

New insurers seize opening in La. market

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While big insurance companies have mostly stopped writing new homeowners policies in south Louisiana, a renegade group of mostly start-up insurance companies is marching into the disaster zone to fill the void.

Most of them hail from Florida, where about 25 new property insurance companies were formed in the last two years as big players exited the market. As those companies gain traction, many are seeking to expand to other insurance-starved coastal states such as Louisiana on the theory that they can collect high premiums and dilute their risk by writing policies in a larger geographic area.

"Our business is to focus on catastrophe-prone areas," said Dale Hammond, president and chief executive of HomeWise Insurance Group, a company that spread from Florida to Texas and this year to Louisiana and South Carolina. "There's a lot of new money coming in to support companies like HomeWise."

Armed with detailed business plans, sophisticated computer models and confidence in modern building codes, these entrepreneurs say they are starting companies that might not have been possible even a decade ago. They believe they can function better in risky coastal zones than their well-established brethren because they're not distracted by auto and life insurance sales or stuck with heaps of unwanted policies in their portfolios from times of calmer weather.

While the formation of these niche companies since the legendary 2004 and 2005 hurricane seasons could be a peek into the future of coastal insurance markets, it also amounts to a grand experiment being conducted on homeowners in coastal areas across the South.

"If they do it right, and manage everything right, it could work out fairly well for them and the people they write," said Robert Klein, director of the Center for Risk Management and Insurance Research at Georgia State University. "What doesn't work is if a company writes too many high-risk exposures and it doesn't have sufficient capital and reinsurance to withstand a reasonable hurricane scenario."

Critics note that many of these companies have little operational experience and have managed to grow quickly with the help of easy capital from state incentive programs. Homeowners who take out a policy with a company that has never been tested by a major storm could face a considerable amount of risk.

"I always worry about start-ups, especially if start-ups are heading into risky ventures like hurricane areas," said Bob Hunter, director of insurance at the Consumer Federation of America. "I don't think there's any doubt that a small company can be excellent. But the problem is that for every 10 start-ups, probably five go under. Which are the good ones?"

That's hard for consumers to figure out."

Since January of last year, 12 insurance companies have applied to do business in Louisiana or add homeowners insurance to their licenses, according to records at the Louisiana Department of Insurance. Not as much activity is taking place as it appears from the statistics, however. Only five of the 12 companies that applied to do business here have Louisiana homeowners plans at this time.

Another 12 companies have applied to write commercial or homeowners insurance policies as surplus lines carriers, which means that they must meet more stringent capital requirements than regular admitted insurance carriers, but they are not backed by the Louisiana Insurance Guaranty Association.

"I think this is a really, really positive sign for the future of our market," Insurance Commissioner Jim Donelon said.

The overwhelming feature of the companies that are actively trying to get started in Louisiana is their newness.

Joe Potrelli, president of the Ohio company Demotech Inc., which provides financial ratings for young insurance companies, said that these start-ups have a different approach to insuring coastal property.

He noted that many big, established companies don't want to work in catastrophe-prone areas because they don't want their quarterly earnings torpedoed by a storm or wildfire. "The Wall Street analysts got involved a number of years ago and said, 'What the heck are you doing insuring coastal property? We like stable earnings,'" Potrelli said.

By contrast, investors who launch start-ups in catastrophe-prone areas know that they're in a high-risk venture, and they're highly motivated to stick to their plans. Many of these small companies are being started by people with years of management experience who understand challenging coastal markets, such as HomeWise's Hammond, who has 38 years of executive experience with big-name insurers such as Travelers.

The key consideration with start-up companies, Potrelli said, is reinsurance. Most spend about 70 percent of the premiums they collect on buying insurance to cover their claims in the event of a catastrophe. Because reinsurers are so heavily invested in the companies, the relationship is more of a partnership than a product sale, because the reinsurer has a big stake in making sure the start-up insurer can survive.

For anyone in Louisiana who may be worried about how this strategy works, Potrelli said that of the 70 companies that Demotech rated at the time of the record 2004 and 2005 storm seasons, only one failed. "I think the system was severely tested," Potrelli said.

But Hunter, the consumer advocate, said he's not sure how much stock to place in a Demotech rating. Although the state accepts Demotech ratings before it issues an insurance license, Hunter said he does not know how rigorous its process is compared with that of the ratings standard-bearer, A.M. Best Co. He's also troubled that Demotech describes itself as a consulting firm that offers ratings services to its clients.

"That raises questions of conflict. If you're a ratings agency, you have to have arms length," he said.

Hunter is also concerned about how well-capitalized these fast-growing companies are, and whether they'll be able to manage their operations and get adjusters in the field if a storm strikes. Moreover, he's concerned that Florida's \$250 million Capital Build-Up Incentive Program for matching loans and Louisiana's \$100 million Insure Louisiana could attract people seeking easy money.

Whether these state investments pay off in the form of a stronger property insurance market remains to be seen. The Florida Legislature recently passed a bill that would renew the loan program, but that also relaxes the requirements for the number of policies the companies have to write, because companies were having trouble fulfilling them. Florida Gov. Charlie Crist vetoed that bill last week because the money to finance continuation of the program would have depleted resources from Florida Citizens.

Donelon says he's not worried at this point about grant recipients meeting the requirements for taking policies out of Citizens and writing new policies in hurricane-stricken parishes.

Klein, the Georgia State professor, said that some niche insurance players, such as auto insurer Progressive Casualty Insurance Co., which started off insuring the drivers that no one else wanted, became so successful in the high-risk market that it became a major player for standard car insurance.

But coastal homeowners insurance, which risks massive losses at one time, is different.

"Niche playing hasn't been as prominent in the homeowners business in the past, but with this catastrophic risk problem being what it is, it seems that this is a phenomenon that we're going to see more of," Klein said. "How far it will go, and how many of these existing properties they are able to absorb, that remains to be seen."

Donelon said he believes the greatest potential to lessen the property insurance crunch in Louisiana comes from small and regional insurance companies. He said Louisiana has been very careful to make sure that these companies are financially strong, but that consumers should turn to insurance agents for help in evaluating companies. He also noted that Louisiana has a track record of ensuring solvency, because no companies failed in the state after the 2005 storms.

But to give consumers extra assurance, the insurance department is pushing Senate Bill 240 to increase the capacity of the Louisiana Insurance Guaranty Association. "Folks who buy coverage from companies that they're not familiar with can rest assured that their coverage is there even if that company were to go under," Donelon said.

But the real test may be whether these start-up companies are palatable to insurance agents, whose reputations are at stake in the communities where they work.

Marc Eagan, president of the Eagan Insurance Agency in Metairie, said his firm won't represent companies that don't have at least an A-minus rating from A.M. Best, and that he would go for highly rated surplus lines insurers with an A.M. Best rating before he'd consider start-up regular insurance companies with the Demotech rating.

"We are concerned about companies coming in and trying to position themselves because of the condition of the marketplace. Are their claims-paying abilities going to be there?" Eagan said. "Our firm is bigger than most of these companies. That's scary."