

RESIDENTIAL PROPERTY INSURANCE COMPLAINT
STATISTICS

LOUISIANA DEPARTMENT OF INSURANCE



INFORMATIONAL BRIEF
PERFORMANCE AUDIT SERVICES
ISSUED MAY 18, 2022

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LOUISIANA LEGISLATIVE AUDITOR
MICHAEL J. "MIKE" WAGUESPACK, CPA

May 18, 2022

The Honorable Patrick Page Cortez,
President of the Senate
The Honorable Clay Schexnayder,
Speaker of the House of Representatives

Dear Senator Cortez and Representative Schexnayder:

This informational brief provides the results of our review of information and statistics on residential property-related complaints filed during calendar years 2017 through 2021. This brief is intended to provide timely information related to an area of interest to the legislature or based on a legislative request. I hope this information will benefit you in your legislative decision-making process.

We would like to express our appreciation to the Louisiana Department of Insurance (LDI) for their assistance during this review.

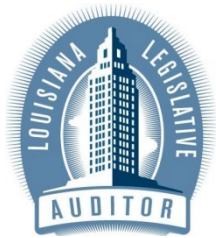
Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Mike Waguespack", is written over a horizontal line.

Michael J. "Mike" Waguespack, CPA
Legislative Auditor

MJW/ch

RESIDENTIAL COMPLAINTS INFORMATIONAL BRIEF



MICHAEL J. "MIKE"
WAGUESPACK, CPA

Informational Brief Residential Property Insurance Complaint Statistics

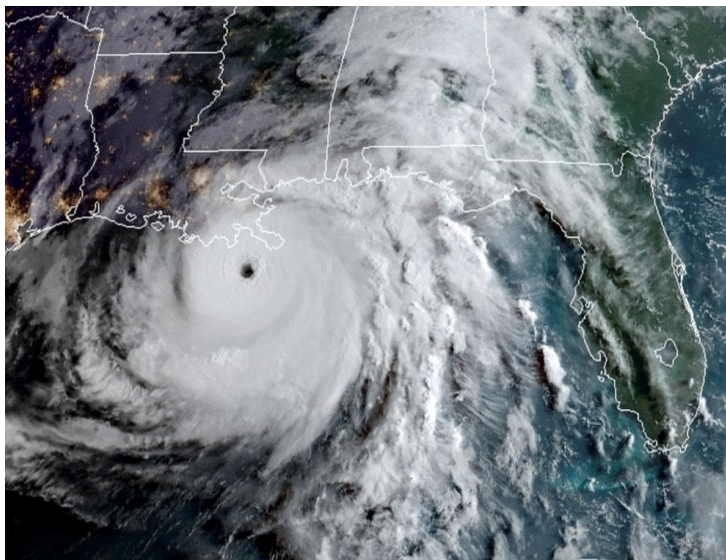
Louisiana Department of Insurance

Audit Control # 40220010

Performance Audit Services – May 2022

Background

Louisiana is often impacted by hurricanes and other weather events that cause wind damage and flooding. According to the National Oceanic and Atmospheric Administration (NOAA), Louisiana ranks second in the nation for the highest costs due to storm damages.¹ Although insurance for residential property² helps to cover the cost of damages, policyholders have reported issues with how insurance companies, agents, and adjusters handle these claims. State law gives policyholders the right to file a complaint against any insurance company, agent, or adjuster with the Louisiana Department of Insurance (LDI). According to LDI staff, LDI investigates complaints to determine whether services were performed in compliance with state law and within the terms and conditions of the specific insurance policy.



Source: NOAA via Reuters

Why We Compiled This Informational Brief

Because of legislative interest in insurance issues after recent hurricanes, we obtained and analyzed complaint and claims data from LDI to provide statistics related to insurance complaints and claims filed during calendar years 2017 through 2021.

Informational briefs are intended to provide more timely information than standards-based performance audits. While these informational briefs do not follow all *Government Auditing Standards*, we conduct quality assurance activities to ensure the information presented is accurate. We met with LDI and incorporated its feedback throughout this informational brief.

In addition to this informational brief, we are currently conducting a performance audit of LDI's regulation of the insurance industry as it relates to hurricane-related homeowners claims.

¹ <https://www.ncei.noaa.gov/access/monitoring/billions/mapping>

² In this report, insurance for residential property refers to both general homeowners policies as well as policies that relate to home-related coverage for specific events such as fire, wind, and hail.

What We Found

Most complaints LDI received during calendar years 2017 through 2021 were related to insurance for residential property. As shown in Exhibit 1, LDI received 21,143 complaints across all lines of insurance during calendar years 2017 through 2021, with 7,941 (37.6%) of the complaints relating to insurance for residential property.

Exhibit 1 Number of Complaints Received by Insurance Line Calendar Years 2017 through 2021		
Insurance Line	Number of Complaints	Percent of Total
Homeowners	7,682	36.3%
Auto	5,337	25.3%
Accident & Health	4,313	20.4%
Life & Annuity	2,207	10.4%
Miscellaneous	868	4.1%
Fire, Allied Lines, and Commercial Multiple Peril (CMP)*	496	2.4%
Liability	212	1.0%
Insurance Line Not Listed	28	0.1%
Total	21,143	
Total Related to Residential Property Coverage**	7,941	37.6%
<p>* This line of insurance includes some home-related insurance coverage, such as fire, wind, and hail coverage. ** This includes all complaints from the homeowners line of insurance and 259 home-related complaints for specific events such as fire, wind, and hail from the Fire, Allied Lines, and CMP line of insurance. Source: Prepared by legislative auditor's staff using LDI data.</p>		

The number of residential property complaints LDI received increased significantly after Hurricanes Laura and Ida. According to LDI staff, the number of residential property complaints it receives each year depends on various factors, including whether or not declared disasters such as tropical storms or hurricanes occur, the strength of those tropical storms and hurricanes, and the population of the impacted areas. The tropical storms and hurricanes³ that occurred during calendar years 2017 through 2021 included:

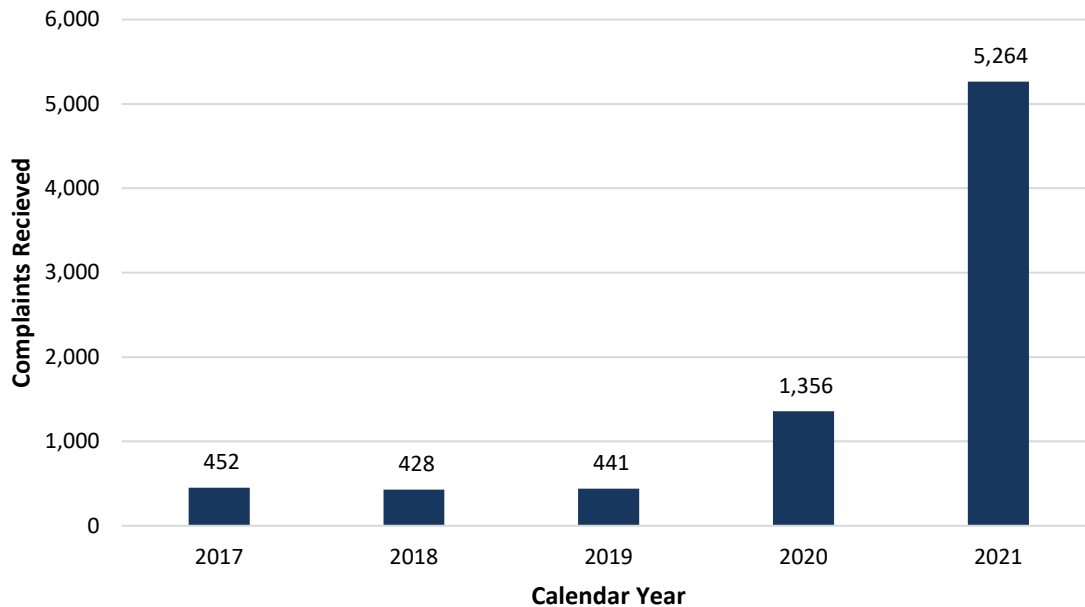
- 2017 – Tropical Storms Cindy and Harvey and Hurricane Nate (Category 1)
- 2018 – None
- 2019 – Tropical Storm Olga and Hurricane Barry (Category 1)
- 2020 – Tropical Storms Cristobal and Marco and Hurricanes Laura (Category 4), Delta (Category 2), and Zeta (Category 3)
- 2021 – Tropical Storm Claudette and Hurricane Ida (Category 4)

As shown in Exhibit 2, the number of residential property complaints LDI received during calendar years 2017 through 2019 was similar, ranging between 428 and 452. However, the number of

³ Storm types and hurricane categories are based on the strength of each storm when it made landfall in Louisiana. For example, while Harvey made landfall in Texas as a Hurricane, it was downgraded to a tropical storm by the time it reached Louisiana.

complaints tripled (207.5% increase) from calendar year 2019 to calendar year 2020 and increased even further (288.2% increase) from calendar year 2020 to calendar year 2021.

Exhibit 2
Residential Property Complaints by Calendar Year
Calendar Years 2017 through 2021



Source: Prepared by legislative auditor's staff using LDI data.

While Hurricanes Laura and Ida were both Category 4 storms, Hurricane Laura's path went through the southwestern and western portions of the state and affected parishes containing approximately 1.3 million residents. Hurricane Ida's path went through the southeastern portion of Louisiana and affected parishes containing approximately 2.7 million residents. According to LDI staff, this resulted in significantly more damage, claims, and complaints for Hurricane Ida than for Hurricane Laura. After Hurricane Laura, there were 133,415 residential property claims filed and 1,392 complaints made, which represented 1.0% of total claims. For Hurricane Ida, there were 339,193 residential property claims and 4,025 complaints made, which represented 1.2% of total claims. See Exhibit 3 for a summary of the population affected, number of residential property claims, and number and percentage of complaints for Hurricanes Laura and Ida.

Exhibit 3				
Hurricanes Laura and Ida				
Population Affected and Residential Property Claims, Complaints, and Percentage of Claims Resulting in a Complaint*				
Storm	Population Affected**	Claims	Complaints	% of Claims Resulting in a Complaint
Hurricane Laura	1,308,963	133,415	1,392	1.0%
Hurricane Ida	2,699,273	339,193	4,025	1.2%
* Population affected is based on unaudited data from the Federal Emergency Management Agency (FEMA) and the United States Census Bureau, and claims is based on unaudited data from LDI's website.				
** Based on the population of parishes designated by FEMA as declared disaster areas which were eligible for individual assistance after each storm.				
Source: Prepared by legislative auditor's staff using LDI data.				

Most residential property complaints from the calendar year 2020 and 2021 hurricanes involved policyholders who were dissatisfied with how insurers handled their claims. Of the 5,883 residential property complaints received by LDI for the calendar year 2020 and 2021 hurricanes, 5,629 (95.7%) were associated with policyholders' dissatisfaction with the way their insurers handled or were handling their claims.⁴ The most common claims handling issue reported by complainants was claim delay. See Exhibit 4 for a summary of issues related to claims handling complaints.

Exhibit 4			
Number of Residential Property Complaints by Claims Handling Issue			
Calendar Year 2020 and 2021 Hurricanes			
Claims Handling Issue	Description	Number*	Percentage*
Claim Delay	Complaints that insurers are delaying the claim process by sending an unnecessary number of adjusters, taking too long to review/respond to claims, etc.	3,004	53.4%
Unsatisfactory Settlement/Offer	Complaints that the insurer's payment or settlement offer was less than the amount expected by the claimant.	1,614	28.7%
Claim Denial	Complaints that insurers have improperly denied claims.	996	17.7%
Adjuster Handling	Complaints about how adjusters performed duties such as not thoroughly inspecting damaged areas, submitting reports that conflict with verbal statements provided to policyholders, etc.	975	17.3%
Other	Complaints related to assignment of benefits, insurers not complying with appeal procedures, etc.	276	4.9%
Total		5,629	
* A single complaint can have multiple claims handling issues reported, so the number of complaints by claims handling issue is higher than the total number of complaints and the percentage of complaints by claims handling issue is greater than 100%.			
Source: Prepared by legislative auditor's staff using LDI data.			

⁴ Other categories include Marketing and Sales, Policyholder Service, and Underwriting.

Most residential property complaints related to the calendar year 2020 and 2021 hurricanes were made against insurance companies rather than specific agents or adjusters. According to LDI staff, complainants are more likely to file complaints against their insurance company even if a complaint directly relates to actions by a certain agent or adjuster, since these individuals perform duties on behalf of the company. See Exhibit 5 for the number of residential property complaints filed by type of entity for the calendar year 2020 and 2021 hurricanes.

Entity	Number of Complaints	% of Complaints
Insurance Company	5,693	96.8%
Insurance Adjuster	87	1.5%
Insurance Agent	73	1.2%
Other	30	0.5%
Total	5,883	
Source: Prepared by legislative auditor's staff using LDI data.		

According to LDI's website, as of calendar year 2020, 35 of 158 (22.2%) homeowners⁵ insurance companies have a higher number of complaints than would be expected based on the amount of premium they have written. LDI tracks the number of complaints against insurance companies and publishes this data on its website so that consumers can use this information when choosing an insurance company. Because insurance companies that serve a large number of policyholders would naturally receive more complaints than insurance companies that serve fewer policyholders, LDI has adopted a complaint index recommended by the National Association of Insurance Commissioners (NAIC).⁶ This index uses a formula⁷ to account for the size of insurance companies when evaluating the number of complaints by insurance company. According to LDI staff, a complaint index score greater than one indicates that the insurance company has received a higher number of complaints than would be expected given the amount of premium written by the insurance company. As of calendar year 2020, LDI data show that 35 (22.2%) of 158 homeowners companies serving Louisiana have a complaint index score greater than one.

LDI completed investigations for 2,908 (56.4%) of 5,154⁸ residential property complaints related to the calendar year 2020 and 2021 hurricanes within its internal goal of 42 days, and the outcome of most complaint investigations were favorable to the complainant. When LDI receives a complaint within its jurisdiction, an investigation is conducted to determine whether the company or individual named in the complaint violated Louisiana's Insurance Code. LDI has an internal goal of 42 days to complete complaint investigations, and it completed 2,908 (56.4%) of 5,154 investigations related to residential property complaints for the calendar year 2020 and 2021 hurricanes within this goal. According to LDI staff, hurricane-related complaints may take longer to investigate because LDI often receives an influx of these complaints when multiple and/or catastrophic hurricanes occur within the same or consecutive hurricane seasons, as seen in calendar years 2020 and 2021. Ultimately, this results in a higher workload for staff than usual.

⁵ This only includes homeowners insurance companies and does not include the Fire, Allied Lines, and CMP line of insurance companies. This is based on unaudited data from LDI's website <https://ldi.la.gov/onlineservices/complaintindex/#:~:text=What%20is%20a%20Complaint%20Index>.

⁶ NAIC is the United States standard-setting and support organization for the regulation of the insurance industry.

⁷ $\frac{\text{Company's total complaints}}{\text{Sum of all complaints for all companies, per policy type per year}}$

⁸ $\frac{\text{Total Company Premium}}{\text{Sum of premiums for all companies, per policy type per year}}$

⁸ This number is lower than the total number of complaints because it is based on investigations that were completed by March 15, 2022, which is the date that the data were provided. The investigation periods of complaints that are still pending investigation were excluded from this calculation.

If LDI's complaint investigation concludes that there was not a statutory violation, LDI informs the complainant of its conclusion and closes the complaint. If a violation is found, LDI notifies the responding entity⁹ of the violation. According to LDI staff, this notification serves as an opportunity for the responding entity to correct the issue if they have not already done so. At the close of the investigation, LDI determines whether the matter should be forwarded internally for a broader review of the company's market practices or externally for possible criminal investigation. According to LDI data, 177 (3.4%) of 5,154 closed complaints were referred internally or to other agencies or departments. As shown in Exhibit 6, the majority of outcomes for completed complaint investigations were favorable to the complainant.

Exhibit 6			
Favorability of Complaint Outcomes			
Calendar Year 2020 and 2021 Hurricanes			
Favorability Type	Examples of Outcomes	Number of Complaints	Percentage of Complaints
Favorable to Complainant	Claim reopened, claim settled/recovered funds, or responding entity position overturned.	3,291	63.9%
Neutral	These outcomes were neither completely favorable to the complainant nor the responding entity. Examples include withdrawn complaints, complaints that involved a question of fact,* and complaints outside of LDI's jurisdiction.	1,474	28.6%
Favorable to Responding Entity	Responding entity position substantiated and no funds were recovered.	311	6.0%
Undetermined	Favorability was not determined for 73 complaints with outcomes that had different favorability types. For another five complaints, no outcomes were listed.	78	1.5%
Total		5,154	
* According to LDI staff, it cannot adjudicate questions of fact. To resolve these, a determination must be made by some other entity such as the court system.			
Source: Prepared by legislative auditor's staff using LDI data.			

According to LDI staff, at least 10 insurance companies have withdrawn from the state since the calendar year 2020 and 2021 hurricanes, and at least five more have stopped writing new policies. Louisiana's insurance market, already affected by the state's prevalence of weather disasters, experienced further impact after large volumes of claims were filed in two consecutive years. For example, the claims for Hurricane Ida in 2021 far exceeded the number of claims from the three 2020 hurricanes combined. In a span of two years, insurers have paid approximately \$15.1 billion in losses¹⁰ for hurricane damages. While policyholders are negatively impacted when they are unable to easily obtain the payment of claims owed to them, the payment of large volumes of losses in a short amount of time can also contribute to hardships for policyholders. For example, to recover from financial losses, insurers may seek to increase rates, write fewer or no additional policies to homeowners in affected areas, or leave Louisiana's insurance market altogether either voluntarily or after being unable to pay claims and being placed into receivership. See Exhibit 7 for claims and payments for each of the calendar year 2020 and 2021 hurricanes for all lines of insurance.

⁹ The responding entity is the insurance company, agent, or producer against whom the complaint was made.

¹⁰ According to LDI's website, paid losses are the payments on closed claims excluding adjustment expense.

Exhibit 7			
Claims, Payments, and Reserves for All Lines of Insurance			
Calendar Year 2020 and 2021 Hurricanes*			
Hurricane	Claims Reported	Paid Loss	Reserves on Reported Claims***
Laura	177,691	\$7,422,148,171	\$1,657,053,682
Delta	89,451	750,988,421	124,517,817
Zeta	56,585	422,561,005	206,707,530
Ida**	434,633	6,466,165,653	4,024,060,840
Total	758,360	\$15,061,863,250	\$6,012,339,869
* Paid loss and reserves on reported claims are based on unaudited data from LDI's website. ** The totals for Ida are from data reported as of December 31, 2021, and therefore do not include any claims or payments that were made after this date. *** Amount set aside by insurers to cover claims incurred but not yet paid. Source: Prepared by legislative auditor's staff using LDI data.			

According to LDI staff and stakeholders from the insurance industry, attracting additional national insurers to Louisiana's market is already challenging, which makes the stability of present insurers vital. According to LDI staff, at least 10 companies have withdrawn entirely from the state since the calendar year 2020 and 2021 hurricanes, and at least five more have stopped writing new policies. In addition, five insurance companies have been placed into receivership¹¹ by LDI after financial insolvency¹² due to the damages of the calendar year 2020 and 2021 hurricane seasons. When this occurs, the Louisiana Insurance Guaranty Association (LIGA) covers the cost of outstanding claims. Policies from at least three of those insurance companies have been picked up by other insurance companies which prevented cancellation of the policies.

¹¹ According to LDI's website, receivership is a process in which an independent person, or receiver, takes control of a failed company's assets to pay off its debts.

¹² According to Louisiana Revised Statute 22:2003, insurance companies are considered insolvent when they are unable to pay their obligations when they are due or when the companies' assets do not exceed its liabilities plus any required capital contribution ordered by the commissioner.