



Report Highlights

Louisiana Department of Insurance

Financial Condition of the Residential Property Insurance Market

MICHAEL J. "MIKE"
WAGUESPACK, CPA

Audit Control # 40210037
Performance Audit Services • October 2022

Why We Conducted This Audit

This report provides information on changes in the residential property insurance market as a result of the calendar year 2020 and 2021 hurricanes and the residual effects to the Louisiana Insurance Guaranty Association (LIGA) and the Louisiana Citizens Property Insurance Corporation (Citizens) when insurance companies are not able to pay their obligations or choose to stop writing new policies and/or leave the market altogether. In addition, we evaluated the Louisiana Department of Insurance's (LDI) activities to monitor the financial condition of residential property insurance companies. We conducted this audit, in part, due to the vulnerability Louisiana has to natural disasters, such as hurricanes and other weather events, that cause wind damage and flooding and impacted the state during the calendar year 2020 and 2021 hurricane seasons.

Key Entities in Insurance Industry

Entity	Role
LDI	Regulates Louisiana's insurance industry, serves as an advocate for consumers, and analyzes and examines the financial condition of insurance companies in Louisiana.
LIGA	Created in 1970 as a private, non-profit entity to provide a safety net for claims of property and casualty insurance policyholders if an insurance company becomes financially insolvent. LIGA receives no public funding but is able to assess insurance companies up to 1% of total premium written in the previous calendar year to meet its financial obligations.
Citizens	Created in 2003 as a non-profit, quasi-public entity to provide residential and commercial property insurance for individuals unable to obtain insurance through the private market. Citizens is funded through premiums it collects for the policies it writes. If a deficit is incurred by Citizens, it has the ability to assess insurance companies and all privately insured policyholders.

Source: Prepared by legislative auditor's staff using information from LDI, LIGA, and Citizens.

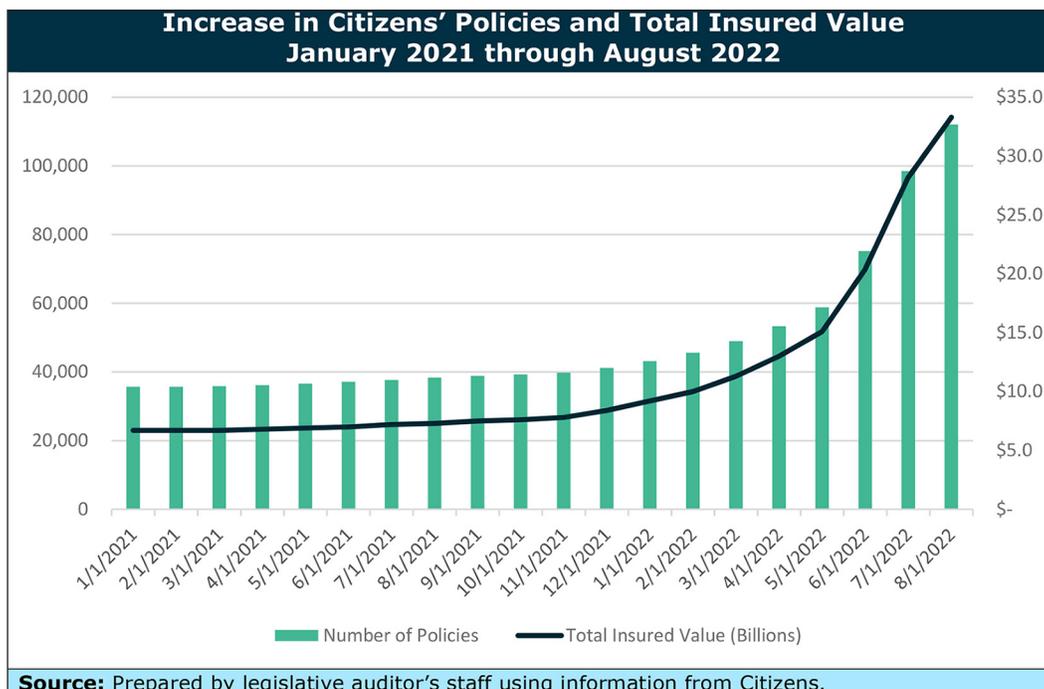
What We Found

Overall, we found that 11 insurance companies became financially insolvent between July 2021 and September 2022, which has strained the financial position of LIGA, six of which were due to a lack of adequate reinsurance for Hurricane Ida. In addition, because of the impacts of the calendar year 2020 and 2021 hurricanes, the perceived risk or exposure to potential losses in Louisiana, and/or the inability to obtain reinsurance, additional insurance companies have left the residential property market or are not writing new policies, which has increased the number of policies and potential financial exposure of Citizens. We also found that LDI conducted activities to monitor the financial condition of insurance companies in accordance with state law and best practices. Specifically, we found that:

Continued on next page

What We Found (Cont.)

- **The cost of claims and premium refunds paid by LIGA increased from approximately \$4.8 million in calendar year 2020 to approximately \$268.1 million in the first eight months of calendar year 2022, because LIGA had to assume the claims of financially-insolvent insurance companies. LIGA also had to assess insurance companies and obtain approval to borrow funds to meet its obligations as a result of these insolvencies.** To cover the cost of claims and premium refunds assumed, LIGA assessed insurance companies for the first time since calendar year 2004 and obtained approval to borrow up to \$600 million to help meet its obligations. LIGA will have to pay between approximately \$721.6 million and \$884.6 million in principal and interest payments if all \$600 million is borrowed.
- **The 11 financial insolvencies and the additional insurance companies fully withdrawing from the market or no longer writing new policies has increased the number of policies held by Citizens. According to Citizens, it may not have adequate reinsurance to pay claims if a major hurricane occurs due to issues in the reinsurance market and an increase in its policies. When Citizens does not have adequate funds to pay claims, insurance companies and Louisiana policyholders can be assessed.** According to Citizens, its total policies and the total insured value of those policies has increased from 35,670 policies totaling approximately \$6.7 billion in January 2021 to 112,035 policies totaling \$33.3 billion in August 2022, representing a 214.1% increase in policies and 397.0% increase in total insured value.



- **LDI conducted activities to monitor the financial condition of insurance companies in accordance with state law and best practices. Because six insurance companies became financially insolvent due to a lack of adequate reinsurance, LDI stated that it has also recently enhanced its reinsurance reviews. In addition, the Legislature made changes to state law to improve the financial condition of insurance companies and to incentivize insurance companies to provide residential property insurance in Louisiana.** During calendar years 2017 through 2021, LDI conducted 228 financial analyses and 13 examinations of the 13 Louisiana-domiciled homeowners insurance companies that were licensed at some point during this time.