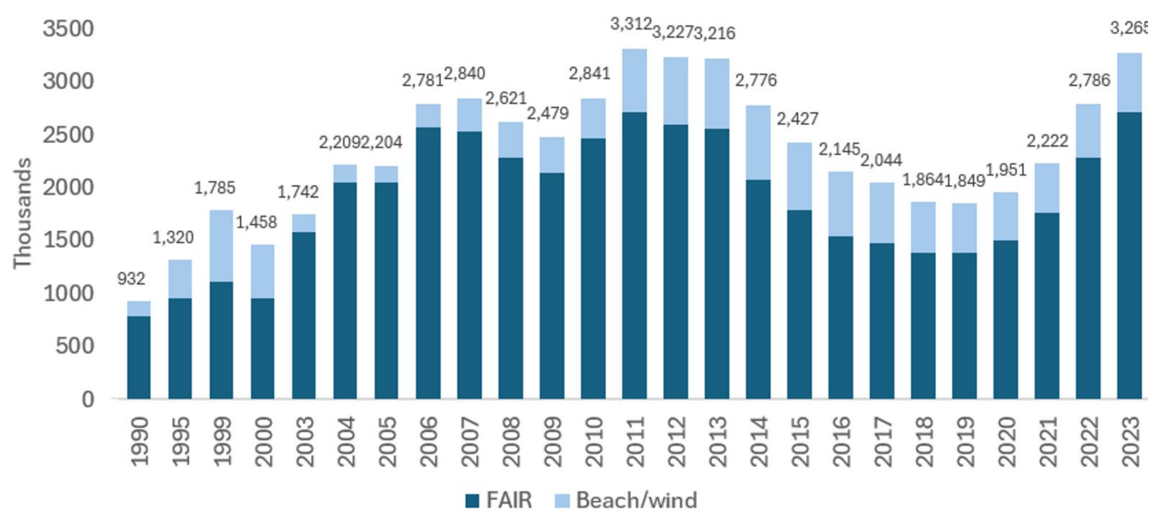
RECENT TRENDS

Residual market plans have experienced a significant expansion of policies and overall exposure in recent years,[20] which weighs heavily on admitted insurance companies, as the concentration of high-risk properties could result in substantial losses in any given year. The figures below show the rapid expansion of residual market plans since 2019 in terms of exposure and total number of policies in-force.

U.S. Residual Market: Total Exposure

Sources: APCIA, via PIPSO and Insurance Information Institute
Plan data for the 12-months ending Sep, Oct, Nov and Dec
Includes Habitational (Homeowners and All Other) and Commercial Policies

U.S. Residual Market: Total Policies In-Force



Sources: APCIA, via PIPSO and Insurance Information Institute
Plan data for the 12-months ending Sep, Oct, Nov and Dec
Includes Habitational (Homeowners and All Other) and Commercial Policies

20 Property Insurance Plan Service Office (PIPSO Reports), Insurance Information Institute 'Residual Market Property Plans: From Markets of Last Resort to Markets of First Choice' (May 2016) Available **here**.

Over the decades policymakers have turned to residual market plans to alleviate temporary shortfalls in private market insurance coverage. What had originally been intended to be special entities designed to provide temporary relief became permanent fixtures of the insurance market. This has been due to state legislatures and regulators relying on residual markets to fill the space created in private markets following catastrophic events or artificial insurance availability shortfalls.

However, amid higher cost drivers and natural catastrophes, recently a growing number of residual market plans are experiencing increasing financial stress. Of concern, there is a growing trend among residual markets in various states of plans prioritizing "affordability" over ensuring "rate adequacy."

When coverage provided through residual market plans is subsidized so it can be sold at artificially lower rates to preserve "affordability," in the process produces inadequate, rates versus coverage offered by private market carriers. Consumers may increasingly turn to residual markets to insulate themselves from price shocks following a catastrophic event or other major cost factors, essentially elevating the residual plan to a first choice instead of serving its intended purpose as the insurance market of last resort. This collectively can lead to further policy growth and exposure within the plan and ultimately greater financial pressure in the long run. Amid heightened political pressure to keep residual market plan rates "fair" and "affordable" for their policyholders, several residual market plans have signaled an intent to shift their financial burden to member insurers to keep plan costs down. This means, should a major disaster occur, a higher likelihood and magnitude of potential assessments for admitted insurers and their policyholders, adding another layer of financial stress for the industry.

In California, higher reinsurance costs and growing exposure led the California Earthquake Authority (CEA) to consider adjusting its return period to reduce reinsurance need, along with potential legislation to maintain or increase the current industry assessment layer (IAL) to help raise capital, among other options. These options would significantly compound exposure for private insurers in California, which currently face significant risk of assessment from the California FAIR Plan, due to increasing wildfire risk and inadequate rates. In recent years, the state's insurance commissioner also mandated changes to expand the coverage offered by the state's FAIR plan, while consistently disallowing the cost of reinsurance in rates – costs which have skyrocketed to an all-time high. The insurance commissioner asserted in a public hearing in July 2022 that the California FAIR plan does not need reinsurance since it is backed by member insurers who have reinsurance. This and other factors tipped the market into an insurance availability crisis, which resulted in the state's insurance commissioner changing gears and announcing a series of reforms, known as the Sustainable Insurance Strategy,[21] that would allow the cost of reinsurance to be included in ratemaking, along with other key reforms to help stabilize the private market and depopulate the state's FAIR Plan.

Similar issues are emerging in other states as well. For example, while the Texas Windstorm Insurance Association (TWIA) has always been dramatically underpriced, in January 2023, TWIA met and established a new $4.5 billion estimate of their 1-in-100 probable maximum loss (PML) for 2023 that is viewed by APCIA members as being far too low. In response, TWIA decided to purchase reinsurance in an amount higher than their PML ($5.2b) and a plan to assess private member insurers for the $700 million difference, drawing significant concern and pushback from the admitted market. Separately, a property insurance affordability report noted that Louisiana Citizens similarly reduced its return period

21 **https://www.insurance.ca.gov/0400-news/0100-press-releases/2023/release051-2023.cfm**.

for 2023 to a 263-year coverage (from 302-year in June 2021), to reduce policyholder costs, while noting that “it incrementally increased the likelihood and magnitude of assessments on policyholders across the state in the event of a major disaster”.[22] In Florida, Citizens, the state’s residual market plan, was initially projected to reach 1.7 million policies by the end of 2023, potentially reaching the plan’s highest policy count in its history. Though, following significant market disruption, the governor and legislature enacted some important reforms, and early signs of the market stabilizing are emerging as reports indicate insurers are beginning to deploy more capital to the market. This includes at least eight new startup companies beginning to write business in the market in 2024 and a steady depopulation of Florida Citizens.

To prevent residual market programs from developing into a negative external force suppressing the health and sustainability of the admitted market, it is imperative that the plans employ actuarial-based rate management. Failure to adequately manage rates and preserve the role of residual markets as a temporary insurance market of last resort will create a self-perpetuating cycle of market deterioration. Plans will face consistently higher property losses or significant catastrophic event losses than can unintentionally incentivize further adoption of risk by consumers by masking the true costs of future risk and resulting losses.

ANALYSIS OF INDIVIDUAL PLAN GROWTH, BY STATE AND COUNTY

APCIA conducted an analysis of individual residual market plans, which suggests that residual market exposures and market challenges are worsening in the highest climate-risk regions. The differences among the states suggest that government risk and interference are primary drivers affecting whether consumers are able to obtain policies from a competitive private insurance market or end up in government-established residual markets.

States with significant weather and climate risk have experienced the largest growth in residual market plans, based on earned premium as well as total policy counts. According to data from the Property Insurance Plans Service Office (PIPSO), in 2023 the top five states with the highest ‘earned premium’ in residual market plans (including FAIR Plans and beach or windstorm plans) as a percentage of the total market are North Carolina, Florida, Louisiana, Massachusetts and California.[23] Similarly, the top five states with the highest ‘habitational and commercial policy counts’ (including FAIR Plans and Beach/Wind Plans) are Florida, North Carolina, Texas, California, and Massachusetts.[24]

22 Louisiana Department of Insurance Economic Advisory Services: Property Insurance Affordability (January 2023), **https://app2.lla.state.la.us/publicreports.nsf/0/c70e8a289136fb9086258946007bc429/$file/0000017b.pdf?openelement&.7773098**.

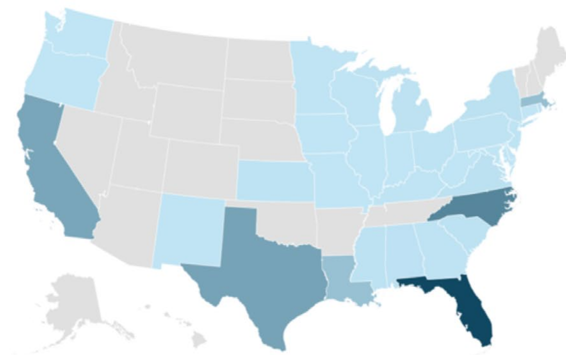
23 APCIA, via PIPSO, ‘2024 Market Penetration Report’.

24 APCIA, via PIPSO, ‘2024 PIPSO Report’.

FAIR and Beach/Wind Plan Policy Counts in 2023

Includes Habitational (Homeowners and All Other) and Commercial Policies

STATE	2023	STATE	2023
FL	1,542,316	NJ	7,242
NC	482,052	NM	6,578
TX	336,559	KY	4,562
CA	320,592	WI	4,149
MA	194,571	MN	3,773
LA	184,169	MO	2,099
VA	21,706	OR	2,031
NY	20,687	IL	1,806
AL	18,870	CT	1,331
SC	16,302	DE	1,147
MS	16,275	IA	970
MI	15,791	IN	718
RI	13,529	MD	666
KS	11,830	WV	268
OH	11,581	WA	248
PA	9,762	DC	126
GA	9,107	HI	

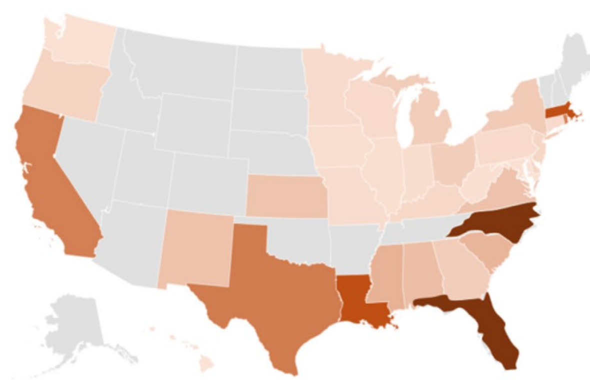


Source: APCIA, via PIPSO (2024 PIPSO Report).

FAIR and Beach/Wind Plan Earned Premium in 2023, as Percent of Total Property Market

Includes Habitational (Homeowners and All Other) and Commercial Policies

STATE	2023	STATE	2023
NC	9.75	OR	0.14
FL	9.67	DE	0.11
LA	5.42	NJ	0.11
MA	4.68	KY	0.10
CA	2.53	CT	0.08
TX	2.51	PA	0.08
RI	2.42	WI	0.08
MS	0.93	MN	0.07
SC	0.85	MO	0.06
AL	0.71	IN	0.05
NM	0.50	IL	0.04
VA	0.30	IA	0.04
KS	0.29	DC	0.03
NY	0.22	WV	0.03
GA	0.20	MD	0.02
MI	0.20	WA	0.02
OH	0.19	HI	(0.16)

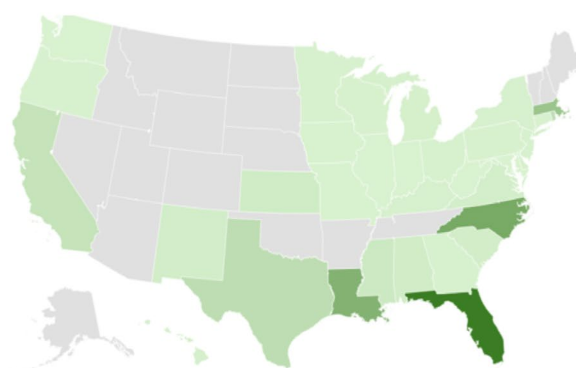


Source: APCIA, via PIPSO (2024 Market Penetration Report).

FAIR and Beach/Wind Plan Habitational Policy Counts in 2023, as Percent Households

(Habitational includes Homeowners and All Other Habitational)

STATE	2023	STATE	2023
FL	18.30	NY	0.25
NC	11.28	OH	0.24
LA	9.80	GA	0.22
MA	7.09	NJ	0.21
TX	3.12	PA	0.17
RI	3.11	WI	0.17
CA	2.34	MN	0.16
MS	1.43	OR	0.11
KS	1.02	CT	0.09
AL	0.97	MO	0.08
NM	0.78	IA	0.07
SC	0.76	DC	0.04
VA	0.65	IL	0.04
HI	0.41	IN	0.03
MI	0.39	MD	0.03
DE	0.28	WV	0.03
KY	0.25	WA	0.01



Source: APCIA, via PIPSO (2024 Market Penetration Report) and US Census ‘Households, 2018-2022’.

APCIA obtained policy count data from residual market plans to further understand where consumers are obtaining insurance from state residual markets in lieu of private coverage.

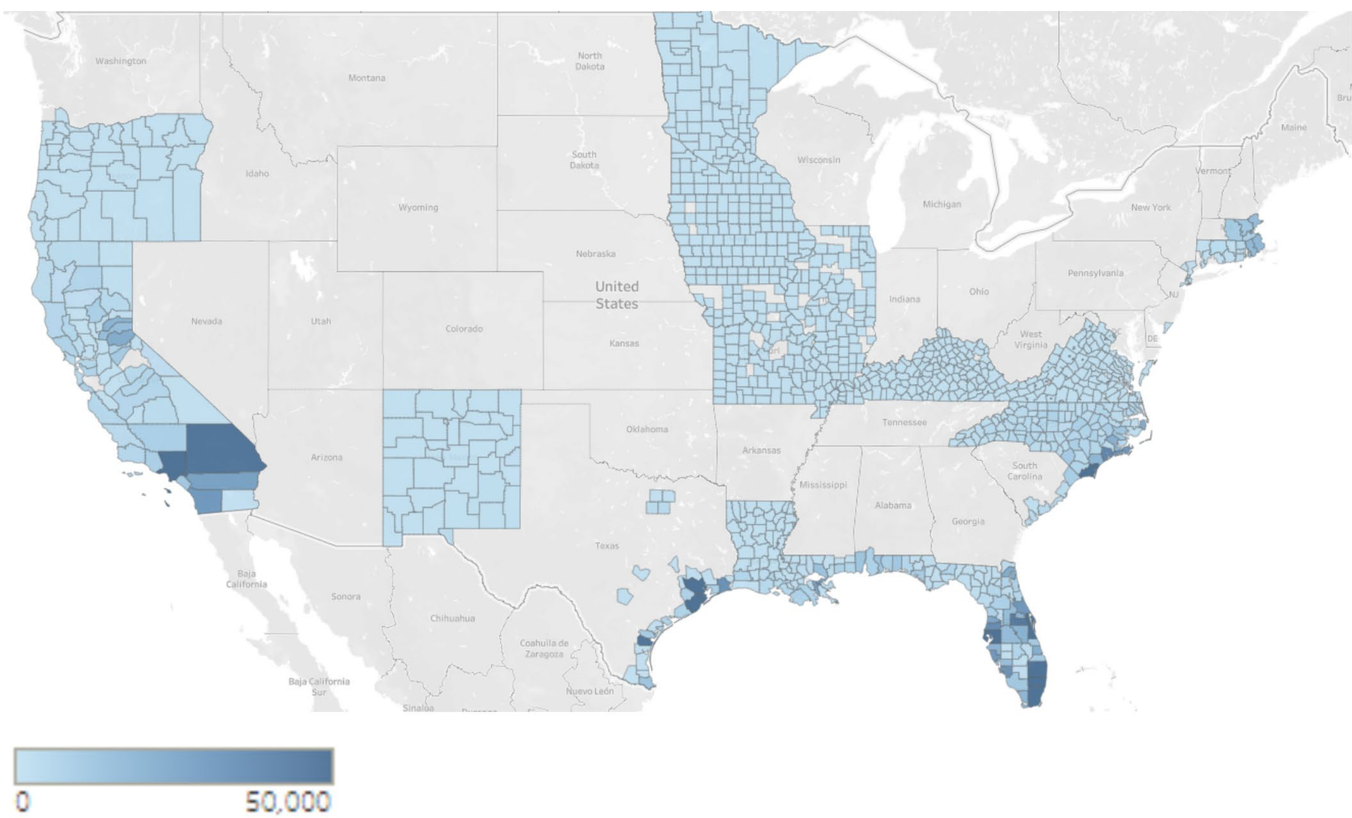
Policy count data, including heat maps generated by county, suggests that some states are limiting private insurance risk-based pricing and subsidizing government residual markets, masking increasing climate risk and effectively subsidizing overdevelopment in high-climate risk areas compared to other regions. While state residual markets overall have been growing, nearly doubling policy count (+95 percent) since 2019, many state residual markets have been shrinking since the pandemic.

The analysis shows neighboring states and counties within states that have similar weather risks have dramatically different growth patterns. A closer examination suggests some states are limiting private insurance risk-based pricing and subsidizing government residual markets, masking increasing climate risk and effectively subsidizing overdevelopment in high-climate risk areas compared to other regions.

FAIR and Beach/Wind Plans Current Habitational Policy Counts, by County

Current refers to most recent data period available by state residual market plan.

(Habitational includes Homeowners and All Other Habitational, exept California which also includes Commercial)



Source: APCIA, via data collected from individual state residual market plans.

The following case studies examine recent state and county-level growth in several regions, including Atlantic Coast states, Florida, Gulf Coast states, Northeast states, and Western states.

Case Study 1: Atlantic Coast (North Carolina, South Carolina, Virgina)

North Carolina has experienced significant growth in earned premium and policy counts in coastal, wind-prone counties. In 2023, the state's residual market plans, the North Carolina Joint Underwriters (NCJUA, or "FAIR Plan") and the North Carolina Insurance Underwriting Association (NCIUA, or "Coastal" Wind Pool), collectively represented 9.75 percent of earned premium, as a percent of the total market — the highest of any state.[25] Additionally, between these two plans the state had 482,052 habitational and commercial policies — the second highest policy total, behind Florida and more than 43% higher policies in force than the next closest state, Texas.[26]

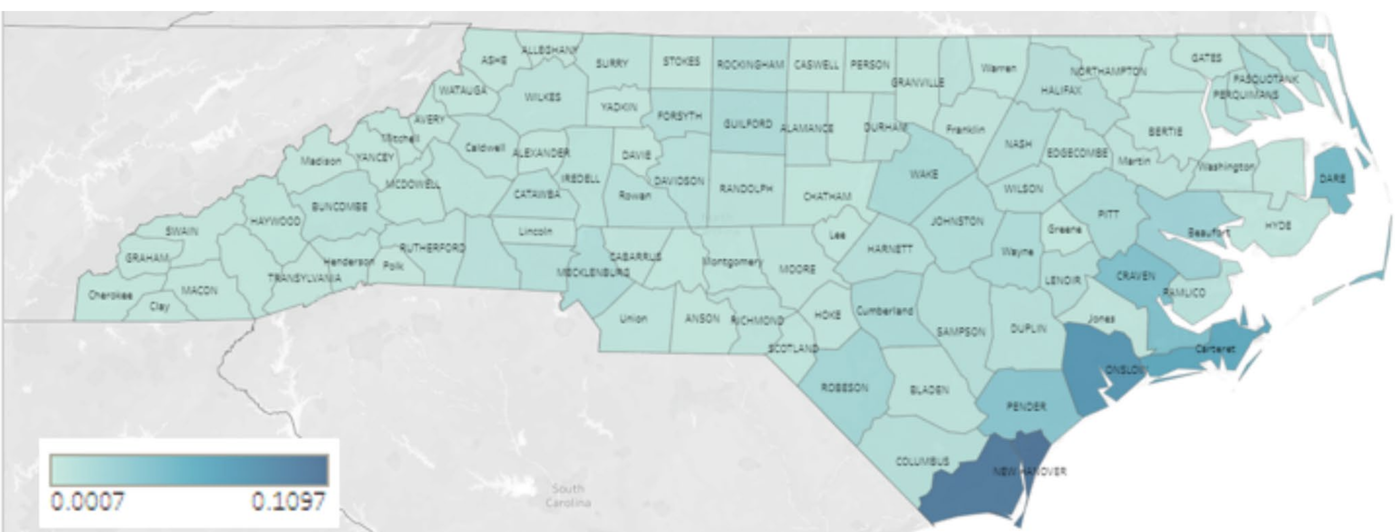
Along the Atlantic coast, North Carolina, South Carolina, and Virgina each have increasing climate risk from coastal wind/hurricane. However, rate suppression in North Carolina, including the ability to reflect the growing cost of reinsurance for coastal risk, is contributing to market dislocation and growth in the state's residual market plans. In contrast, Virginia and South Carolina residual market plans have shrunk during the pandemic, with only moderate growth in the last year in South Carolina.

Current 'Habitational' Plan Policy Counts, by County

As <u>**% of total**</u> Residual Policy Counts in the state, as of 3/31/24.

Includes NC Joint Underwriting Association "FAIR" and NC Insurance Underwriting Association "Coastal".

(Habitational includes Homeowners and All Other Habitational)

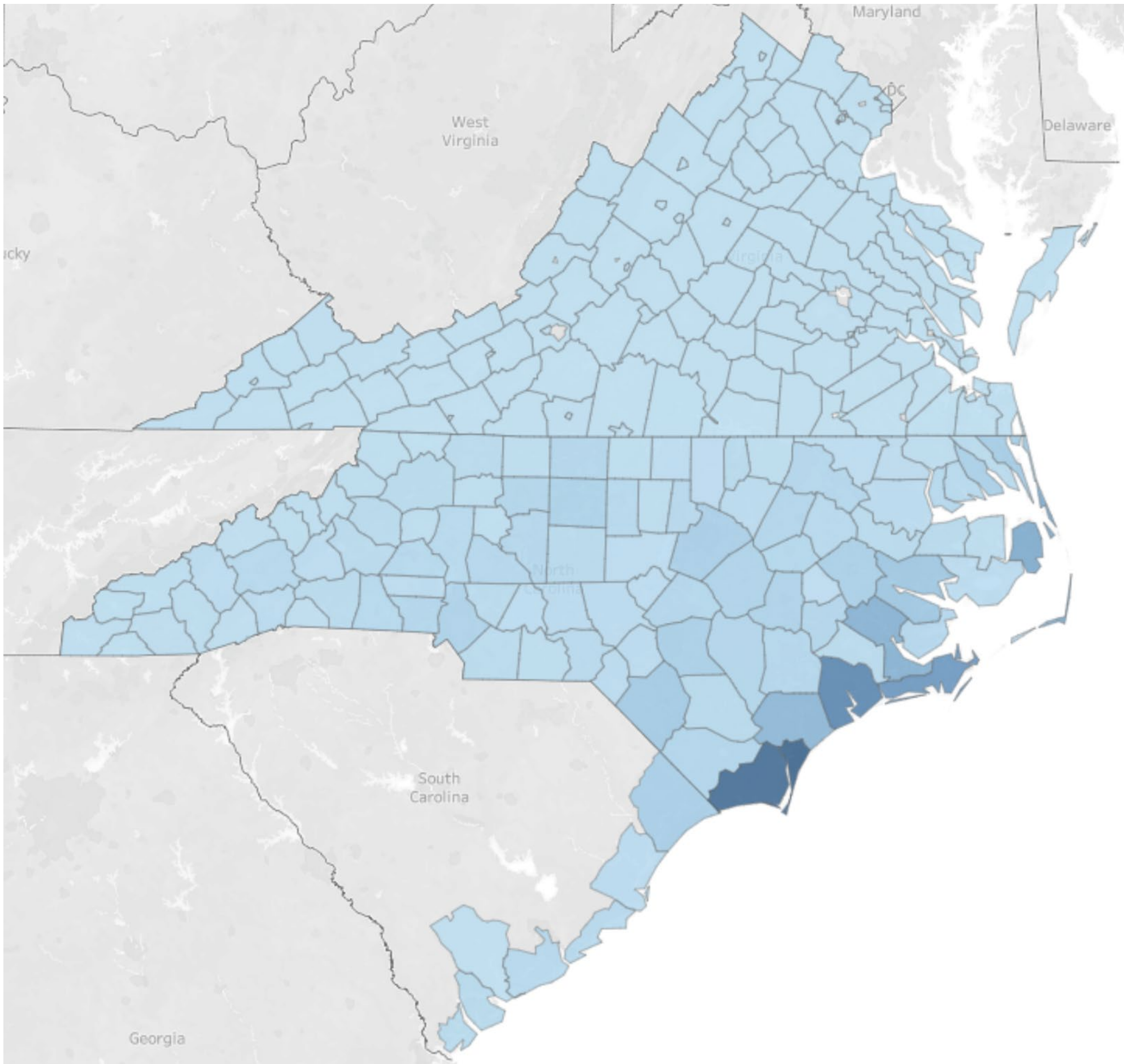


Source: APCIA, via data from residual market plans.

25 APCIA, via PIPSO, '2024 Market Penetration Report'.
26 APCIA, via PIPSO, '2024 PIPSO Report'.

Current Habitational Policy Count, by County

Virginia, North Carolina, and South Carolina



Comparing the Change in Habitational Policy Counts:

North Carolina:

- Since Pandemic (2020-2023): 22.3% (Coastal), 16.1% (FAIR)
- Last Year (2022-2023): 12.4% (Coastal), 7.0% (FAIR)

South Carolina:

- Since Pandemic (2020-2023): -3.9%
- Last Year (2022-2023): 5.5%

Virginia

- Since Pandemic (2020-2023): -18.8%
- Last Year (2022-2023): -3.9%

Source: APCIA, via data from residual market plans.

Includes NC Joint Underwriting Association "FAIR", NC Insurance Underwriting Association "Coastal", SC Wind & Hail Underwriting Association, and VA Property Insurance Association

While global natural disaster losses roughly doubled over the last decade, inflation soared to a 40-year record high, and climate models suggest a rapidly escalating catastrophic loss exposure in North Carolina, domestic rate increases have simply not kept up. The North Carolina Rate Bureau (NCRB) has filed rates far below indicated rates most years, and settled rates even lower than filed rates.

To illustrate, for the homeowners line of insurance, the NCRB filed a rate increase in November 2020 requesting an overall statewide average rate increase of 24.5 percent (based on 2014-2018 industry loss experience data for North Carolina). A year later, a settlement was reached between the North Carolina Commissioner of Insurance and the NCRB for an increase of only 7.9 percent, which was implemented in June 2022, nearly two years after the filing was made. Of concern, the settled amount of 7.9 percent is roughly 16 percentage points less than the request of 24.5 percent, and nearly 31 percentage points less than the rate indication. Additionally, to reach a settlement agreement, the North Carolina Department of Insurance required the NCRB to agree not to make another filing for a rate increase until 2024. Thus, four years later, amid the highest levels of inflation seen in forty years, North Carolina homeowners base rates are severely underpriced, drawing down the surplus capital (through underwriting losses) that insurers must maintain to pay future claims.

North Carolina Rate Bureau (NCRB) Filing History

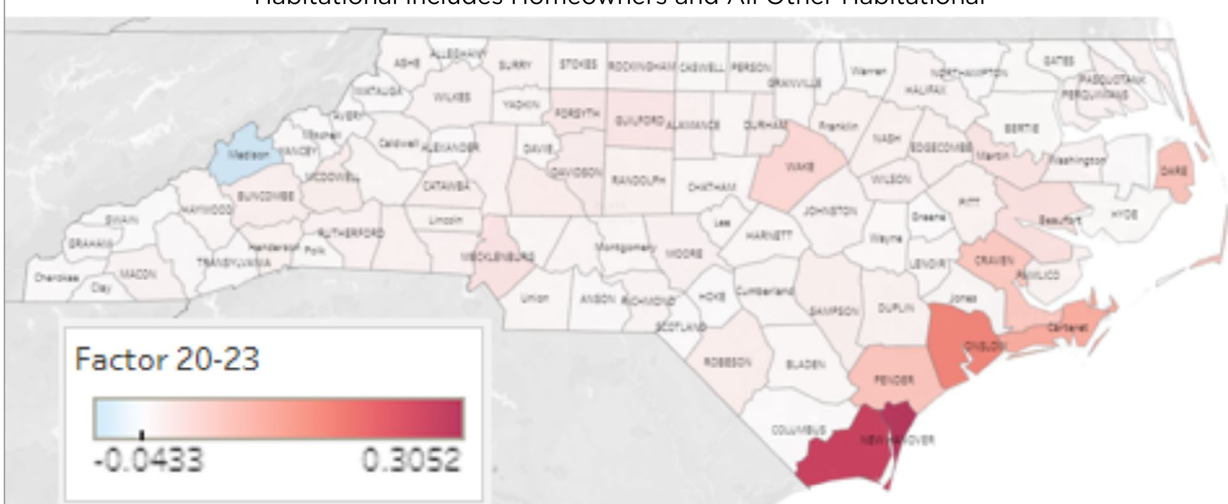
Homeowners	Data Period	Indication	Filed	Settled	Effective
Oct 2012	2005-2009	31.8%	17.7%	7.0%	7/1/2013
Nov 2014	2007-2011	40.6%	25.6%	0.0%	6/1/2015
Nov 2017	2011-2015	24.9%	18.7%	4.8%	10/1/2018
Nov 2018	2012-2016	26.1%	17.4%	4.0%	5/1/2020
Nov 2020	2014-2018	38.7%	24.5%	7.9%	6/1/2022
Jan 2024	2017-2021	42.2%	42.2%	TBD	8/1/2024

Note: The 2024 Filing does not include industry loss experience from 2022-2023 (the years with the highest claims inflation following the COVID-19 pandemic).

Considering these factors, the highest policy growth by county in North Carolina's residual market plans has occurred in coastal regions.

North Carolina Habitational Market Policy Count Growth
(by county, relative to policy growth in the state), since the COVID-19 Pandemic

Habitational includes Homeowners and All Other Habitational

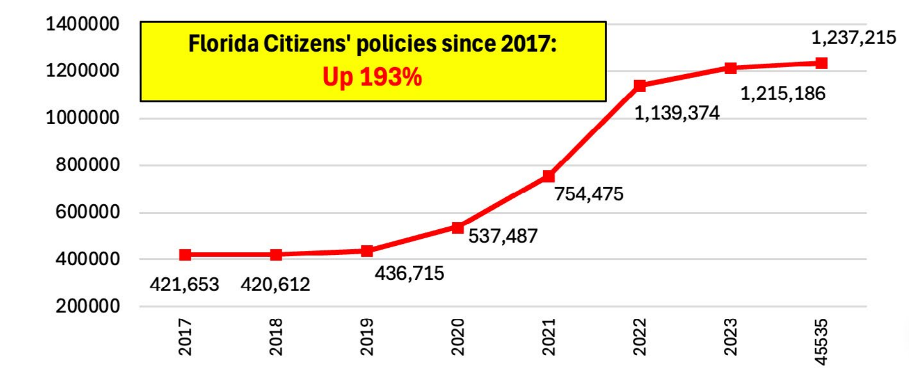


Source: APCIA, via data from NC Joint Underwriting Association "FAIR" and NC Insurance Underwriting Association "Coastal"

Case Study 2: Florida

Florida's residual market plan, Florida Citizens Corp., has experienced significant growth in earned premium and policy counts as a result of significant climate risks (losses and reinsurance costs), legal system abuse, and rampant claims fraud.

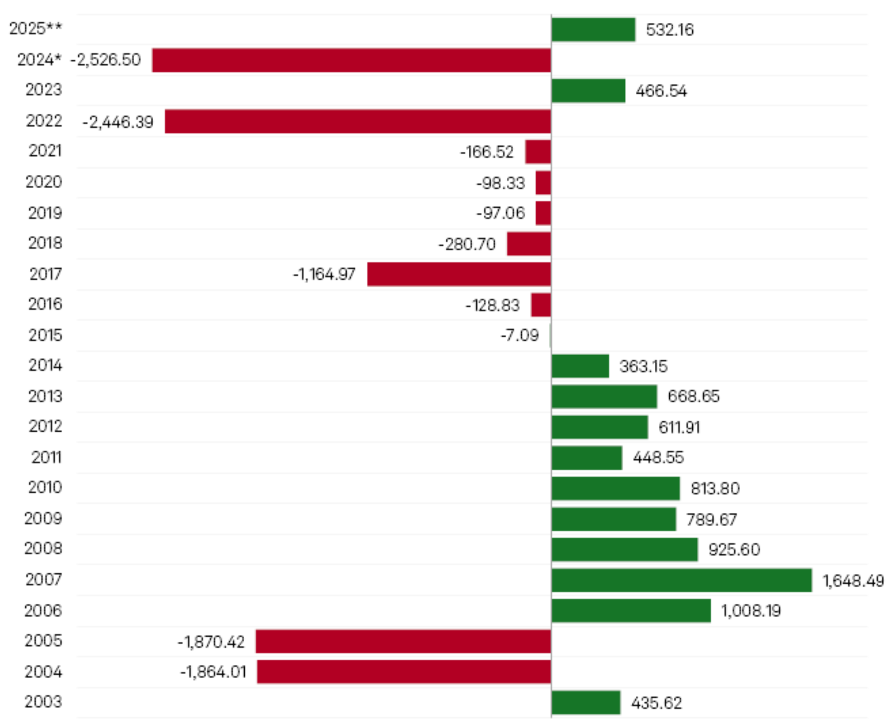
In 2023, data from PIPSO noted Florida Citizens had 1,542,316 habitational and commercial policies — the highest state, and more than 3 times higher policies in force than the next closest state, North Carolina. Additionally, Florida Citizens represented 9.67 percent of earned premium, as a percent of the total market — the second highest of any state, just behind North Carolina.[27] Since 2017, the personal policies in force have grown by 193 percent, as of August 31, 2024.[28]



Source: APCIA via Citizens Property Insurance Corp.; includes Personal Residential Multiperil and Personal Residential Wind-Only. (*2024 policies as of 8/31/24)

S&P reported in December 2024 that a "new Citizens budget projects a net underwriting loss of nearly $2.53 billion for the calendar year as compared with a $466.5 million profit in 2023 and a $2.45 billion loss in 2022 when Hurricane Ian hit Florida. The 2022 result stood as Citizens' largest net underwriting loss on an absolute basis since its 2002 formation unadjusted for inflation, though it was smaller relative to the company's premium writings than billion-dollar underwriting losses produced in the especially severe hurricane years of 2004, 2005, and 2017."[29]

Hurricanes led to outsized net underwriting losses for Citizens Property in 2004, 2005, 2017, 2022, and 2024* (M)



Data compiled Dec. 2, 2024. Values expressed in nominal dollars.
*Company projection. **Budgeted net underwriting gain.

Sources: Citizens Property Insurance Corp.; S&P Global Market Intelligence. © 2024 S&P Global.

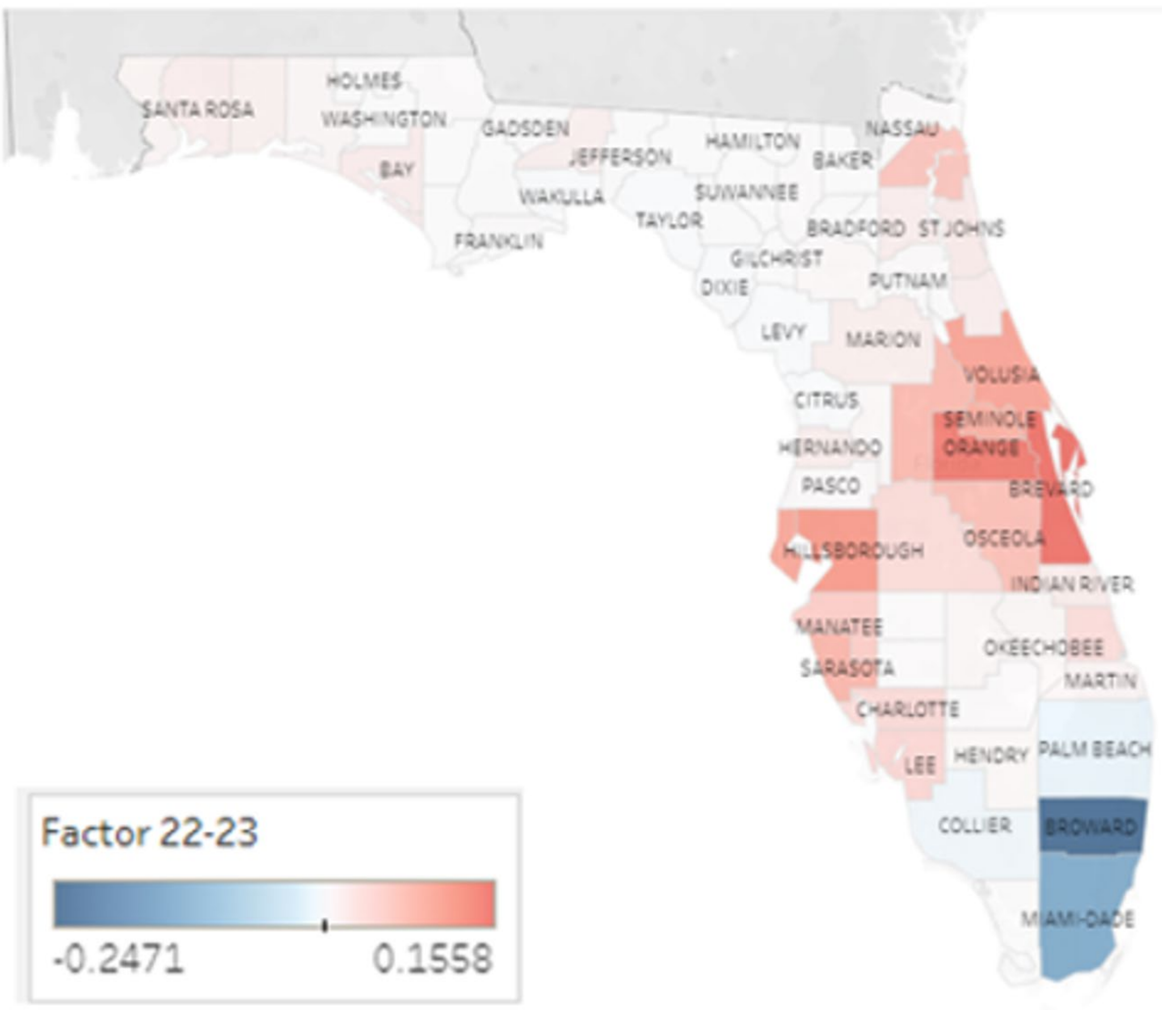
27 APCIA, via PIPSO, '2024 Market Penetration Report' and '2024 PIPSO Report'.
28 APCIA, via Citizens Property Insurance Corp.
29 S&P Global Market Intelligence, "Insurance Insight: Rapidly shrinking Citizens Property projects largest full-year underwriting loss" (Dec 3, 2024).

Despite increasing coastal wind and hurricane impacts, recent reforms and no significant hurricane hitting major populated areas, prior to Hurricane Helene in September 2024 and Hurricane Milton in October 2024, have helped to bring some stability to the market, reversing recent growth trends in Florida Citizens. In 2023, data from Florida Citizens noted the plan experienced a +6.7percent overall increase in residential policy counts in 2023, with the largest growth concentrated in the central part of the state, though data indicates a -1.3 percent decrease in residential policy counts in 2024, year-to-date through the second quarter.[30]

Current Habitational Policy Counts

(by county, relative to overall growth in the state, in 2023)

Habitational includes Homeowners and All Other Habitational



Source: APCIA, via data from FL Citizens.

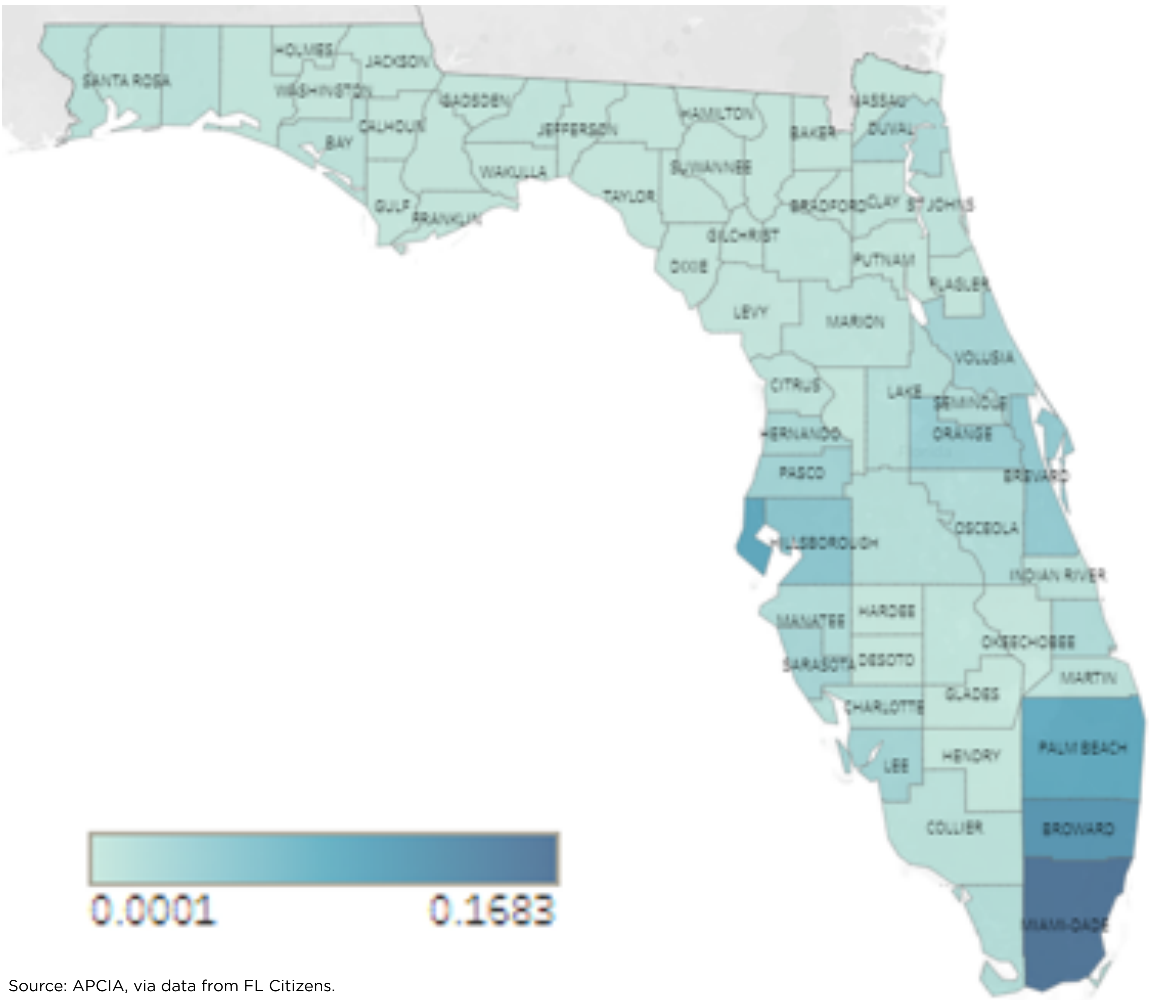
30 APCIA, via Citizens Property Insurance Corp.

While the property market became more stable, the number of policies in Citizen's is still dangerously high, particularly in counties furthest south, and Citizens' rates are not adequate.

Current Habitational Plan Policy Count, by County

As **<u>% of total</u>** Habitational Policy Counts in the state, as of 6/30/24.

Habitational includes Homeowners and All Other Habitational



Source: APCIA, via data from FL Citizens.

"By law, carrier's rates must be actuarially sound and noncompetitive with the private market. This is done to ensure it is truly used as a last resort, but the legislature's placed annual caps on rate hikes so policyholders wouldn't be shocked by huge increase. However, even if Citizens received a 14 percent rate increase, the statutory maximum increase of 2025, 98 percent of its policies would still be competitive with the admitted voluntary market, Brian Donovan, Citizens' vice president and chief actuary, said during the rate hearing."[31] "To achieve a level that would be non-competitive, personal multiperil policies would need a 92.8 percent rate increase, he said."[32] And "a 14 percent increase would not make the rates actuarially sound, according to the company. For example, personal multiperil rates would have to be increased 23.1 percent to be actuarially sound, while commercial rates would need a 27.9 percent lift."[33]

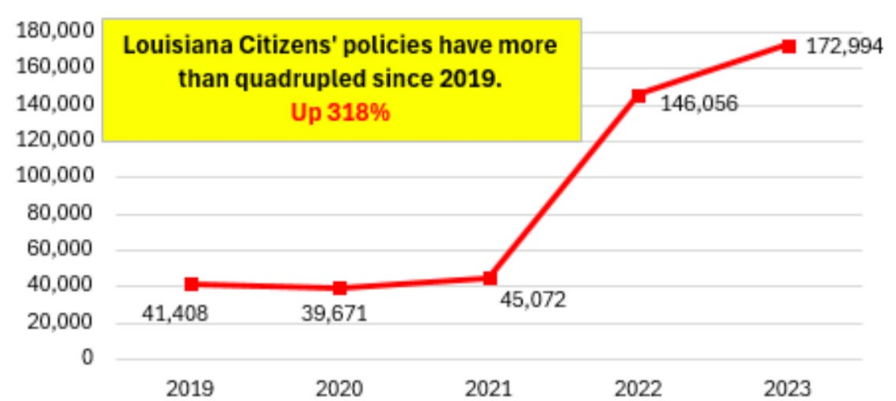
31 AM Best: "Florida Citizens Asking for 13.5% Rate Increase Across Personal, Commercial Lines"; August 1, 2024.
32 *Ibid.*
33 *Ibid.*

Case Study 3: Gulf Coast (Texas, Louisiana, Mississippi, Alabama)

Gulf Coast states are experiencing significant growth in residual market plans. Texas, Louisiana, Alabama, and Mississippi each have increasing climate risk from coastal wind and hurricane, which has led to growth in the states' respective beach and windstorm plans, with the highest rate of growth in counties directly along the coast. In 2023, Texas had 336,559 policies between the state's FAIR and Beach/Wind plan–over 80% higher than Louisiana's 184,169 policy counts, and the coastal/beach plans in Alabama and Mississippi, which are each less than 20,000 policy counts. When comparing the plans, based on earned premium as a percentage of the total property market, or habitational policy counts as a percentage of households in the state, Louisiana is considered the largest plan by roughly two to three times the scale of Texas.

In the aftermath of four landfalling hurricanes in 2020 and 2021, Louisiana Citizens habitational policy counts grew over 272 percent between 2020 through 2023, with the highest growth in coastal regions. If looking at only habitational policies in the state, these policy counts have more than quadrupled in a five-year period.

Louisiana Citizens–Habitational Policies



Source: APCIA using PIPSO Reports; 1-4 unit dwellings; excludes commercial policies.

Comparing the Change in Habitational Policy Counts:

Texas:

- Since Pandemic (2020-2023): 33.9% (Coastal), -1.5% (FAIR)
- Last Year (2022-2023): 11.3% (Coastal), 18.2% (FAIR)

Louisiana:

- Since Pandemic (2020-2023): 272.2%
- Last Year (2022-2023): -0.3%

Mississippi:

- Since Pandemic (2020-2023): -1.0%
- Last Year (2022-2023): 11.12%

Alabama:

- Since Pandemic (2020-2023): 16.4%
- Last Year (2022-2023): 3.5%

Source: APCIA, via data from residual market plans.

Includes LA Citizens Property Insurance Corporation, TX FAIR Plan, TX Windstorm Insurance Association (TWIA, or "Coastal"), MS Residential Property Insurance Underwriting Association ("FAIR"), MS Windstorm Underwriting Association ("Coastal"), AL Insurance Underwriting Association (Coastal).

Habitational includes Homeowners and All Other Habitational.

Growth in Louisiana Citizens has slowed considerably, resulting in a relatively flat habitational policy growth rate in 2023 of -0.3 percent and decrease year-to-date of -1.1 percent, as of July 2024. However, there remains a significantly higher rate of growth in the greater New Orleans region, while other areas further inland from the coast have improved. The outsized growth observed in the greater New Orleans region is primarily due to an aging housing stock and other challenges insurers face in managing and pricing risk, particularly properties located south of Interstate 10.

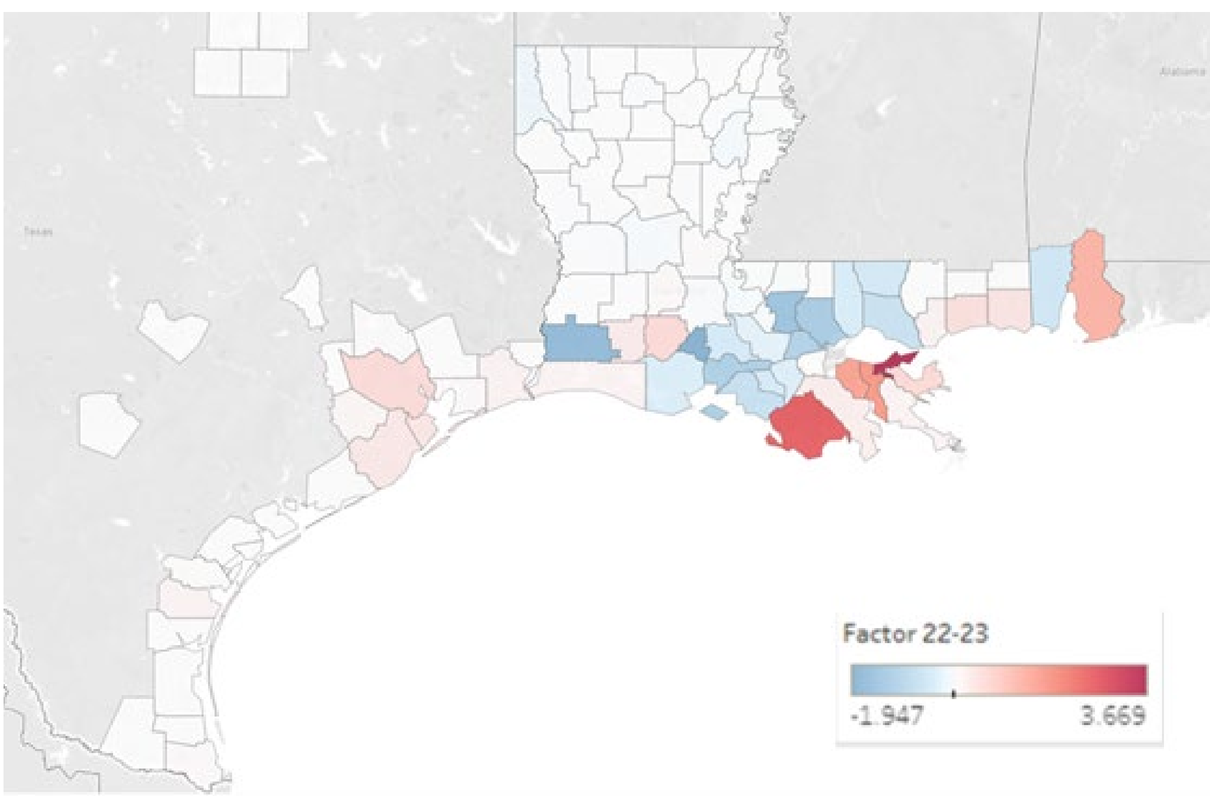
In Texas, TWIA, the state's beach/windstorm plan, has seen significant growth in habitational policy counts since the COVID-19 pandemic, while the growth in the state's FAIR Plan was relatively flat. Following significant weather events in the last couple of years, particularly convective storm losses, both plans in 2023 experienced double-digit growth, with higher growth in the FAIR Plan. Though, the highest concentration of habitational policies in Texas, by county, remains along the coast and particularly the greater Houston region. When comparing Texas to other neighboring states along the Gulf Coast, including Louisiana in particular, recent growth in Texas' coastal counties relative to the rest of the state has not been as severe as insurers in Texas have greater regulatory flexibility to timely adjust to volatile cost trends.

Habitational Policy Count Growth in 2023

(county growth is relative to total habitational policy growth in each state, respectively)

Texas, Louisiana, Mississippi, and Alabama

Habitational includes Homeowners and All Other Habitational



Source: APCIA, via data from residual market plans.

Includes LA Citizens Property Insurance Corporation, TX FAIR Plan, TX Windstorm Insurance Association (TWIA, or "Coastal"), MS Residential Property Insurance Underwriting Association ("FAIR"), MS Windstorm Underwriting Association ("Coastal"), AL Insurance Underwriting Association (Coastal).

Case Study 4: Northeast (Massachusetts, Rhode Island, New York)

States in the Northeast face significant coastal, climate risk, though not to the extent of the states in the southeastern U.S. Yet, in 2023 the Massachusetts' residual market plan ranked among the top five states for each highest earned premium as a percentage of the total property market and total policy counts.

Similar to many residual market plans across the U.S., in Massachusetts and Rhode Island, each of these plans has seen an uptick in growth in the last year, though these plans along with the New York plan have all shrunk in size since the COVID-19 pandemic.

Comparing the Change in Habitational Policy Counts:

Massachusetts:

- Since Pandemic (2020-2023): -9.7%
- Last Year (2022-2023): -1.4%, Year-to-Date (through August 2024): 9.3%

Rhode Island:

- Since Pandemic (2020-2023): -6.9%
- Last Year (2022-2023): 4.8%, Year-to-Date (through August 2024): 21.6%

New York:

- Since Pandemic (2020-2023): -21.5%
- Last Year (2022-2023): -5.6%

Source: APCIA, via data from residual market plans.

Includes MA Property Underwriting Association, NJ Insurance Underwriting Association, and NY Property Insurance Underwriting Association.

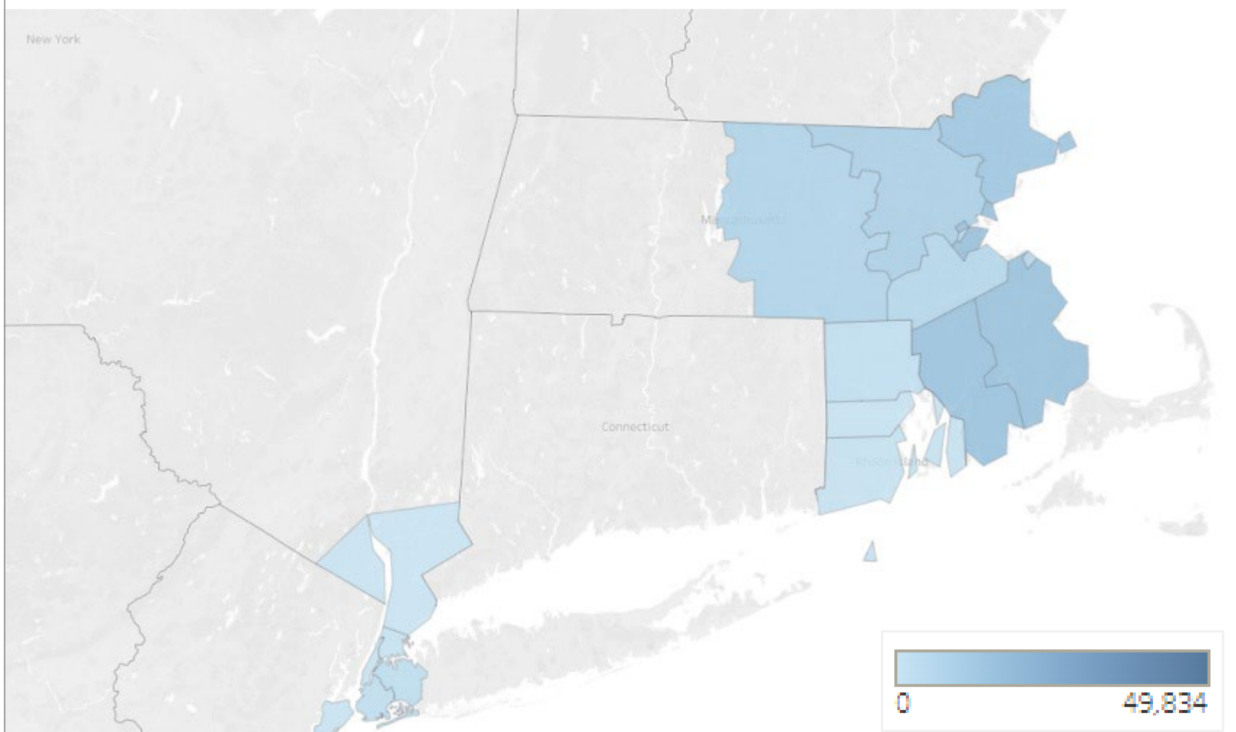
Habitational includes Homeowners and All Other Habitational.

Of concern, in Massachusetts, rate suppression has resulted in the state's residual market plan offering increasingly competitive rates. As a result, for many years the plan has functioned for consumers as more as an insurance market of first resort, instead of the generally intended insurance market of last, contributing to much higher policy counts in the plan. The size of the Massachusetts plan is significantly larger than the residual market plans in neighboring states, Rhode Island and New York. For example, in 2023, Massachusetts had 194,571 habitational and commercial policies – more than eight times more policies than New York's 20,687, and 13-times higher Rhode Island's 13,529 policy counts.

When comparing the plans, based on habitational and commercial earned premium as a percentage of the total property market, Massachusetts with a share of 4.68 percent of earned premium is again a much larger plan by roughly double the percentage share of the Rhode Island Plan at 2.42 percent and 20 times the percentage share of the New York plan at 0.22 percent. These margins grow even larger if comparing the habitational policy counts as a percentage of households in the state.

These numbers underscore the significant disparity between how the Massachusetts residual market plan is utilized, versus other plans in the northeast that serve as a more traditional market of last resort.

Current Habitational Plan Policy Counts, by County



Source: APCIA, via data from residual market plans.

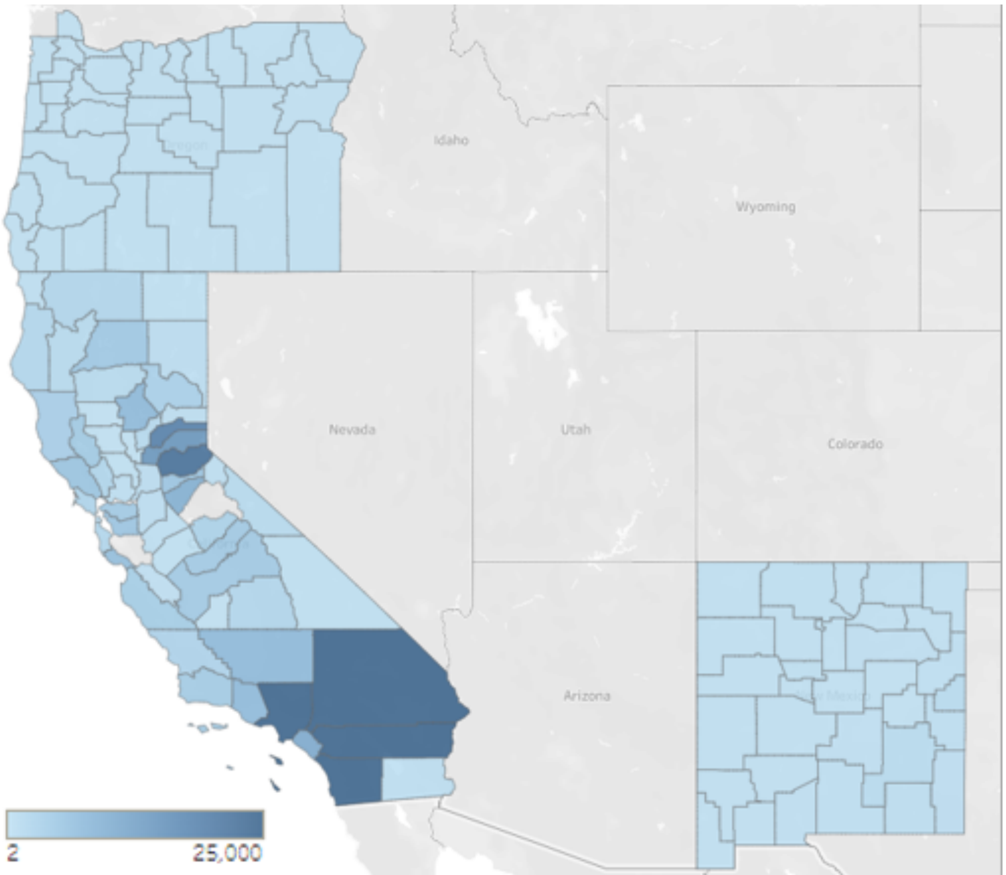
Includes MA Property Underwriting Association, NJ Insurance Underwriting Association, and NY Property Insurance Underwriting Association.

Habitational includes Homeowners and All Other Habitational.

Case Study 5: West Coast (California, New Mexico, Oregon, Washington)

In western states, increasing fire risk is contributing to accelerating growth trends in residual markets. While California has a much higher population base than neighboring states, such as Oregon and New Mexico, the concentration of policies in the California FAIR Plan in southern California and other inland, wildfire-prone regions of the state, which are generally lesser populated regions, is concerning.

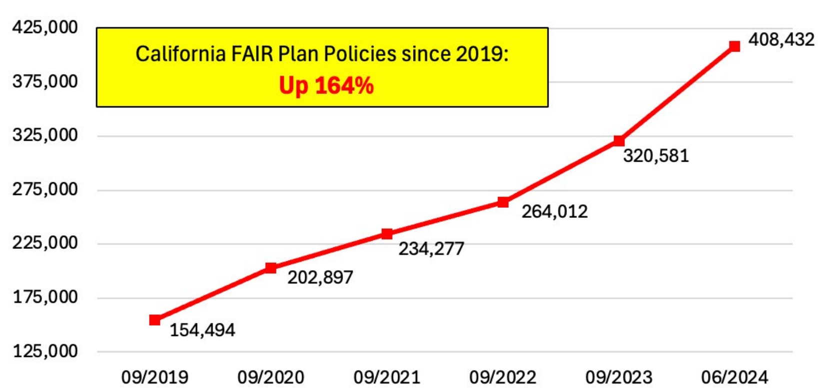
Current Habitational Plan Policy Counts, by County



Source: APCIA, via data from residual market plans.
Includes CA FAIR Plan Association, OR FAIR Plan Association, and NM Property Insurance Program.
Habitational includes Homeowners and All Other Habitational (except California which includes Habitational and Commercial).

Since the COVID-19 Pandemic (2020-2023), the California FAIR Plan has grown 57.3 percent in total policy counts (habitational and commercial), including 20.8 percent growth in 2023 alone. Looking at only habitational policies, following the record wildfire losses of 2017 and 2018, habitational policies have surged 113 percent.

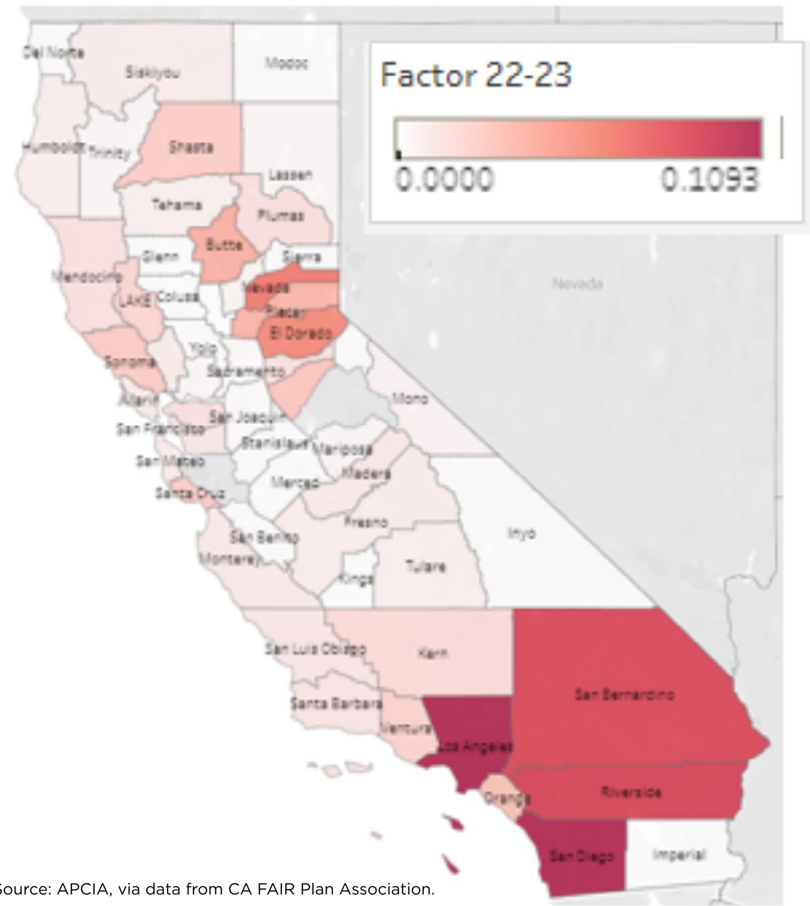
California FAIR Plan Dwelling Policies in Force



Source: APCIA via California FAIR Plan; excludes commercial policies; "09" dates reflect fiscal year ending September 30.

Rate suppression and other constraints that insurers in California encounter in managing increasing catastrophic fire risk is resulting in higher policy counts in higher risk regions of the state.

California Policy Count Growth in 2023
(county growth is relative to total policy growth in the state).



Source: APCIA, via data from CA FAIR Plan Association.

(See Appendix III: County Level Analysis for 12 States for additional analysis of residual market plans for 12 priority states, based on the plan 'Earned Premium' as a percentage of the total property market and total 'Policy Counts'.)

SOLUTIONS

The insurance market disruptions seen in some states, and related growth in residual market plans, can be alleviated by regulators allowing rates to adequately and accurately reflect risk in a timely manner. To the extent insurers can charge actuarially justified rates, there is enough long-term capital and capacity available to insure against most natural catastrophes.

The pressures on insurance availability and affordability are best addressed through promoting private, competitive insurance marketplaces, not expansion of government programs. Additionally, beyond helping assure a stable insurance market, accurate risk-based pricing is reflective of comparative exposure to risk. Accurate insurance pricing of risks helps society recognize and address the true costs.

Providing long-term affordable coverage for increasingly expensive buildings in areas at the highest risk of natural catastrophes will also require significant improvements in mitigation and resiliency. Governments can also limit additional development in the highest risk areas by working with stakeholders to put in place sufficient land use policies and strong building codes.

COUNTERPRODUCTIVE SOLUTIONS

Well-intended proposals to establish new or expanded government programs or backstops, such as residual market plans, are usually counterproductive as they typically fail to address the underlying issues that result in less affordable or available coverage. These programs also may exacerbate market disruption and result in unintended consequences from moral hazard, such as subsidized building in riskier areas, typically without adequate mitigation measures. This results in a perpetually higher cycle of losses, as insurance rates may be artificially suppressed to keep coverage affordable, which in turn may lead to constraints in insurance capital and ultimately reduced availability.

> ***Well-intended proposals to establish new or expanded government programs or backstops, such as residual market plans, are usually counterproductive ...***

Recent Studies

Multiple western states have recently conducted studies that examined market conditions. Of note, the studies acknowledge increasing challenges with insurance affordability and reduced coverage availability, though suggest there is not an availability crisis within those states. Studies have also found that higher insurance prices are reflective of the recent increase in underlying costs, concluding that insurance premiums charged are not excessive.

In 2022, Colorado passed legislation to examine the state's insurance market, which resulted in a report released in 2023 by Oliver Wyman. The Oliver Wyman study[34] was commissioned by the Colorado Department of Insurance to help understand the Colorado homeowners market, specifically. The study noted the Colorado homeowners insurance market is experiencing a pricing correction due to recent high losses, which has resulted in growing affordability concerns. It further noted that coverage in the market was increasingly being placed with the largest carriers, as it was necessary for some carriers to reduce their exposure to help weather through the current hard market conditions.

34 https://doi.colorado.gov/announcements/homeowners-insurance-availability-study-now-available-sb22-206.

Of note, the impact of recent losses had led smaller companies to adjust their exposure resulting in a greater concentration of policies in larger companies. The study found, though, that the overall market had not shrunk. Instead, residents encountered a hard market period where loss control measures were being employed by insurance companies through tighter underwriting and enforcement of risk reduction measures, in addition to higher prices to transfer that risk.

Separately, Washington state conducted a study of insurance market considerations for housing providers receiving housing trust fund resources and serving extremely low-income households, with a report released in October 2024.[35]

The study noted that housing providers were reporting serious challenges in securing property and liability insurance coverage at affordable rates, including insurers declining to renew policies, higher deductibles, and lower coverage limits. The study found that "property casualty insurance prices have increased throughout the industry due to inflation in the cost of repairs, extreme weather events, and higher reinsurance costs which cover large and unique events". The study similarly noted insurance rates are not excessive (i.e., not overcharging based on the risk) and to positively impact insurance affordability and availability, the most impactful solutions are to address the underlying risk through mitigation and other reforms (e.g., liability reform).

Finally, the Washington study also found that establishing new government backstops and subsidies are not ultimately effective policy solutions. This is because they do not address the underlying issues– instead just kicking the 'crisis' can down the road – and must assume that a government program can operate at a lower cost than the private market or would have to provide coverage that is less than actuarially sound.

These independent findings underscore why proposals for new or expanded government insurance programs are ultimately ineffective in the long term, and generally not supported by the insurance industry.

Key Considerations for New or Expanded Government Programs

Instead, consideration of new or expanded government insurance programs (such as backstops, residual markets, and other public-private partnerships) for a state or particular catastrophic risk should start by analyzing whether:

- Private coverage for such risk is unavailable or whether concerns are primarily focused on affordability.
- Unavailability is a short-term transitional challenge or a long-term structural gap.
- The government itself may inappropriately exacerbate the unavailability of coverage. Examples include rate suppression, significant changes to minimum coverage or claims handling expectations, or other constraints that limit the ability of insurers to manage their risk exposures through pricing, underwriting, and modeling.
- At the state and/or federal level, a public-private partnership could be narrowly tailored to address the limited factors making a catastrophic risk privately insurable, without otherwise displacing or limiting the flexibility of the long-term private insurance market.
- Where catastrophic risk cannot be managed to meet each of the insurability factors, even with government involvement, then insurance may not be the right mechanism to address the risk.
- Risk mitigation to proactively reduce risk of loss can be a meaningful, shared goal for all to help stabilize insurance markets and bring greater affordability and availability.

35 **https://www.insurance.wa.gov/sites/default/files/documents/Davies-group-presentation-housing-10232024.pdf**.

It is important to recognize that property insurance markets are not facing a long-term structural capacity issue, but rather a hard market cycle where pricing has fallen out of alignment with the cost to transfer risk. When prices are better aligned with current economic realities, hard market conditions should ease with more competition and capacity in the marketplace. Though, the remaining concern will be the affordability of coverage.

MITIGATION

To help make insurance coverage more affordable for consumers, insurers are advocating for solutions to address rising costs, such as mitigation to make communities more resilient to the risks they face. Mitigation provides the most effective long-term solution essential to addressing the underlying cost drivers for losses. In addition to property owners and the insurance industry, the federal government pays for uninsured losses that result from extreme natural disaster events.

In June 2023 Taxpayers for Common Sense reported:[36]

- "Presidential major disaster declarations, which trigger funding of emergency and recovery efforts led primarily by the Federal Emergency Management Agency (FEMA), tripled from 200 in the 1960s to 600 in the first decade of this century. Taxpayers spent more than $120 billion responding to 2017 disasters."
- "To put the high costs of federal disaster spending into perspective, 2017 spending exceeded the annual discretionary budget of every federal agency except the Pentagon that year. A federal agency funded at an amount equal to the 2017 disaster spending would have received more funding than the combined fiscal year appropriations for the Departments of Commerce, Energy, Interior, Labor, Transportation, Treasury, as well as the Environmental Protection Agency and the U.S. Army Corps Engineers."

Ultimately, it is U.S. taxpayers and property owners paying for uninsured losses through emergency government assistance, amounts which are generally less when compared to claims payments. Federal disaster assistance is provided only when there is a federally declared disaster and typically results in a fraction of what insurance assistance can provide. For example, according to FEMA, the average, annual flood insurance premium was $700 (about $58 per month) in 2019, and the average claim payout was $53,000.[37] Meanwhile, in 2019, federal disaster assistance was capped at $34,900 with an average annual payment of $6,246.[38]

Fully relying on the federal government for insurance or disaster assistance supported by taxpayers is not a long-term solution. When the federal government doesn't have sufficient funds to pay for the cost of extreme events, it borrows them. We all share the urgent need to reduce disaster losses by working together to mitigate risk and increase resiliency, address legal system abuse through meaningful tort reform, and resolve regulatory constraints that contribute to insurance market dysfunction. To help make communities more resilient, insurers advocate for stronger and better enforced building codes, improved land use planning to reduce the accumulation of assets in high-risk areas, retrofitting existing homes and infrastructure, and improved land use management to reduce risk for wildfires.[39] APCIA's website provides extensive information on catastrophes for insurers and the public and includes specific resources for consumers on what they can do to protect their home from various types of natural disasters, available at **www.apci.org/catastrophe**.

36 **https://www.taxpayer.net/climate/paying-the-price/**.

37 **https://www.fema.gov/data-visualization/historical-flood-risk-and-costs**.

38 **https://www.federalregister.gov/documents/2018/10/22/2018-22884/notice-of-maximum-amount-of-assistance-under-the-individuals-and-households-program**.

39 See also, the GFIA report on "Global protection gaps and recommendations for bridging them", March 2023 (recommending disaster prevention and adaptation measures such as land-use or building codes and not incentivizing rebuilding in high-risk areas).

CONCLUSION

In the United States, insured losses have been growing through a variety of factors in a time when the insurance industry is facing increasing coverage demands. Economic growth, catastrophic events, regulatory restrictions, environmental changes, and population shifts leading to increased exposure values have created a landscape where there is a necessity to ensure the alignment of risks and pricing to protect the stability of private insurance markets.

Residual markets were established to be “markets of last resort” that offer quasi-subsidized insurance products intended to temporarily provide insurance products to high-risk policyholders until there is reduction of risk, and they can gain coverage in the private markets. There are now 35 residual market plans, predominantly made up of FAIR plans as well as beach and windstorm plans.

Trends in recent years have led to significant expansion of policies and overall exposure of these plans, as policymakers have turned to residual markets to cover temporary shortfalls in private market exposure. This has then led residual market plans to experience increased financial stress with active efforts to prioritize “affordability over ensuring “rate adequacy.” This growing exposure and imbalance require that residual markets employ actuarial-based rate management, to preserve their role as a temporary market of last resort, and to prevent them from further developing into a negative external force on the health and sustainability of the admitted markets.

Analysis of the recent residual market trends through a series of case studies shows that states with significant weather and climate risks have experienced the most accelerated growth. This suggests that some states are negatively impacting private risk-based pricing and through subsidization of governmental residual markets, in turn encouraging overdevelopment in high-risk areas.

Understanding the impact of underlying cost drivers is an initial step in assessing questions related to the health of private insurance markets. Residual market plan growth is a key indicator of the impact of cost drivers on state insurance markets. Comparative analysis of growth and trends in residual market plans offers vital insights into how to address concerns of affordability and availability in the private markets, as well as the overall stability of those markets under extreme circumstances.

The current constraints on affordability and availability in insurance markets are best addressed through the promotion of private, competitive markets. Accurate insurance pricing of risk offers the most direct and stabilizing solution to achieve long-term affordable coverage. The expansion of governmental programs is counterproductive and fails to provide a solution to the underlying issues leading to constraints in availability and affordability. Mitigation efforts to make communities and individual properties more resilient to existing risk are needed to produce long-term solutions to the problems faced by the property owners, insurers, and governmental programs tasked with alleviating the fiscal pressures created by property losses.

APPENDIX

I - HISTORY OF RESIDUAL MARKETS

The impetus of the history of the residual market goes back to the 1965 Watts Riots in South Central Los Angeles. Then, in 1967, civil disorders from outbursts to widespread looting, and property destruction occurred in cities across the country. In July of that year, major outbreaks occurred in Newark, New Jersey and Detroit, Michigan. Forty-one people were killed; more than one thousand were injured, and fifteen hundred businesses were looted. Five hundred and thirty-eight businesses were destroyed, and five hundred and forty-nine businesses were seriously damaged.

On July 29, 1967, President Lyndon B. Johnson issued Executive Order 11365 establishing a National Advisory Commission on Civil Disorders, known as the "Kerner Commission" after its chair, Governor Otto Kerner Jr. of Illinois, to investigate the disorders and recommend measures to prevent or contain them in the future.[40] The Kerner Commission subsequently decided that a separate and expert group could deal more expeditiously with the insurance problems of urban core residents and businesses, ultimately resulting in the appointment of a National Advisory Panel on Insurance in Riot-Affected Areas, known as the "Hughes Panel" after its chairman, New Jersey governor Richard Hughes. The Kerner Commission asked the Hughes Panel to seek answers to questions raised by the difficulties, and the high cost of obtaining insurance in areas where riots had occurred or where they were likely to occur. The Hughes Panel produced a report, Meeting the Insurance Crisis of Our Cities: A Report by the President's National Advisory Panel on Insurance in Riot-Affected Areas.[41] Recommendations from this report were then included in the Kerner Commission's report, under Chapter 14- Damages: Repair and Compensation.

The Kerner Commission decided that a well-functioning private insurance system is the way to pay individuals for losses caused by disorders. If insurance is available at reasonable cost to residents and business owners for property that is in reasonable condition, no matter where it is located, "it will function more equitably and efficiently to pay riot loses than a program of direct government payments to individuals" the Commission said.

After surveying about fifteen hundred homeowners and fifteen hundred businesses in low-income areas of Boston, Cleveland, Detroit, Newark, Oakland, and St. Louis, the Hughes Panel also found that riots and the threat of riots were aggravating the problem of obtaining property insurance to an intolerable degree. The insurance problems created by the riots, the Hughes Panel said, "cannot be allowed to jeopardize the availability of property insurance in center city areas." Among the problem insurers were facing were the restrictions and withdrawal of coverage by reinsurers in England and on the continent.

To prevent further tightening of the urban insurance market, the Hughes Panel called on state insurance commissioners, and insurance industry to work to expand the Urban Area Plans. At public hearings, consumers, residents, and businesspersons of inner-city areas, insurance brokers, industry representatives, and government officials gave their reactions to the program.

The Panel also urged the federal government to enact legislation to create a National Insurance Development Corporation (NIDC) to assist the insurance industry, and the states in providing adequate insurance for inner cities. Through the NIDC, the states and federal governments would provide reinsurance in case riots resulted in very large losses.

Recognizing the needs of the major cities, and the insurance industry, Congress passed, and President Johnson signed, the Urban Property protection and Reinsurance Act of 1968 (the Riot Reinsurance Act was codified as Title XII of the national Housing Act). This led to the creation of FAIR Plans, in twenty-seven states, between 1968 and 1971.

40 Report of the National Advisory Commission on Civil Disorders (Published Feb 1968, **report summary**, **full report**).

41 Meeting the Insurance Crisis of Our Cities: A Report by the President's National Advisory Panel on Insurance in Riot-Affected Areas (Published Jan 1968, **full report**)

II - CURRENT RESIDUAL MARKET PLANS BY STATE

The following is a list of the current residual market plans, by state, as of January 2025.

Alabama Insurance Underwriting Association	Minnesota FAIR Plan
California FAIR Plan Association	Mississippi Residential Property Insurance Underwriting Association
Citizens Property Insurance Corporation (Florida)	Mississippi Windstorm Underwriting Association
Colorado FAIR Plan	Missouri Property Insurance Placement Facility
Connecticut FAIR Plan	New Jersey Insurance Underwriting Association
District of Columbia Property Insurance Facility	New Mexico Property Insurance Program
Georgia Underwriting Association	New York Property Association
Hawai'i Property Insurance Association	North Carolina Insurance Underwriting Association
Illinois FAIR Plan Association	North Carolina Joint Underwriting Association (NCJUA)
Indiana Basic Property Insurance Underwriting Association	Ohio FAIR Plan Underwriting Association
Insurance Placement Facility of Delaware	Oregon FAIR Plan Association
Insurance Placement Facility of Pennsylvania	Rhode Island Joint Reinsurance Association
Iowa FAIR Plan Association	South Carolina Wind & Hail Underwriting Association
Kansas All-Industry Placement Facility	Texas FAIR Plan Association
Kentucky FAIR Plan Reinsurance Association	Texas Windstorm Insurance Association
Louisiana Citizens Property Insurance Corporation	Virginia Property Insurance Association
Maryland Joint Insurance Association	Washington FAIR Plan
Massachusetts Property Insurance Underwriting Association	West Virginia Essential Property Insurance Association
Michigan Basic Property Insurance Association	Wisconsin Insurance Plan

Programs that Allow for Assessment Recoupment

14 State Residual Market Programs that Allow for Recoupment
labama Insurance Underwriting Association
Citizens Property Insurance Corporation (Florida)
District of Columbia Property Insurance Facility
Georgia Underwriting Association
Hawai'i Property Insurance Association
Louisiana Citizens Property Insurance Corporation
Maryland Joint Insurance Association
Michigan Basic Property Insurance Association
Mississippi Windstorm Underwriting Association
New Jersey Insurance Underwriting Association
North Carolina Insurance Underwriting Association
Ohio FAIR Plan Underwriting Association
Texas FAIR Plan Association
Texas Windstorm Insurance Association

Below is the list of state programs which provide recoupment to insurers for assessments made. A brief description of the program and the recoupment characteristics are provided below for reference along with links to relevant webpages that provide additional information.

(*The California FAIR Plan and the Colorado FAIR Plan are included above due to ongoing developments in assessment recoupment.)

Alabama Insurance Underwriting Association

The Alabama Insurance Underwriting Association (AIUA) is a program designed to provide property insurance coverage to homeowners who are unable to obtain insurance through the private market. It provides coverage for residential properties, covering wind, hail, and hurricanes. The AIUA is funded by its members—licensed insurance companies doing business in Alabama. The Association aims to make sure that every homeowner in Alabama has access to basic property insurance. Every insurer authorized to write and engaged in writing, on a direct basis, fire and extended coverage insurance in Alabama must be a member of the AIUA.

- **AIUA Website**
- **AIUA Dwelling Policy Program Manual**

California FAIR Plan Association*

The California FAIR Plan primarily serves as a last-resort insurer for high-risk properties in California, particularly in areas prone to wildfires, and other natural disasters. Coverage is available to homeowners, renters, and commercial property owners who cannot obtain insurance through the traditional marketplace.

The California FAIR Plan may assess member companies their proportional share of losses incurred in a given year according to the California Insurance Code §10094. Historically, insurers who provided funding to meet FAIR Plan shortfalls through assessments have not been able to recoup payments via surcharges.

Earthquake coverage is provided by the **California Earthquake Authority** (CEA) for homeowners, mobile homeowners, condo unit owners, and renters, sold through private insurers, which is available as an endorsement on a California FAIR Plan policy.

- **California FAIR Plan Website**

Colorado FAIR Plan*

The Colorado FAIR Plan is the most recent residual market created in nation. **HB23-1288**, establishing the FAIR Plan, was passed by the legislature and then signed into law in 2023. The Plan was created to provide a last-resort option for property owners in Colorado who are unable to obtain property insurance through private insurance carriers, particularly for high-risk properties. The effort to create the program was largely a result of damage caused by the Marshall Fire (2021-2022.) The Plan offers basic property insurance such as dwelling, personal property, and liability coverage. All licensed insurers in Colorado that write residential property insurance are required to participate in the Colorado FAIR Plan. Insurers participating in the FAIR Plan may also provide reinsurance and may be subject to special assessments if additional funds are needed to cover large-scale claims. Assessment authority is subject to **C.R.S. 10-4-1807(2)(h)**.

- **Colorado FAIR Plan Website**

Citizens Property Insurance Corporation (Florida)

Established by the Florida Legislature in 2002 to provide property insurance coverage to residents and businesses in Florida, Citizens Property Insurance Corporation is the insurer of last resort. Citizens offers homeowners, renters, condo, and commercial property insurance.

Assessments are managed through a three-tier process intended to distribute the burden with each tier being assessed only if the one previous does not cover the deficit, The assessment begins with surcharge to Citizens Policyholders of up to 15 percent on accounts where there is deficit, up to 45 percent of premium. Secondly, a regular assessment of 2 percent is added to assessable policies, such as homeowners, auto, specialty and surplus lines policies, in the private market. Finally, if additional coverage of the deficit is needed, an Emergency Assessment is levied which can be up to 10 percent per account per year on Citizens and non-Citizens policyholders.[42]

- **Citizens Property Insurance Corporation (Florida) Website**

District of Columbia Property Insurance Facility

Created in 1968, The District of Columbia Property Insurance Facility (DCPIF) is a government backed insurance program designed to provide property insurance coverage to individuals and businesses in the District of Columbia (Washington, D.C.) who are unable to obtain insurance through the standard or private insurance market. The DCPIF provides polices for homeowners, renters, and commercial property. All insurers licensed to write property insurance in the District of Columbia are required to become a member of the DCPIF. There have not been any assessments by the DCPIF recently.

- **District of Columbia Property Insurance Facility (DCPIF) Website**

Georgia Underwriting Association

The Georgia Underwriting Association (GUA), now known as the Georgia Fair Access to Insurance Requirements (FAIR) Plan, is a state-backed insurance program that provides property insurance coverage to homeowners in Georgia who are unable to obtain coverage through the private insurance market. The Plan provides dwelling, personal property, and liability coverage, but does not provide flood or earthquake coverage. Insurance companies that operate in Georgia are required to participate. In the case of a major catastrophe (such as widespread damage from a hurricane), the FAIR Plan may access reinsurance to help cover claims, and it may also implement special assessments on participating insurers to meet its financial obligations.

- **Georgia Underwriting Association Website**

Hawai'i Property Insurance Association

The Hawai'i Property Insurance Association (HPIA) is a nonprofit incorporates association with membership comprised of all licensed insurers that write property and casualty insurance in Hawai'i. Directed by statute (Haw. Rev. Stat. § 431:21-115) member insurers may offset against premium tax liability assessments twenty percent of the assessment for each of five calendar years following the year the assessment was paid.

- **Hawaii Property Insurance Association**

42 **https://www.citizensfla.com/assessments**.

Louisiana Citizens Property Insurance Corporation

The Louisiana Citizens Property Insurance Corporation (Louisiana Citizens) is a state-backed insurer of last resort created to ensure that Louisiana residents, especially those in high-risk areas, have access to property insurance. The state has significant exposure to Hurricane losses. Louisiana Citizens provides coverage for homeowners, renters, and businesses that have been denied coverage by private insurers due to high risks such as hurricanes, flooding, and other natural disasters.

The Louisiana Citizens has multi-tiered funding and assessment structure often referred to as a "layer cake" approach to address capital shortfalls for the Louisiana Citizens insurance. Louisiana Citizens is required to first utilize existing cash and investments to pay claims and meet any demands for payment. Secondly, Louisiana Citizens will utilize reinsurance coverage purchased in accordance with its Plan of Operations, Louisiana Citizens pays the first $100 Million of losses and after that, reinsurance covers 90 percent of the next $400 million of losses. If an outstanding deficit remains in either the FAIR or Coastal Plan, Louisiana may declare a Regular Assessment in an amount up to 10% of industry premium for the assessable lines of business to be paid by insurers writing along those lines. The Regular Assessment may be recouped from the insurer's policyholders over the next year, and policyholders may claim amounts paid as a credit against state income taxes. If a Regular Assessment is insufficient to cover the deficit, an Emergency Assessment may be levied. Louisiana Citizens may fund the remaining deficit by issuing revenue bonds in the capital markets and then declares an Emergency Assessment each year to provide debt service on the bonds until they are retired. Insurers writing on the assessable lines are required to surcharge their policy holders the same percentages and remit those amounts to the bond trustee.[43]

- **Louisiana Citizens Property Insurance Corporation Website**

Maryland Joint Insurance Association

The Maryland Joint Insurance Association (MJIA) provides coverage for property insurance to Maryland homeowners and businesses who are unable to obtain coverage through the private insurance market. The program provides basic property insurance coverage to those who are eligible. The coverage is intended to meet the minimum standards required by Maryland state law for individuals and businesses that face high insurance risks, particularly in areas with a history of natural disasters, high crime rates, or other conditions that make it difficult for them to secure affordable property insurance through private insurers. All insurers licensed to write property insurance in Maryland are required to be members of the MJIA.

- **Maryland Joint Insurance Association Website**
- **MJIA Plan of Operation**

Michigan Basic Property Insurance Association

The Michigan Basic Property Insurance Association (MBPIA) was founded in 1968 and is a state-backed, residual market insurance program designed to provide basic property insurance to homeowners and businesses in Michigan who are unable to obtain coverage through the private insurance market. All property and casualty insurers in Michigan must join the MBPIA and are subject to annual assessments to fund operating deficits.

- **Michigan Basic Property Insurance Association (MBPIA) Website**

43 https://www.lacitizens.com/AboutUs/AssessmentInfoCenter/assessment-overview.

Mississippi Windstorm Underwriting Association

The Mississippi Windstorm Underwriting Association (MWUA), established in 1987, is a state-run, residual insurance market established to provide coverage for windstorm and hail damage in areas where private insurance carriers may either refuse to offer coverage or charge excessively high premiums due to the risk of hurricane and windstorm damage. All insurance companies authorized to write property insurance in Mississippi are required to join the MWUA, meaning every insurer must become a member to operate within the state; this is considered a condition of doing business in Mississippi.

MWUA assessment is set at a maximum of $250 million, or 6 percent of the preceding calendar year MWUA insured limits, whichever is less. Without regard to the number of Covered Events that require Non-recoupable Assessments, the annual aggregate total of all Non-recoupable Assessment funds will not exceed the $250 million amount. When the MWUA determines it will have a claim deficit (or any other deficit) that exceeds available reserves and reinsurance, a non-recoupable assessment may be levied on admitted companies (with Mississippi Insurance Commissioner approval).

- **Mississippi Windstorm Underwriting Association (MWUA) Website**
- **Assessment Manual for the MWUA**

New Jersey Insurance Underwriting Association

The New Jersey Insurance Underwriting Association (NJIUA), also known as the New Jersey FAIR Plan (Fair Access to Insurance Requirements), is a state-mandated insurance entity designed to provide property insurance coverage to individuals and businesses in New Jersey who are unable to obtain coverage through the private insurance market. All voluntarily admitted market insurance companies writing property insurance within New Jersey on a direct basis are members of the Association. The NJIUA allows member insurers to recoup assessments through a surcharge on premiums (**Order A16-111**)

- **New Jersey Insurance Underwriting Association (NJIUA) Website**

North Carolina Insurance Underwriting Association

The North Carolina Insurance Underwriting Association, also known as the Coastal Property Insurance Pool, provides for repayment of claims beginning with the Association surplus, followed by a $1 billion of insurance carrier assessments, which cannot be directly recouped or billed to policyholders, but are permitted to be included in future rate filings as credits. These amounts are followed by coverage of reinsurance, and then a Catastrophe Recovery Charge which permits insurers to issue a pass-through surcharge for all property policies up to 10% of the total policy premiums until the Association claims are paid.

- **North Carolina Insurance Underwriting Association (NCIUA) Website**
- **North Carolina Insurance Underwriting Association (NCIUA) Operating Documents**

Ohio FAIR Plan Underwriting Association

The Ohio FAIR Plan (OFP) was established in 1968 to ensure that property owners in high-risk areas or with hard-to-insure properties still have access to basic property insurance coverage. The OFP was initially only available in a limited number of metropolitan areas, but by 1977, the entire state of Ohio was eligible for basic property insurance through the OFP. All insurers authorized to write property insurance in the State of Ohio are required to be members. [**ORC 3929.43 (A)]**

Texas FAIR Plan Association

The Texas FAIR Plan Association (TFPA) is a state-mandated residual market insurance program designed to provide property insurance coverage to individuals and businesses in Texas who are unable to secure insurance through the standard private insurance market. The Texas Fair Plan Association (TFPA) was established in 2002, but the Texas Legislature gave it statutory authority in 1995. The TFPA is designed to ensure that all property owners in Texas have access to at least basic coverage for their properties, preventing situations where high-risk property owners are unable to protect their assets. All insurers that are licensed to write property insurance and that write residential property insurance in Texas must be members of TFPA. All member insurers must participate in the writings and losses of TFPA. TFPA does not return any premiums to its member companies. Insurance Code § 2211.101(b) explains how to calculate an insurer's participation in the FAIR Plan.

- **Texas FAIR Plan Association (TFPA) Website**
- **Texas FAIR Plan Overview Including Assessment**

Texas Windstorm Insurance Association

The Texas Windstorm Insurance Association (TWIA) is a state-sponsored insurance program that provides property insurance coverage to residents and businesses in Texas who are unable to secure coverage for windstorm and hail damage through the private insurance market which is distinct from the Texas FAIR Plan Association (TFPA). TWIA only provides coverage for windstorm and hail damage. For other perils, such as fire, theft, earthquakes, or flooding, property owners must obtain separate insurance policies through private insurers or government programs (e.g., the National Flood Insurance Program). TWIA primarily covers properties located in the coastal regions of Texas, as well as other areas designated as windstorm prone. This includes beaches, barrier islands, and storm-surge zones along the Gulf Coast. [TWIA Eligible County Map]

TWIA Funding Structure, or "tower" provides a multi-step coverage process by law. Funding is provided in the following order: (As of 2024)

- TWIA premiums and other revenue
- The Catastrophe Reserve Trust Fund (CRTF), an account held by the Comptroller containing the net gains from TWIA operations from prior years
- $500 million in Class 1 public securities
- $500 million in Class 1 company assessments
- $250 million in Class 2 public securities
- $250 million in Class 2 company assessments
- $250 million in Class 3 public securities
- $250 million in Class 3 company assessments

Additional funding in the form of reinsurance such that total funding is at least equal to a 100-year hurricane season.

Class 1, 2, and 3 public securities are repaid by TWIA premiums and surcharges on TWIA policies. Class 2 and 3 public securities, after a finding by the Commissioner of Insurance, may also be repaid by surcharges on coastal property and auto policies.

- **Texas Windstorm Insurance Association (TWIA)**
- **TWIA Overview, including Funding Structure**
- **TWIA Rate Adequacy Analysis 2024**

Recent Activity and Assessments in the Residual Market Space

- The most significant recent occurrence in the residual market space is the creatin of a new FAIR Plan in Colorado. The Creation of the Colorado FAIR Plan is the first such new plan in decades. To establish the program the Colorado FAIR Plan Association Board levied an initial assessment for approved operational administrative budgets 2024 and2025. The approved 2024 administrative budget was $3,500,504 and the approved 2025 administrative budget was $2,281,504.
- Texas FAIR Plan (2024) – Insurers assessed to cover $17.6 million deficit incurred by the Texas FAIR Plan Association in 2023, according to a **bulletin** issued by the Texas Department of Insurance (TDI). In October of 2024, the FAIR Plan said it had $70.3 million in losses from the hurricane related to Hurricane Beryl.
- California partial recoupment allowance in 2024 is the result of ongoing discussion and changes in regard to residual market structure and requirements in California resulting from a tight market caused by catastrophic wildfire losses in preceding years. [CA FAIR Plan of Operation]

III - COUNTY LEVEL ANALYSIS FOR 12 STATES

This appendix provides additional analysis of residual market plans for 12 priority states, in order:

North Carolina
Florida
Louisiana
Massachusetts
California
Texas
Rhode Island
Mississippi
South Carolina
Alabama
Virginia
New York

Plans were identified as having the highest residual market plan ‘Earned Premium’ as a percentage of the total property market and total ‘Policy Counts’.

NORTH CAROLINA

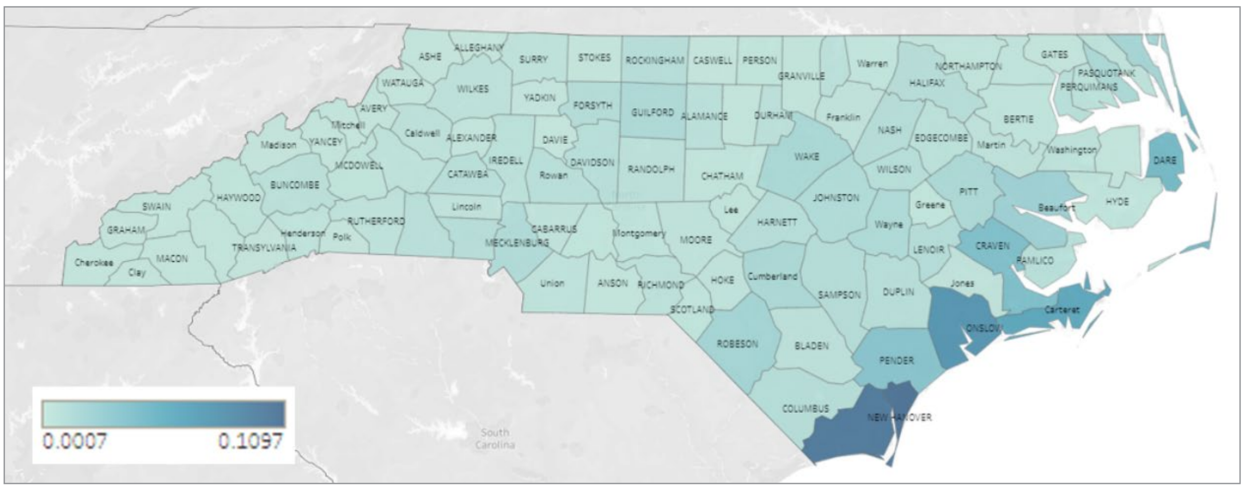
Market Factors: Increasing climate risk (coastal exposure, reinsurance costs) and Government risk (rate suppression, including inability to fully reflect increasing cost of reinsurance)

9.75% — 2023 Earned Premium (FAIR & Beach/Wind Plans), as % of Total Property Market

482,052 — 2023 Total Policies (FAIR & Beach/Wind Plans)
Source: APCIA, via PIPSO reports (includes Habitational & Commercial policies)

512,386 — Current Habitational Policy Count, 3/31/24 (FAIR & Beach/Wind Plans)
Source: APCIA, via data from residual market plan(s) (Habitational includes Homeowners and All Others)

Current habitational policy count by county, as % of state (for most recent time period available)

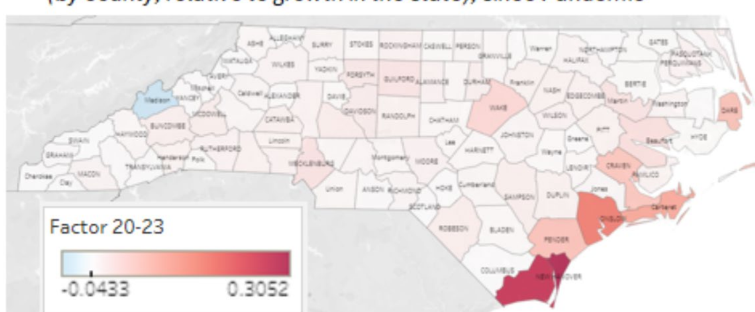


Habitational Policy Count Growth (by plan):

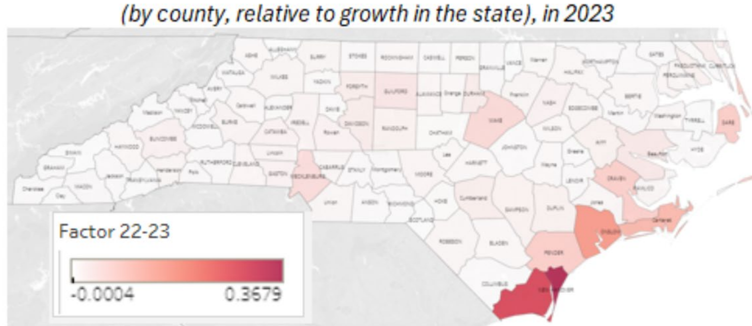
Since Pandemic (2020-2023):
- **22.3%** (Coastal), **16.1%** (FAIR)

In 2023 (2022-2023):
- **12.4%** (Coastal), **7.0%** (FAIR)

North Carolina Residual Market Policy Count Growth
(by county, relative to growth in the state), since Pandemic



North Carolina Residual Market Policy Count Growth
(by county, relative to growth in the state), in 2023



FLORIDA

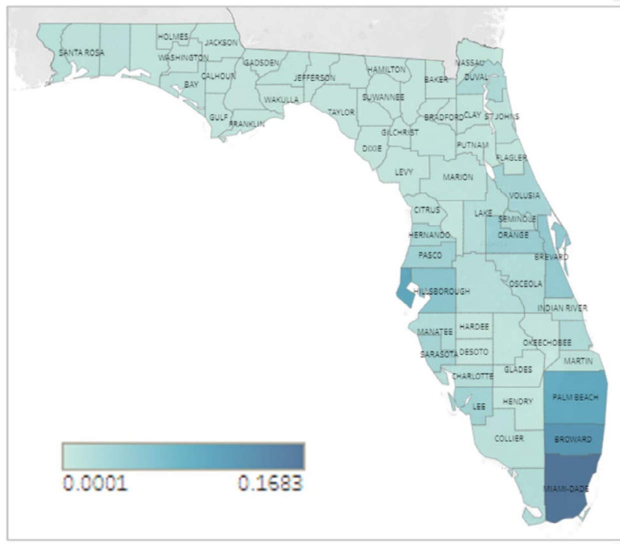
Market Factors: Increasing climate risk (coastal exposure, losses, reinsurance costs) and Government Risk (recent reforms have helped reduce legal system abuse and claims fraud)

9.67% — 2023 Earned Premium (FAIR & Beach/Wind Plans), as % of Total Property Market

1,542,316 — 2023 Total Policies (FAIR & Beach/Wind Plans)
Source: APCIA, via PIPSO reports (includes Habitational & Commercial policies)

1,199,813 — Current Habitational Policy Count, 6/30/24 (FAIR & Beach/Wind Plans)
Source: APCIA, via data from residual market plan(s) (Habitational includes Homeowners and All Others)

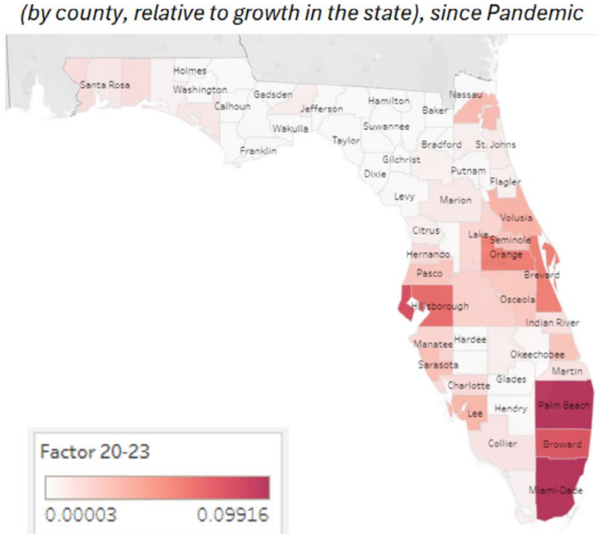
Current habitational policy count by county, as <u>% of state</u> (for most recent time period available)



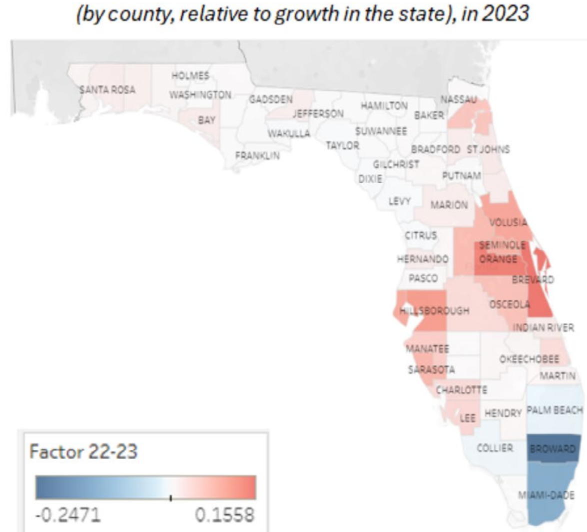
Habitational Policy Count Growth:

- **+126.1%** — Since Pandemic (2020-2023)
- **+6.7%** — In 2023 (2022-2023)

Florida Residual Market Policy Count Growth
(by county, relative to growth in the state), since Pandemic



Residual Market Policy Count Growth
(by county, relative to growth in the state), in 2023



LOUISIANA

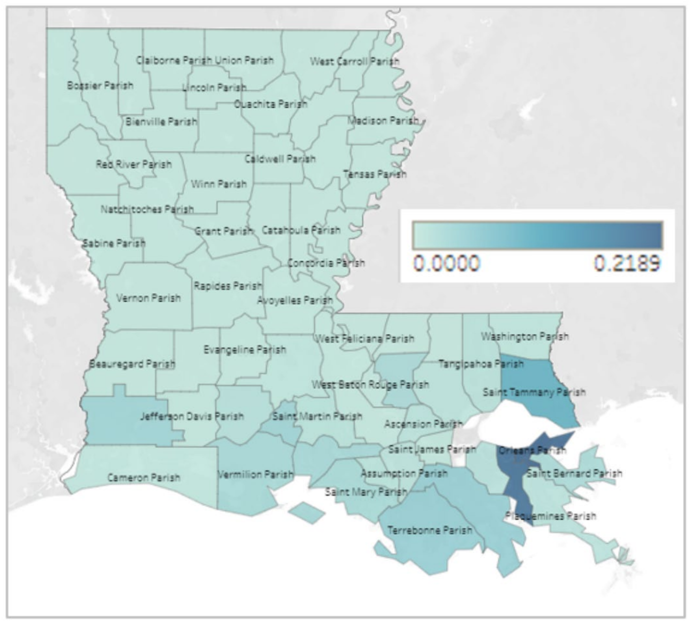
Market Factors: Climate risk (coastal wind, recent storm losses, reinsurance costs), Property risk (aging housing stock), Government risk (legal system abuse and claims fraud)

5.42% — 2023 Earned Premium (FAIR & Beach/Wind Plans), as % of Total Property Market

184,169 — 2023 Total Policies (FAIR & Beach/Wind Plans)
Source: APCIA, via PIPSO reports (includes Habitational & Commercial policies)

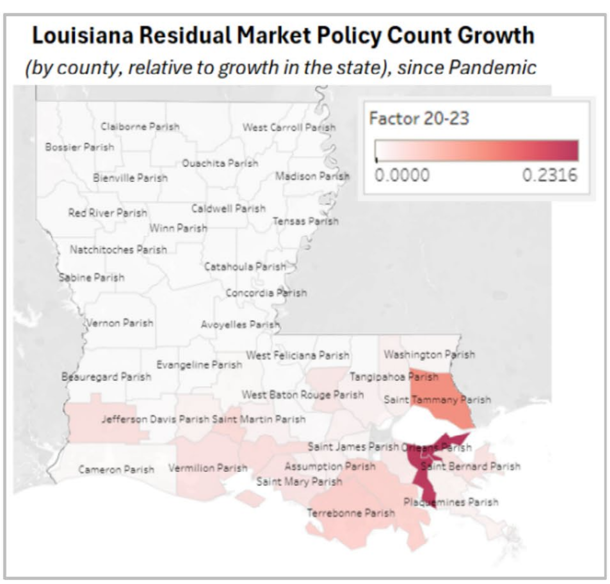
131,323 — Current Habitational Policy Count, 7/31/24 (FAIR & Beach/Wind Plans)
Source: APCIA, via data from residual market plan(s) (Habitational includes Homeowners and All Others)

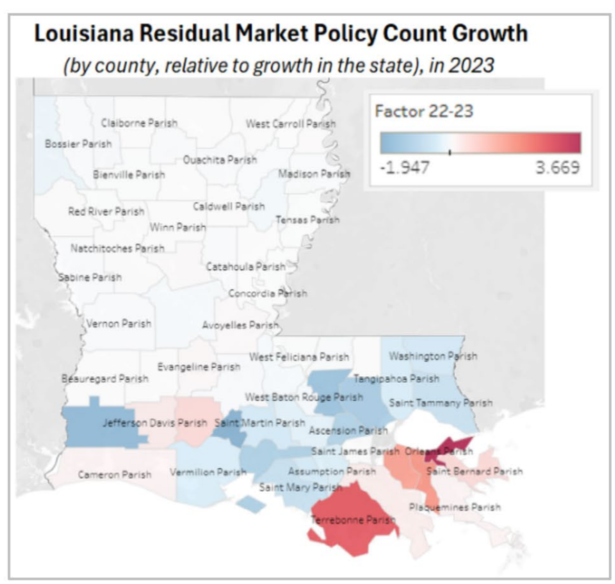
Current habitational policy count by county, as % of state (for most recent time period available)



Habitational Policy Count Growth:

- **+272.2%** — Since Pandemic (2020-2023)
- **-0.3%** — In 2023 (2022-2023)





MASSACHUSETTS

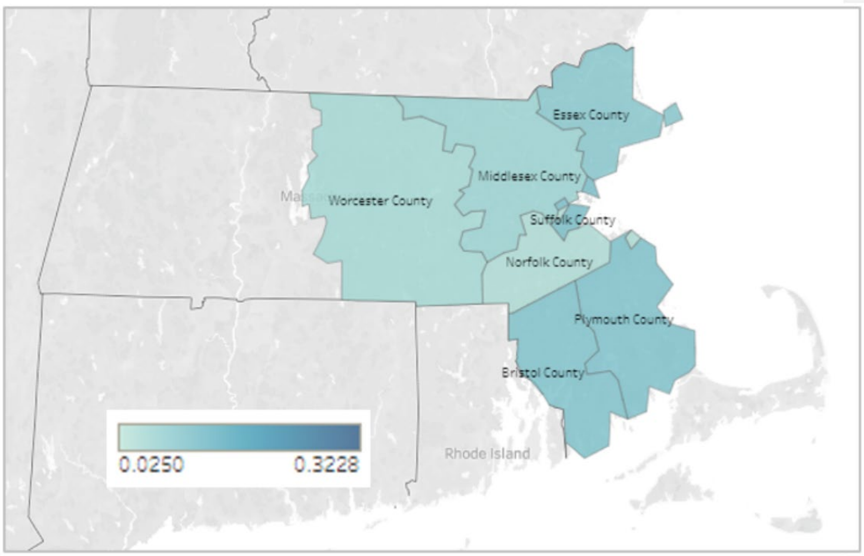
Market Factors: Government risk (plan is a relatively stable/shrinking plan, though a larger plan due to rate suppression resulting in plan rates being competitive with private market)

4.68% — 2023 Earned Premium (FAIR & Beach/Wind Plans), as % of Total Property Market

194,571 — 2023 Total Policies (FAIR & Beach/Wind Plans)
Source: APCIA, via PIPSO reports (includes Habitational & Commercial policies)

154,371 — Current Habitational Policy Count, 8/31/24 (FAIR & Beach/Wind Plans)
Source: APCIA, via data from residual market plan(s) (Habitational includes Homeowners and All Others)

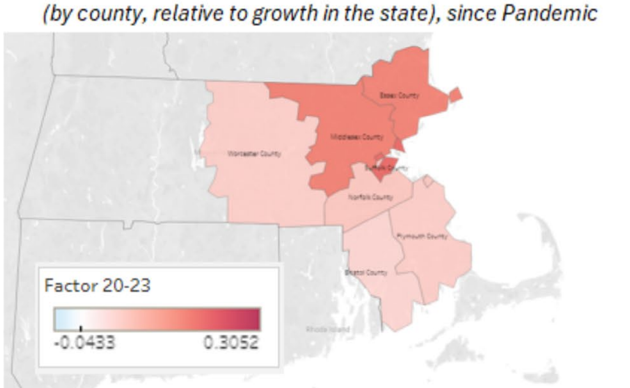
Current habitational policy count by county, as % of state (for most recent time period available)



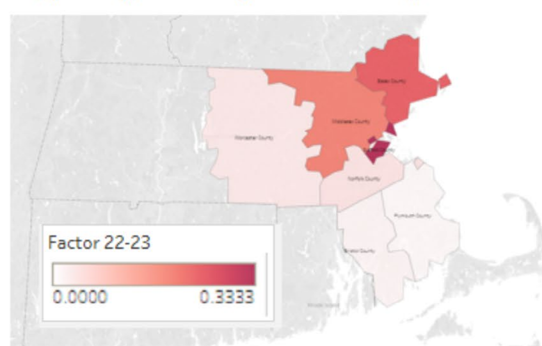
Habitational Policy Count Growth:

- **-9.7%** — Since Pandemic (2020-2023)
- **-1.4%** — In 2023 (2022-2023)

Massachusetts Residual Market Policy Count Growth
(by county, relative to growth in the state), since Pandemic



Massachusetts Residual Market Policy Count Growth
(by county, relative to growth in the state), in 2023



CALIFORNIA

Market Factors: Climate risk (increasing fire-related exposures due to wildfire, fire following earthquake, and mudslides following wildfire, reinsurance costs), Government risk (rate suppression, inability to use catastrophe models and include reinsurance costs in ratemaking)

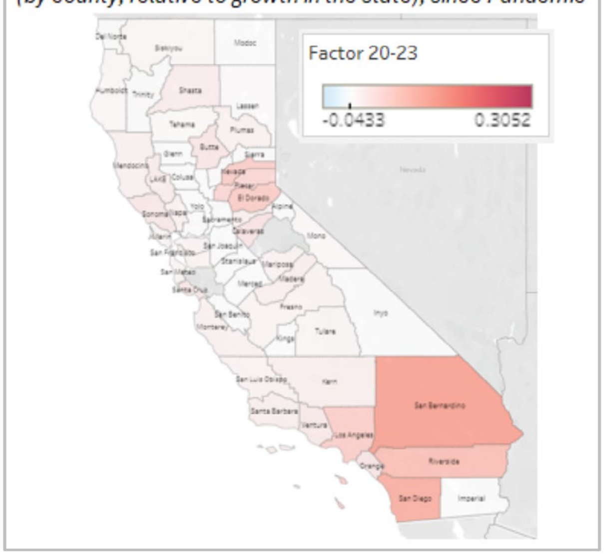
> **2.53%** — 2023 Earned Premium (FAIR & Beach/Wind Plans), as % of Total Property Market
>
> **320,592** — 2023 Total Policies (FAIR & Beach/Wind Plans)
> Source: APCIA, via PIPSO reports (includes Habitational & Commercial policies)
>
> **418,754** — Current Habitational & Commercial Policy Count, 6/30/24 (FAIR Plan)
> Source: APCIA, via data from residual market plan(s) (Habitational includes Homeowners and All Others)

Current habitational & commercial policy count by county, as % of state (for most recent time period available)

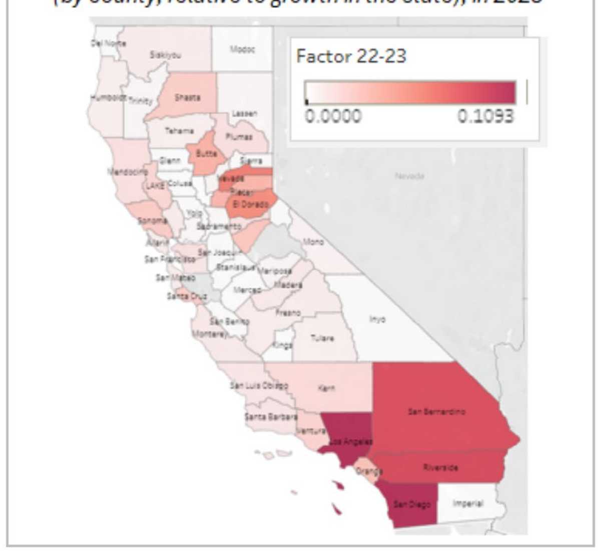
Habitatational & Commercial Policy Count Growth:

- **+57.3%** — Since Pandemic (2020-2023)
- **+20.8%** — In 2023 (2022-2023)

California Residual Market Policy Count Growth
(by county, relative to growth in the state), since Pandemic



California Residual Market Policy Count Growth
(by county, relative to growth in the state), in 2023



TEXAS

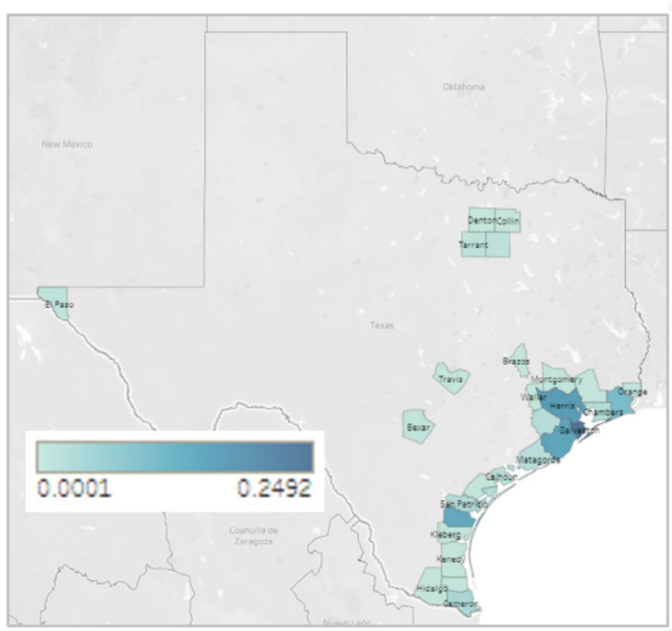
Market Factors: Climate risk (coastal wind exposure, inland hail and tornadoes, wildfire, reinsurance costs), Government risk (rate suppression in the Texas Windstorm Insurance Association "TWIA")

2.51% — 2023 Earned Premium (FAIR & Beach/Wind Plans), as % of Total Property Market

336,559 — 2023 Total Policies (FAIR & Beach/Wind Plans)
Source: APCIA, via PIPSO reports (includes Habitational & Commercial policies)

354,581 — Current Habitational Policy Count, 6/30/24 (FAIR & Beach/Wind Plans)
Source: APCIA, via data from residual market plan(s) (Habitational includes Homeowners and All Others)

Current habitational & commercial policy count by county, as <u>% of state</u> (for most recent time period available)

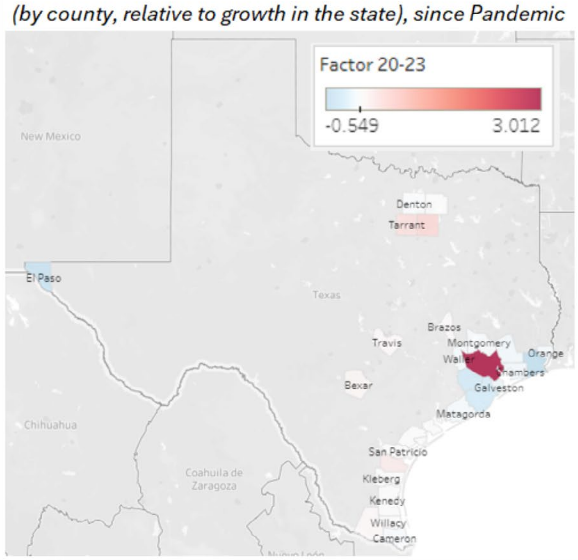


Habitational Policy Count Growth:

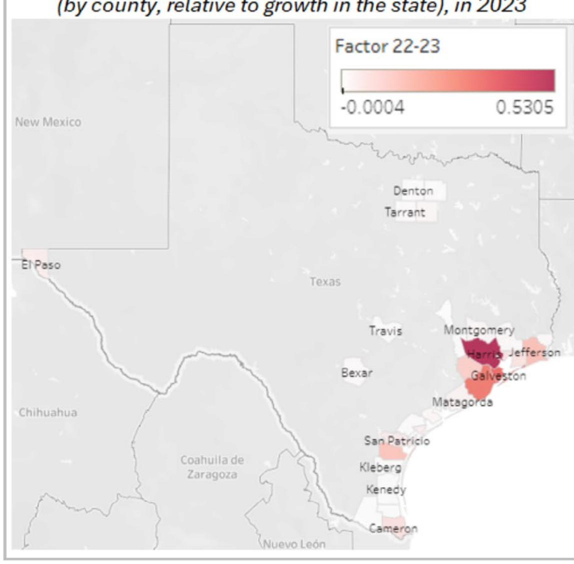
Since Pandemic (2020-2023):
- **+33.9%** (TWIA)
- **-1.5%** (FAIR)

In 2023 (2022-2023):
- **+11.3%** (TWIA)
- **+18.2%** (FAIR)

Texas Residual Market Policy Count Growth
(by county, relative to growth in the state), since Pandemic



Texas Residual Market Policy Count Growth
(by county, relative to growth in the state), in 2023



RHODE ISLAND

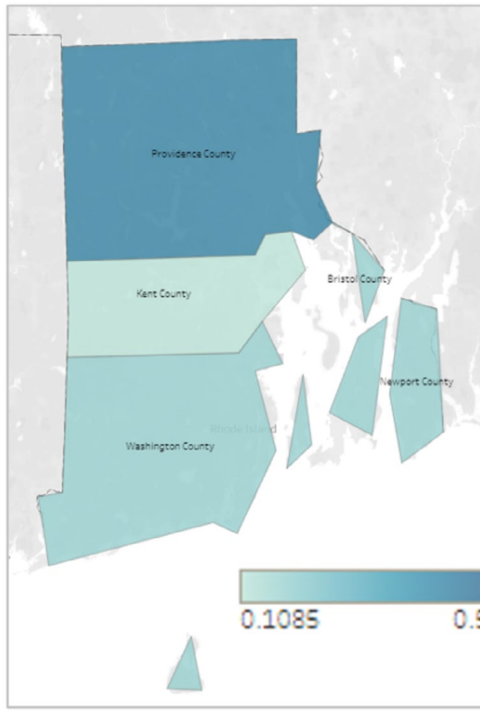
Market Factors: Climate risk (coastal risk, reinsurance costs)

2.42% — 2023 Earned Premium (FAIR & Beach/Wind Plans), as % of Total Property Market

13,529 — 2023 Total Policies (FAIR & Beach/Wind Plans)
Source: APCIA, via PIPSO reports (includes Habitational & Commercial policies)

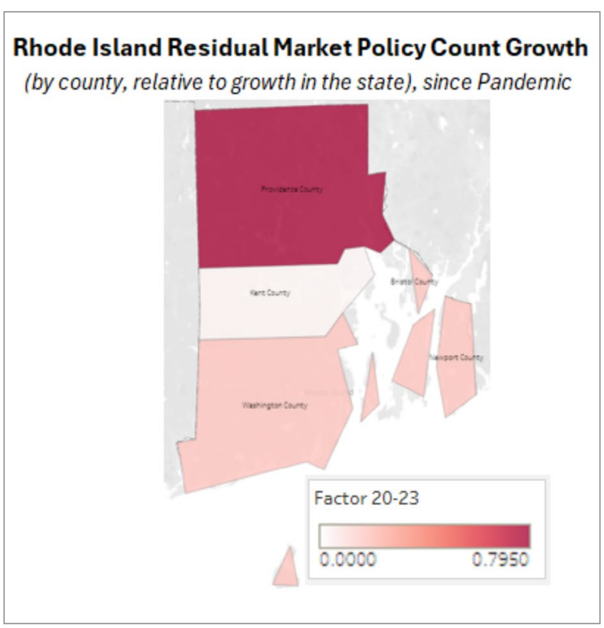
8,624 — Current Habitational Policy Count, 8/31/24 (FAIR & Beach/Wind Plans)
Source: APCIA, via data from residual market plan(s) (Habitational includes Homeowners and All Others)

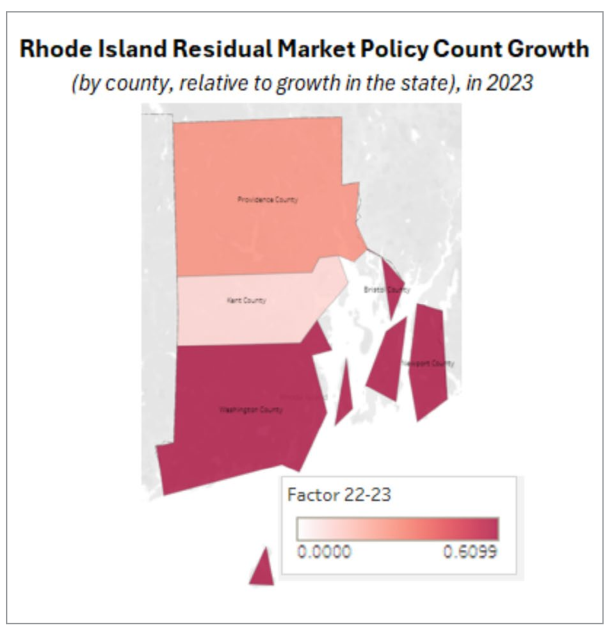
Current habitational & commercial policy count by county, as % of state (for most recent time period available)



Habitational Policy Count Growth:

- **-6.9%** — Since Pandemic (2020-2023)
- **+4.8%** — In 2023 (2022-2023)





MISSISSIPPI

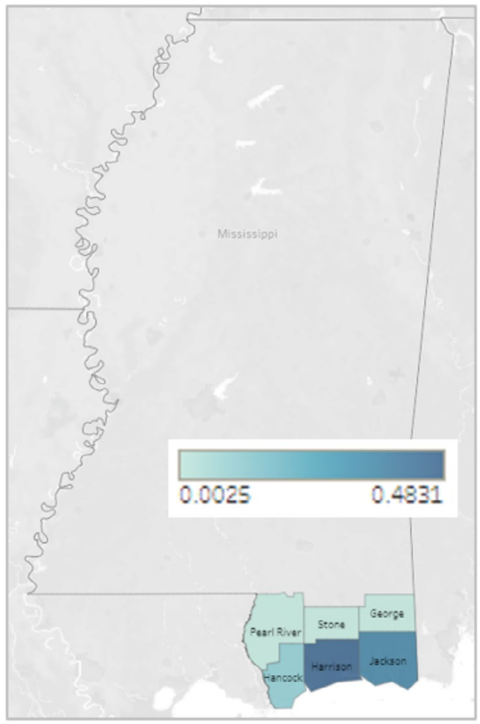
Market Factors: Climate risk (coastal wind, reinsurance costs)

0.93% — 2023 Earned Premium (FAIR & Beach/Wind Plans), as % of Total Property Market

16,275 — 2023 Total Policies (FAIR & Beach/Wind Plans)
Source: APCIA, via PIPSO reports (includes Habitational & Commercial policies)

13,938 — Current Habitational Policy Count, 7/31/24 (FAIR & Beach/Wind Plans)
Source: APCIA, via data from residual market plan(s) (Habitational includes Homeowners and All Others)

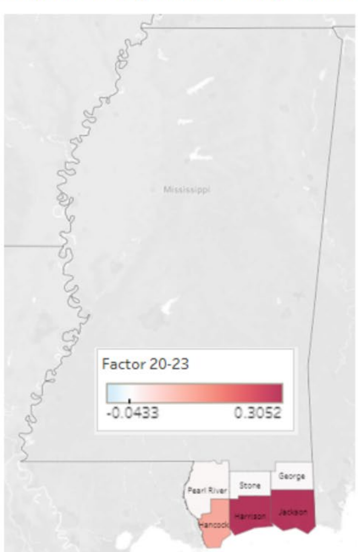
Current habitational & commercial policy count by county, as <u>% of state</u> (for most recent time period available)



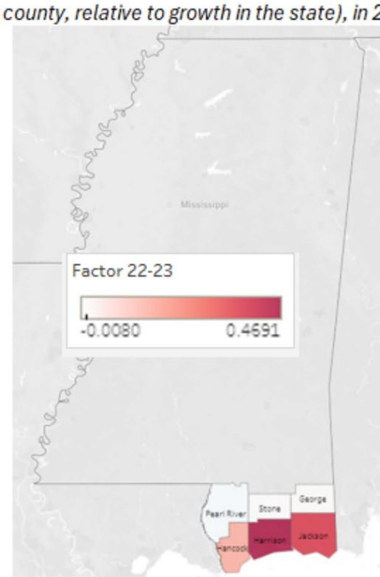
Habitational Policy Count Growth:

- **-1.0%** — Since Pandemic (2020-2023)
- **+11.1%** — In 2023 (2022-2023)

Mississippi Residual Market Policy Count Growth
(by county, relative to growth in the state), since Pandemic



Mississippi Residual Market Policy Count Growth
(by county, relative to growth in the state), in 2023



SOUTH CAROLINA

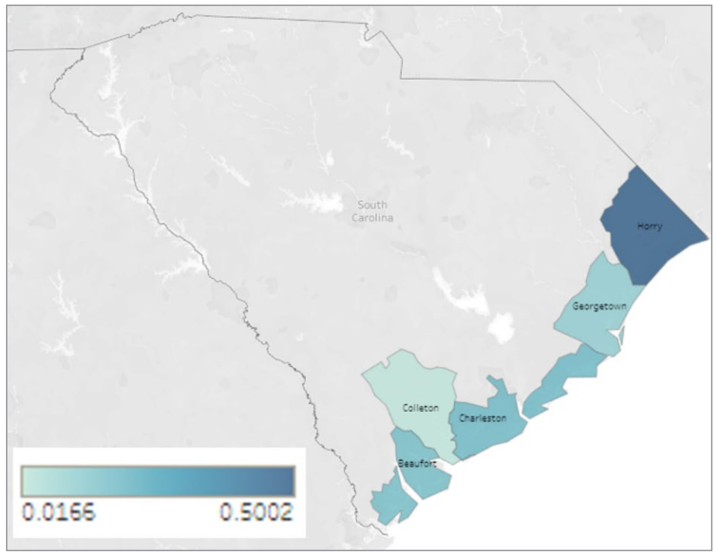
Market Factors: Climate risk (coastal wind, reinsurance costs)

0.85% — 2023 Earned Premium (FAIR & Beach/Wind Plans), as % of Total Property Market

16,302 — 2023 Total Policies (FAIR & Beach/Wind Plans)
Source: APCIA, via PIPSO reports (includes Habitational & Commercial policies)

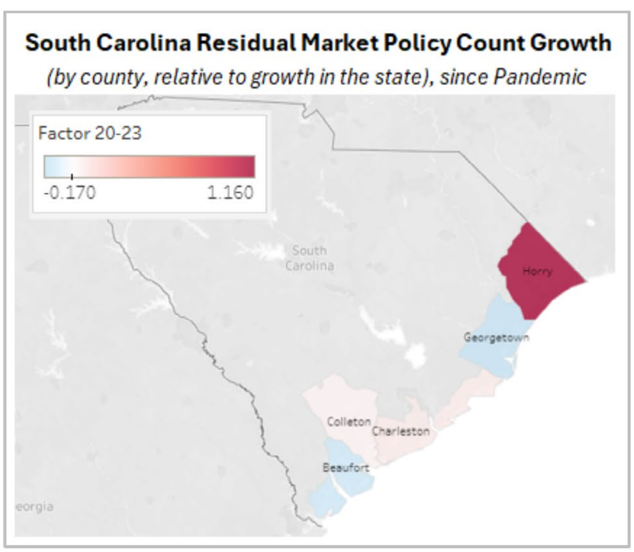
15,997 — Current Habitational Policy Count, 8/10/24 (FAIR & Beach/Wind Plans)
Source: APCIA, via data from residual market plan(s) (Habitational includes Homeowners and All Others)

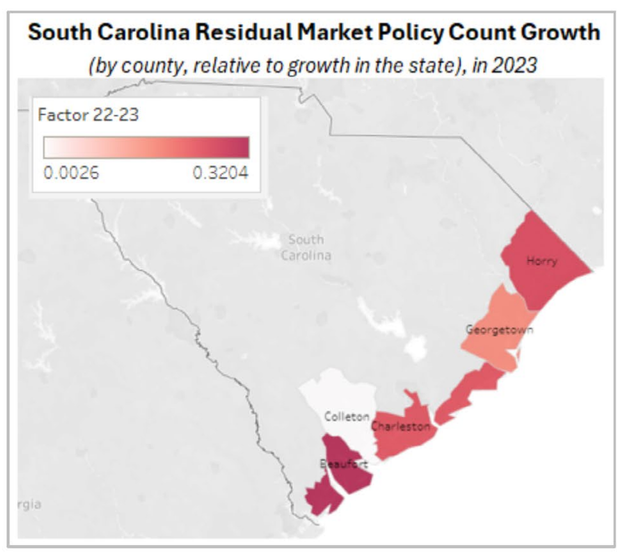
Current habitational & commercial policy count by county, as <u>% of state</u> (for most recent time period available)



Habitational Policy Count Growth:

- **-3.9%** — Since Pandemic (2020-2023)
- **+5.5%** — In 2023 (2022-2023)





ALABAMA

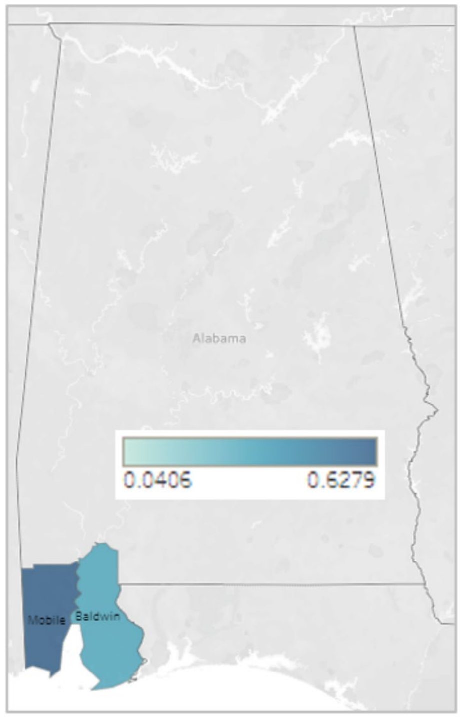
Market Factors: Climate risk (coastal wind, reinsurance costs)

0.71% — 2023 Earned Premium (FAIR & Beach/Wind Plans), as % of Total Property Market

18,870 — 2023 Total Policies (FAIR & Beach/Wind Plans)
Source: APCIA, via PIPSO reports (includes Habitational & Commercial policies)

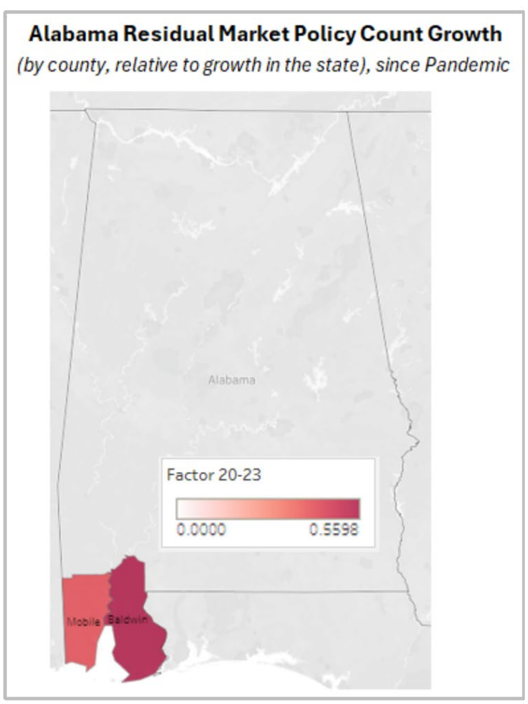
18,804 — Current Habitational Policy Count, 3/30/24 (FAIR & Beach/Wind Plans)
Source: APCIA, via data from residual market plan(s) (Habitational includes Homeowners and All Others)

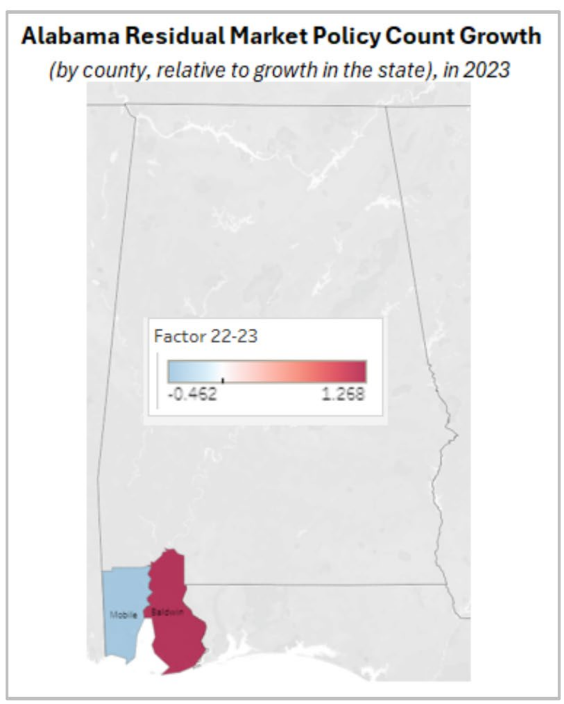
Current habitational & commercial policy count by county, as <u>% of state</u> (for most recent time period available)



Habitational Policy Count Growth:

- **+16.4%** — Since Pandemic (2020-2023)
- **+3.5%** — In 2023 (2022-2023)





VIRGINIA

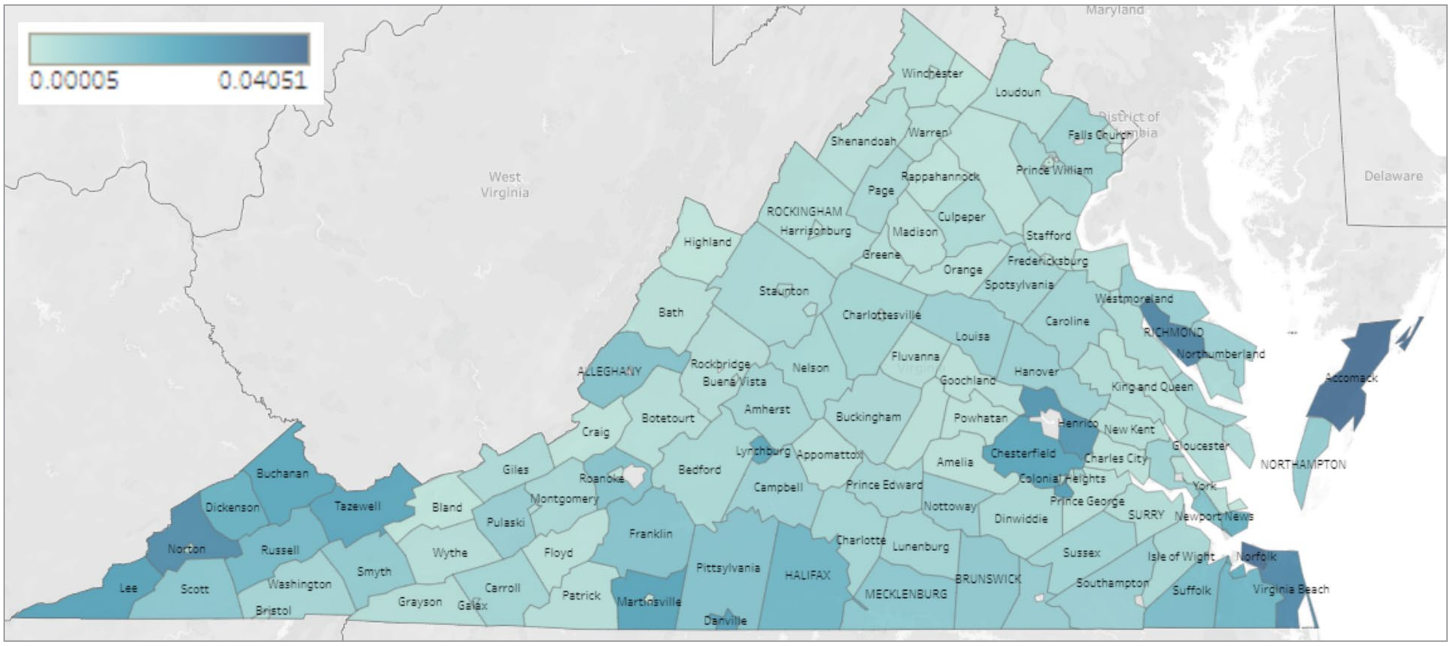
Market Factors: Climate risk (coastal risk, reinsurance costs)

0.30% — 2023 Earned Premium (FAIR & Beach/Wind Plans), as % of Total Property Market

21,706 — 2023 Total Policies (FAIR & Beach/Wind Plans)
Source: APCIA, via PIPSO reports (includes Habitational & Commercial policies)

21,302 — Current Habitational Policy Count, 12/31/23 (FAIR & Beach/Wind Plans)
Source: APCIA, via data from residual market plan(s) (Habitational includes Homeowners and All Others)

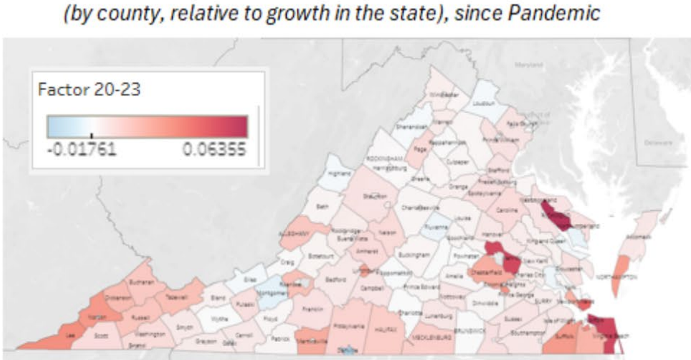
Current habitational policy count by county, as % of state (for most recent time period available)



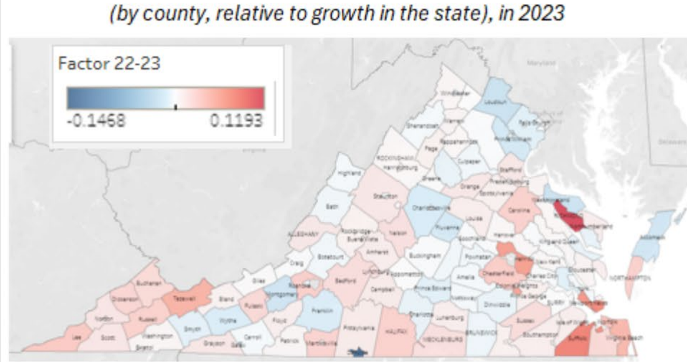
Habitational Policy Count Growth:

- **-18.8%** — Since Pandemic (2020-2023)
- **-3.9%** — In 2023 (2022-2023)

Virginia Residual Market Policy Count Growth
(by county, relative to growth in the state), since Pandemic



Virginia Residual Market Policy Count Growth
(by county, relative to growth in the state), in 2023



NEW YORK

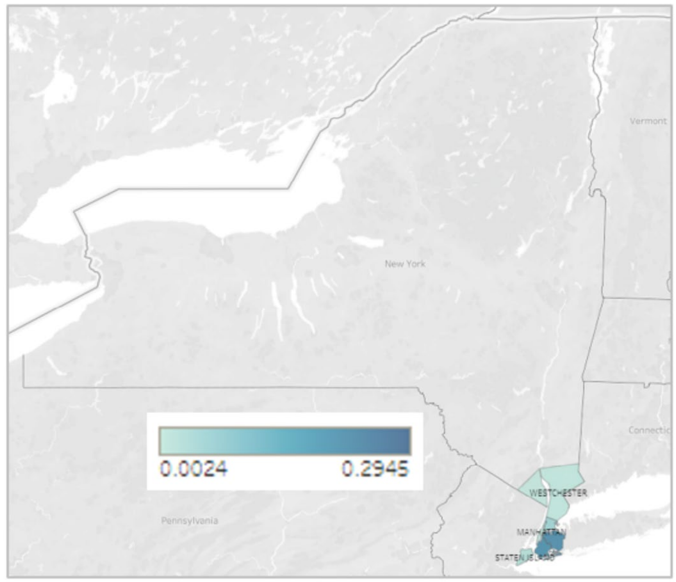
Market Factors: Climate risk (coastal risk, reinsurance costs)

0.22% — 2023 Earned Premium (FAIR & Beach/Wind Plans), as % of Total Property Market

20,687 — 2023 Total Policies (FAIR & Beach/Wind Plans)
Source: APCIA, via PIPSO reports (includes Habitational & Commercial policies)

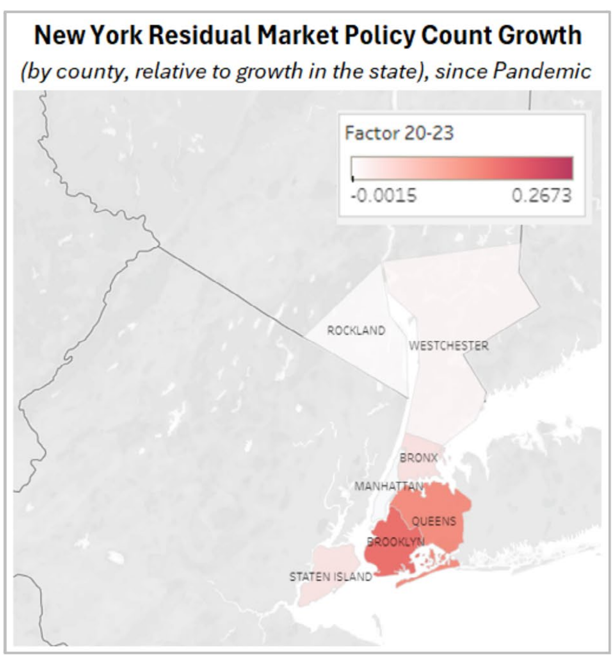
19,376 — Current Residential Policy Count, 12/31/23 (FAIR Plans + Beach/Wind Plans)
Source: APCIA, via data from residual market plan(s) (Habitational includes Homeowners and All Others)

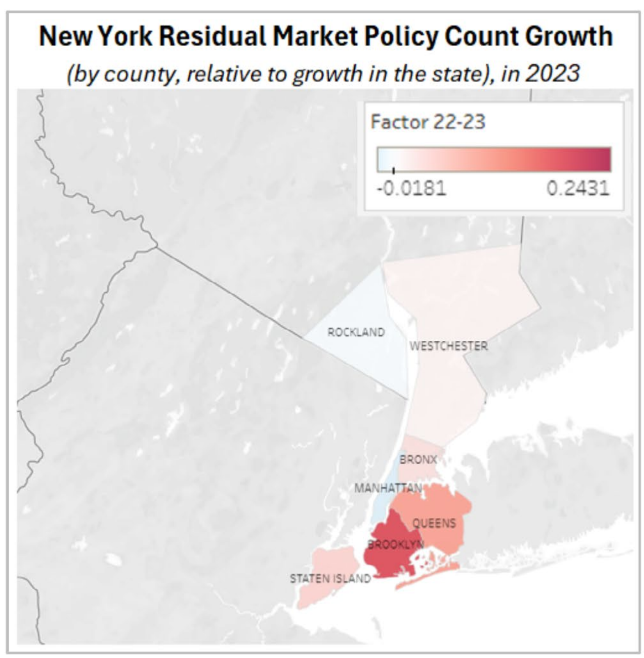
Current habitational & commercial policy count by county, as <u>% of state</u> (for most recent time period available)



Habitational Policy Count Growth:

- **-21.5%** — Since Pandemic (2020-2023)
- **-5.6%** — In 2023 (2022-2023)





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