Hugh McDonald
SECRETARY OF COMMERCE

Alan McClain
COMMISSIONER,
ARKANSAS INSURANCE
DEPARTMENT

To: Arkansas Legislative Council
From: Alan McClain, Insurance Commissioner

Date: January 10, 2024

Re: Arkansas Insurance Market

Members:

As you are likely aware, property insurance rates for personal and commercial insurance coverage have been increasing and anytime this happens, there is a burden on almost every Arkansan. At the Arkansas Insurance Department we review rate increase requests, and also policy coverages offered by insurance companies licensed to do business in our state. We always make the utmost effort to ensure that Arkansas will have a well-functioning insurance market with reasonable availability and affordability. A review of insurance news will quickly illustrate that Arkansas is not alone as we face these unprecedented conditions and market behavior.

Over the past year, a review of financial data submitted to our analysts consistently indicated that storm related claim expenses had a significant financial impact on the solvency of companies in our state, bringing them dangerously close to no longer offering coverage to our citizens. In fact, one Arkansas based company, United Home Insurance of Paragould Arkansas, was taken into receivership by our department due to insolvency impacting several thousand policy-holders, many with pending claims. We are now paying the outstanding claims through our state's property and casualty guaranty fund which is funded by assessments made to the insurance companies. The storm related claims of 2023 were a direct cause of the demise of United Home. Two other carriers, Cameron Mutual and First Auto Insurance are also in receivership, and the guaranty fund is expected to assume payments on those outstanding claims as well. Another company, has simply ceased offering coverage in our state, deeming that the recent weather patterns are presenting more risk than they are willing to insure. Other companies are limiting the number of new customers they choose to insure in Arkansas in order to limit the amount of new risk they take on as an insurance company. Some of their decisions are also being forced by their reinsurance carriers having less appetite for storm related risk in our state. As of Dec. 31, Insurers have paid over $489 million dollars from claims related to the March tornado event. This is in addition to the subsequent severe weather events that included large amounts of hail. Nationally, severe convective storms (e.g., thunderstorms, tornados, hailstorms) accounted for 68% of all weather-related losses in the first half of 2023, resulting in a financial impact of $35 billion.

As we discussed strategies for Arkansas consumer premium relief with our companies, more than one referenced certain deductible and claim settlement restrictions in place in the Arkansas market, but not surrounding states. After discussions with surrounding and similarly situated states, the Department confirmed this to be true and issued Bulletin 17-2023 lifting the prohibition in Arkansas on a separate deductible for wind/hail damage and broadening the timeframe an actual cash value settlement (ACV) endorsement for wind/hail damaged roofs could be added to a policy.

Previously, Arkansas allowed an insurer to offer an optional ACV settlement endorsement for wind/hail damaged roofs (roof schedule) in replacement cost policies for roofs over 10 years old and would allow a mandatory endorsement for roofs over 15 years old. Going forward, Arkansas will allow a mandatory endorsement, with approved notice, to allow ACV loss settlement on replacement cost policies for wind/hail damaged roofs at age 7. Any insurer choosing to add the endorsement to policies must submit the notice for approval and the Department will ensure the changes are boldly noted in the communication, and not lost in the fine print of the policy documents.

Although this limitation of coverage on storm related damage, and also the actuarily justified rate increases that we are seeing, should help stabilize the rate increases needed by carriers, we will all likely experience some amount of increase in 2024. These increases by carriers will allow us to still have a large number of insurers competing for the insurance business of our citizens by minimizing the number of companies going out of business or choosing to leave our market. This allows Arkansans to have more choices for coverage and more opportunities for insurance companies to compete to provide more affordable rates. If storm damage could be minimized along with a reduction of other inflationary pressures, I would expect to see an improvement in these insurance market conditions in 2025.

# Buying Home and Auto Insurance Is Becoming Impossible

## Huge losses from national disasters prompt industry to jack up prices and pull back from some markets; ‘worst possible scenario’ for consumers

After Allstate suffered billions of dollars in losses and failed to get the rate increases it wanted, it resorted to the nuclear option.

The insurance giant threatened last fall to stop renewing auto insurance for customers in three states that hadn’t given in to its demands, which would have left those policyholders scrambling for coverage. The states blinked.

In December, New Jersey approved auto rate increases for Allstate averaging 17%, and New York, a 15% hike. Regulators in California are allowing Allstate to boost auto rates by 30%, but still haven’t decided on its request for a 40% increase in home-insurance rates after the insurer refused to write new policies.

For many Americans, getting insurance for both their cars and homes has gone from a routine, generally manageable expense to a do-or-die ordeal that can strain household budgets.

Insurers are coming off some of their worst years in history. Catastrophic damage from storms and wildfires is one big reason. The past decade of global natural catastrophes has been the costliest ever. Warmer temperatures have made storms worse and contributed to droughts that have elevated wildfire risk. Too many new homes were built in areas at risk of fire.

As losses mounted, inflation only made matters worse, boosting the cost of repairing or replacing cars or homes.

Climate change also has made it harder for insurers to measure their risks, pushing some to demand even higher premiums to cushion against future losses.

“I have never seen the overall market this bad,” said Barry Gilway, a 52-year veteran of the industry who retired in 2023 as head of Florida’s Citizens Property

Insurance, a state-created insurer of last resort that sells plans to people who can't get coverage elsewhere.

Homeowners and drivers are facing sharply rising premiums, less coverage and fewer, if any, choices of insurer. In some places, the only options are bare bones coverage or none at all. That can make homes worth less and harder to sell, and cars less affordable.

Farmers Insurance Group increased home-insurance rates by more than 23% last year for tens of thousands of policyholders in both Illinois and Texas, according to S&P Global Market Intelligence. Nationwide Mutual said it won't renew 10,525 home-insurance policies in hurricane-prone areas of North Carolina.

State Farm racked up $13 billion in property-casualty underwriting losses in 2022, its worst ever. Last year, it stopped writing new home-insurance policies in California. The state's regulators last month approved a 20% home-insurance rate increase.

"This is just the worst possible scenario you could think of for consumers," said Timothy Gaspar, head of a Los Angeles-based insurance agency. The mass retreat of insurers from the state means there is nothing to offer people seeking new home or auto insurance, he said.

A Farmers spokeswoman said its rate increases were designed to "better reflect the increased risk and claims costs we continue to face." A Nationwide spokesman said the company was being more selective about where it writes policies in response to inflation and market disruptions.

A State Farm spokesman said the rate increases were driven by increased costs and risk, and that the company continued to look for ways to maintain competitive rates.

Allstate Chief Executive Tom Wilson defended the threat to yank auto coverage in the three states that generated heavy losses. "We can't afford to use shareholder money…to support an underpriced product," he said. A company spokesman said the "rate approvals allow us to protect more customers as we work with state regulators to improve insurance availability."

Last summer, Marta Cross, an actress, bought a new home with her musician husband in northeast Los Angeles. Their new neighborhood in the San Rafael Hills, called Mount Washington, has lots of trees but no recent history of wildfires, she said, and no fire-zone warning signs.

Nevertheless, their house purchase almost fell apart when she was unable to get insurance from any private-sector company because of wildfire risk. “It was really hairy,” she said. “The seller’s agent was in touch every day, saying, ‘What’s happening with the insurance?’

She contacted a local mothers’ group for advice. “Several moms started to be concerned, saying, wait, does this mean I’m not covered?” Cross recalled. She ended up buying fire coverage with the state’s insurer of last resort and a supplemental policy to cover other risks, as required by her mortgage lender.

The combined premiums total more than $4,000 a year. That’s around $1,500 more than if she had qualified for a regular home-insurance policy, according to her insurance agent, Nick Ramirez of Goosehead Insurance. “I’m considering forgoing earthquake insurance so I can have fire insurance,” Cross said. “And praying.”

U.S. property-casualty insurers, who issue home and auto policies, racked up $32.2 billion in net underwriting losses in the first nine months of 2023, $7.6 billion worse than in the same period a year earlier, according to a December report by ratings firm AM Best.

Tough times are nothing new for insurers. They are in the business of predicting the future. When losses are low, companies such as Progressive and Geico—known to consumers for their ubiquitous ads featuring, respectively, Flo and the gecko—fight for customers. When disasters hit, they tally their losses and raise prices or cut offerings.

Big profits often follow, leading to complaints from consumers and regulators. Shares of insurers, including Allstate’s, already have rebounded in anticipation of higher profits. Nevertheless, the industry’s traditional business model is under pressure and, some think, broken.

Insurance premiums have outpaced inflation. Car insurance rates increased 19.2% in the 12 months through November, six times the rise in overall consumer prices, Labor Department data show. It was the 15th consecutive month of double-digit percentage increases in premiums, year-over-year, the longest stretch of such high hikes since the mid-1980s, according to S&P Global.

Simon Edwards drives a 2012 Mazda 5 in his hometown of Las Vegas. The monthly premium of his Geico auto insurance, he said, has shot up 72% in less than a year, from $130 in April to $223 now. "I've been in no accidents, no tickets, been with Geico for many years," he said.

Home insurers have faced premium increases from their own insurers, known as reinsurers. Reinsurance prices for last year were up 30% to 50%, and insurers were forced to take on more risk, said Neil Alldredge, head of the National Association of Mutual Insurance Companies. Reinsurers, more than almost any other industry, are focused on climate risks.

Prices for coverage can be all over the place, forcing consumers to shop around. Nancy Piel, who lives Lake Forest, Ill., a Chicago suburb, contacted three agents last year after Nationwide increased the cost of insuring her two homes and 2011 minivan to $18,000. According to one agent, Chubb quoted even more: $29,000. She ended up insuring with Cincinnati Insurance for $10,500. The coverages were all very similar, she said. Chubb, which caters to high-net-worth customers, offers services not typically available with mainstream policies.

Not all homeowners have the luxury of getting competing quotes. "We assume people have choices…go shop it and you'll find it," said Debbie Mayfield, a Florida state senator, at a hearing last year. "Well, I'll tell you, it's been shopped and you can't find it." Her district includes part of hurricane-prone Brevard County.

Among the factors pushing up the price of auto insurance: Prices of new and used cars, and parts, have risen, more people are driving expensive vehicles, and extreme weather is destroying more cars.

"I've been here 27 years, and we've never increased auto rates in the way we have in the last two years," said Allstate CEO Wilson.

Wilson asked hundreds of his company's agents at a fall event in Orlando how customers were reacting. "I was like, 'How's it going? What are people saying? If I'd said to you three years ago we were going to raise auto prices by 17.5% in one year, you would have thrown me out.'"

The answer he got back, Wilson said, was that "people understand it, they understand that their cars and their houses are worth more money." But, he said, "it's clearly a burden for customers, and we need to figure out what to do about it."

Some consumers are opting to forgo coverage—if they have a choice. Most mortgage lenders require borrowers to have home insurance. Richard Redmond was quoted $7,500 a year for federal flood insurance for his new home on a barrier island on Florida's east coast. "I chose to forgo the flood policy," he said. "A $7,500 annual fee for $350,000 of coverage makes no sense."

Inflation, higher reinsurance rates and lawsuits are part of doing business for insurers. Climate change is a wild card. When insurers can't quantify a risk, they charge more to cover it, or avoid it completely.

Global insured losses due to extreme weatherSource: AonNote: Amounts are inflation-adjusted "Climate change will destabilize the global insurance industry," research firm Forrester Research predicted in a fall report. Increasingly extreme weather will make it harder for insurance companies to model and predict exposures, accurately calculate reserves, offer coverage, and pay claims, the report said. As a result, Forrester forecast, "more insurers will leave markets besides the high-stakes states like California, Florida, and Louisiana."

Allstate CEO Wilson said: "There will be insurance deserts."

Insurance deserts, where private-sector companies no longer will sell regular home-insurance policies, are already developing in high-risk areas. Florida's insurer of last resort is now the main provider of home coverage in that state.

In California's wildfire-prone San Bernardino County, insurers in 2021 refused to renew 1,355 policies in a zip code that abuts Lake Arrowhead, north of San Bernardino, up sharply from 157 refusals in 2015, according to an analysis by research firm First Street Foundation.

In November, Chaucer Group, a London-based reinsurer, named several regions once considered low risk for wildfires that it said are "quickly becoming areas of concern for catastrophic wildfire insurance losses." They include mountainous areas between Salt Lake City and Denver, and the Appalachian Mountains from Tennessee to New York.

Another concern is Texas, partly because of increased development on the fringes of metropolitan areas stemming from migration from California, the report said.

Insurers say they won't completely abandon risky areas. "I don't think it's like the insurance industry said, we're done here, you're on your own," said Allstate's

Wilson. "It's just, there are certain places where if we can't spread the cost appropriately and we can't price it, then we shouldn't do it."

Insurance agents and analysts said many insurers are "quiet quitting" high-risk areas rather than face the public relations or regulatory fallout from an official exit.

"Most of the carriers have just flat out said, we are not accepting new business right now [in California]. But that statement is made to insurance agencies, not the public," said Gaspar, the Los Angeles agency head. "Or they're making it next to impossible to get a new policy."

Companies are choking off new business by slashing advertising, closing sales offices, or erecting barriers to getting quotes.

State Farm spent 72% less on broadcast and cable advertising in the nine months through Sept. 30, compared with the year-earlier period, according to advertising tracking company AdImpact. Geico cut back by 81%, the data show. A State Farm spokesman confirmed ad spending was down, but said the company didn't think tracking services completely captured its marketing spending.

Geico in 2022 closed all its sales offices in California. Search for an agent on the Geico website, and the alphabetical list of states skips straight from Arkansas to Colorado. California appears not to exist. A Geico spokesman said customers still have the option to buy its policies in California directly from the company.

Agents say another common technique for restricting unprofitable growth is insisting on hard-to-locate paperwork upfront. Proof that the plumbing's been updated, say, or documentation of work done on the roof. "It's a way to say, we don't want the business," said Gaspar.

Last summer, Nationwide said it was requiring customers to supply documentation before the company would provide quotes for some new home or auto insurance products in certain states. The company, which declined to name the affected states, said the move was a response to "strong headwinds" buffeting the industry.

For years, state regulations kept insurance relatively cheap in California. Insurers usually requested rate increases of less than 7% because of a 35-year-old law that made it harder to raise rates by more.

That 7% norm appears to be a thing of the past. State Farm and others stopped selling new home insurance in the state. “For many Californians, this is an insurance emergency,” state insurance commissioner Ricardo Lara told state legislators in December.

The state regulator granted ASI Select Insurance, owned by Progressive, a 25% average home-insurance rate increase last August, affecting more than 40,000 policyholders, state filings show. Progressive didn’t respond to requests for comment.

Last fall, Lara said he would accede to a longstanding industry demand to allow rate increases to reflect predicted future losses from wildfires, rather than historic damages only. The regulator also said he would consider allowing companies to pass reinsurance cost increases through to policyholders.

Other states deserted by many big insurers, including Florida, are trying to tempt companies back by making it harder for policyholders to sue them.

Despite some concessions from regulators, insurers are bracing for a tough future. Allstate’s Wilson said that everywhere in the country is at some risk from increasingly severe weather. “There is no place that’s safe,” he said, “and no place that’s not going to be impacted.”

Write to Jean Eaglesham at Jean.Eaglesham@wsj.com