TEMPORARY PANEL ON HOMEOWNERS' INSURANCE COVERAGE

A Report to Governor Pataki
and
Members of the New York State Legislature

September 1, 2001

Superintendent of Insurance
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INSURANCE DEPARTMENT
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September 1, 2001

To Governor George E. Pataki and members of the New York State Legislature:

In accordance with Chapter 36 of the Laws of 1999, I hereby submit the "Report of the Temporary Panel on Homeowners' Insurance Coverage."

This report represents the fifth consecutive year that the Temporary Panel on Homeowners' Insurance Coverage has reviewed and analyzed the affordability and availability of homeowners' insurance in New York State. The Panel, comprised of experienced, knowledgeable insurance professionals, was assisted in their efforts by staff from the New York State Insurance Department.

I would like to thank the members of the Panel for the time and energy they have devoted to assembling this comprehensive report.

Sincerely,

Gregory V. Serio
Chair, Temporary Panel

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Temporary Panel on Homeowners' Insurance Coverage

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Executive Summary

Primary Market

- With $50 billion in excess capacity, the primary industry is well prepared to handle the cost of a natural disaster.

- The insurance industry has the capacity to pay most or all natural catastrophe claims from a 1-in-100-year catastrophe loss that strikes a single state.

- At $338.4 billion, the insurance industry surplus has increased 80.4% percent since 1994 following losses from Hurricane Andrew and the Northridge Earthquake.

Reinsurance Market

- The cost of catastrophe reinsurance had dropped for five consecutive years (1995-1999), however the market began hardening in 2000-2001.

- Catastrophe reinsurance prices peaked in July 1994 and then fell each year until 2000. In 2000, they began to rise, but remain about 35% lower than 1994 levels.

Capital Markets

- Capital markets continue to develop and implement products to securitize insured catastrophe risk and provide additional capacity to insurers. However, securitizations have declined in the past two years from the $2.5 billion level posted in 1998.

Coastal Writings

- The number of coastal policies in force in the New York Property Insurance Underwriters Association (NYPIUA), New York's insurer of last resort, fell precipitously from 49,800 in 1998 to 40,800 in 2000. At the same time, coastal in-force writings in the voluntary market increased by nearly 80,000.

Catastrophe Fund

- The Panel continues to believe that the establishment of a statewide catastrophe insurance fund in New York State is unwarranted at this time.

Preface

This report is submitted in accordance with Chapter 36 of the Laws of 1999, which continued the existence of the special advisory panel on problems affecting the affordability and availability of homeowners' insurance in New York State.

Superintendent of Insurance Gregroy V. Serio chaired the Panel. The Superintendent wishes to thank the following individual members of the Panel for their participation and generous contribution of time and effort in helping to accomplish the Panel's mission:

Marsha Cohen	Reinsurance Association of America
Anthony Granito	McNeil & Co. Insurance and Risk Services
Jeffrey Greenfield	NGL Group, LLC
Howard I. Honig	Honig Insurance Agency, Inc.
John B. Johnson	Johnson & Johnson Agency, Inc.
Shelly H. Kozel	Lezok, Ltd.
Mark Kriss, Esq.	Kriss, Kriss & Brignola (Alliance of American Insurers)
Mary Lanning	Guy Carpenter & Company
Steve Ihm	Allstate Insurance Company
Peter Lefkin	Fireman's Fund Insurance Company
Daniel Robinson	New York Central Mutual Fire Insurance Company
Michael Rosenzweig	Rosenzweig Financial Services
James E. Ryman	State Farm Insurance Company
George D. Yates	Dayton & Osborne
Steven Wietlisbach	Travelers Insurance Company
Lewis Wilson	Fire Mark Insurance

The Panel would also like to thank these individuals for their contributions to this year's Report: Christopher Roe (Fireman's Fund), John Cucci (Alliance of American Insurers), Dorothy Harris (NYS Department of State). Doug Joseph (State Farm), Floyd Holloway (State Farm), and John Miletti (Travelers).

Within the New York State Insurance Department ("the Department"), an internal task force was formed to assist and coordinate the Panel's activities. The members of the internal task force included Stephen Maluk, Wayne Cotter, Mark Presser, Janet Glover, Charles Rapacciuolo, Michael Moriarty, Benita Hirsch, Patricia Mann, Anthony Yoder, Gerald Scattaglia, Lucy Cilione, Vince Mazzarella and Naranjan Robert.

In previous Reports, the Panel provided extensive analyses of the issues impacting the affordability and availability of homeowners' insurance (e.g., standardized vs. flexible deductibles, hurricane catastrophe funds, consumer education efforts, mitigation, capital markets). The Panel believes the analyses relating to these issues remain valid and refers the reader seeking more comprehensive information on such arguments to prior years' reports.

This Report was prepared by the Temporary Panel on Homeowners' Insurance Coverage. The Temporary Panel is comprised of members appointed by Governor Pataki and the leadership of the New York State Legislature. Although the Report was prepared through the auspices of the New York State Insurance Department, it reflects the findings and opinions of the appointed members of the Temporary Panel, not necessarily those of the Insurance Department.

I. STATE OF THE MARKET

A. Primary Insurance Marketplace

Historically, primary insurers have paid two-thirds to three-quarters of catastrophic claims, passing the remainder through to reinsurers. The primary industry is well prepared to handle the cost of a natural disaster. The following are some facts about the primary marketplace:

- **$50 billion in excess capital —** According to a December 2000 A.M. Best Study (see Appendix D) the industry has nearly $50 billion in "excess capital" as defined in the report. "The industry's overcapitalization represents a significant capital management challenge", says Best, "and opportunity for most insurers." The study involved a detailed capital analysis of 996 individual companies and groups representing 99% of the industry's capital base. Best's analysis reveals that over three-quarters of the property/casualty companies maintain "extra" capital totaling $88 billion -- 26% of the industry's 1999 surplus. (Excluding the two capital rich groups – State Farm and Berkshire Hathaway, the industry still maintains $48 billion in extra capital according to the report.)

- **Capacity to pay 1-in-100 year catastrophe loss —** According to a January 2000 General Accounting Office (GAO) Report, *Insurers Ability to Pay Catastrophe Claims*, the industry has the capacity to pay natural catastrophe claims "for most or all claims from a single 1-in-100-year catastrophe loss that strikes a single state." The study also concluded that the industry's financial resources have grown substantially since 1990 and currently are large relative to the natural catastrophe claims estimated to arise from a single major catastrophe. The report also noted that as of January 2000 when the study was completed, reinsurance was widely available and prices were low relative to historic levels.

- **Ability to finance major catastrophic loss —** According to a 1999 Wharton School Catastrophe Risk Management Study analyzing the capacity of the U.S. property insurance industry's ability to finance major catastrophic losses, the insurance industry has more than adequate capacity to pay at least 98.6% of a $20 billion loss. For a catastrophe of $100 billion, the industry could pay at least 92.8%. The report concludes that the gaps in catastrophic risk financing are not sufficient to justify Federal government intervention in private insurance markets in the form of catastrophe reinsurance.

- **Surplus rose 80% since 1994 —** According to A.M. Best, 1999 insurance industry surplus stands at $338.4 billion, an increase of 80.4% percent since 1994 after the insurance industry suffered losses from Hurricane Andrew and the Northridge Earthquake. Policyholder surplus for the top five homeowners' insurers, controlling 52% of the market (State Farm, Allstate, Farmers, Nationwide and Travelers), stood at $79.6 billion in 1999, more than doubling over a five-year span.

B. Reinsurance Marketplace

- **Capacity is abundant** — An analysis of the 2000 reinsurance renewal season, provided by Guy Carpenter & Company, a major reinsurance broker, concluded that capacity is abundant. The average retention by primary insurers in 2000 was $320 million, up from $125 million in 1992 (See Appendix D). With primary insurers retaining a higher percentage of their risks, capacity in the reinsurance market has increased.

- **Cost is low** — The cost of catastrophe reinsurance is relatively low, having declined in each of the past five years (1995-1999). Prices, however, began to firm in 2000-2001.

- **Prices firming** — Guy Carpenter & Company reports that the 2000 renewal period showed signs of firming reinsurance pricing. Although prices for catastrophe covers have increased in the single digit range, given the high level of price cutting in past years, rates are still viewed as inadequate. Catastrophe reinsurance prices peaked in 1994 and fell in each of the next five years. They rose in 2000 but remain below pre-Hurricane Andrew levels.

- **Reinsurance prices 35% below peak —**The Paragon Risk Management Services' Catastrophe Price Index measures domestic reinsurance catastrophe prices since the early 1980s. The index reveals that reinsurance prices for renewals for January 1, 2000 dropped for the eleventh consecutive semi-annual period. Paragon's report concludes that global catastrophe pricing remains under pressure as reinsurance capacity exceeds demand in all regions. Average price of a reinsurance contract was about 35% lower in 2000 than it was in July 1994 when prices peaked.

C. Capital Markets

Capital Markets still developing — The capital markets continue to play a role with regard to both the index based and traditional products. Guy Carpenter & Company reports "that in most situations, the optimal risk management solution is comprised of a blend of all different product structures -- traditional, structured risk, and indexed based -- utilizing both reinsurance and capital market capacity." The capital markets continue to develop and implement products to securitize insured catastrophe risk and provide additional capacity to insurers. However, due to continued availability of relatively low-priced reinsurance, capital markets have declined as a source for primary insurers to offset risk. In 1998, securitizations valued at $2.5 billion were finalized, in 1999, the value of successful securitizations fell to $1.9 billion; and in the first half of 2000, the total value of securitizations was approximately $1 billion (see Appendix C).

D. New York State Building Code

New York to update building code — New York is one of only two states in the nation that still maintains and enforces a self-written building code. Although, the Uniform Fire Prevention and Building Code has served New York State well, its development has not kept up with today's fast paced construction industry, and as such does not recognize many modern construction technologies and materials. Also, the format is not consistent with the codes developed by the three major model code groups: ICBO (International Conference of Building Officials), SBCCI (Southern Building Code Congress International) and BOCA

(Building Officials and Code Administrators). A Governor's Program Bill to adopt a model code was introduced in the 1999 Legislative Session, but did not pass. However, a budget appropriation of $1.4 million was provided to the Department of State (DOS) for this undertaking. Legislation was not needed for this change since the Uniform Fire Prevention and Building Code Council (Code Council) has the statutory authority for the maintenance and development of the Uniform Code.

On November 10, 1999, the Code Council voted to adopt the *International Codes* with modifications. The 2000 *International Codes* were chosen since they are the most updated model codes. These are the first printed-version codes drafted jointly by the three model code organizations: ICBO, SBCCI and BOCA.

The *International Codes*, which will be incorporated into the Uniform Fire Prevention and Building Code (the current code), are: the *International Building Code (IBC)*, the *International Fire Code (IFC)*, the *International Residential Code (IRC)*, the *International Plumbing Code (IPC)*, the *International Mechanical Code (IMC)*, the *International Fuel Gas Code (IFGC)*, the *International Property Maintenance Code (IPMC)*, and the *International Energy Conservation Code (IECC).*

The Code Council established technical subcommittees to review the *International Codes* and recommend potential modifications. Expert advisors were also invited into the process to provide additional technical assistance to the subcommittees. Subcommittee meetings were held throughout the year and were open to the public. Also, public hearings were conducted throughout New York State. In December 2000, the technical subcommittees submitted recommendations, in compliance with Executive Order #20 and the State Administrative Procedure Act (SAPA), to the Code Council.

The Code Council endorsed the *International Codes* (with slight modifications) in March 2001. Public Hearings are scheduled to follow in August 2001. The Code Council will then vote to to adopt the code later this year. The implementation date could be as early as January 1, 2002.

States that border New York as well as other states throughout the country are closely monitoring New York's progress, looking for New York to assume a leadership role in this movement. Adopting the *International Codes* throughout the country would provide the following benefits:

- state governments and local jurisdictions would have a complete set of codes for adoption; the building regulatory system would bring consistency and compatibility to multiple layers of requirements;
- one coordinated set of documents would cover all aspects of building design and construction in order to safeguard public health, safety and welfare;
- code enforcement officials, architects, engineers, designers and contractors would be able to work with a consistent set of requirements throughout the U. S. stimulating economic development by reducing or eliminating regional or jurisdictional differences;
- would lead to consistent code enforcement and higher quality construction, enhancing public health and safety; and
- rather than designing to different sets of standards, manufacturers can direct more of their efforts into research and development, promoting innovation, while keeping in step with state-of-the-art technology.

It has been proven that communities supported by effective code enforcement suffer fewer losses and recover sooner. Experts have estimated that with sound building codes, losses in Hurricane Andrew would have been reduced by at least 25%.

The DOS training unit has begun to administer a transitional training program to building and fire officials statewide. The program, which provides instruction on the *International Codes* and the NYS modifications, will require a competency examination be successfully completed as a prerequisite to certification. Courses are being offered in virtually every country at local community colleges to minimize travel and inconvenience. This will raise the level of professionalism in the code enforcement community and will ultimately save lives and reduce losses.

The new Uniform Fire Prevention and Building Code will be implemented in 2002.

E. New York Property Insurance Underwriting Association (NYPIUA)

Number of policies declining — The following table shows NYPIUA's residential policies in force for designated coastal areas. The number of NYPIUA policies in force in these counties peaked around 1997-1998. Since 1998, every one of the selected counties has shown a decline in policies in force. In addition, for the third consecutive year, applications for new business declined in 2000, further indicating that NYPIUA's writings are on a downward trend.

Coastal Residential NYPIUA Policies In Force
Selected Downstate Coastal Counties, 1996-2000

	12/31/96	12/31/97	12/31/98	12/31/99	12/31/00	Percentage Change 1999-2000
Bronx	3,439	3,579	3,546	3,266	3,100	-5.08%
Kings	17,210	17,721	17,402	15,736	14,474	-8.02%
Queens	8,698	9,885	9,943	8,815	7,936	-9.97%
Richmond	1,440	1,674	1,657	1,307	1,157	-11.48%
Westchester	651	711	763	647	588	-9.12%
Nassau	4,282	5,333	5,422	4,633	4,187	-9.63%
Suffolk	9,477	10,953	11,112	10,042	9,317	-7.22%
Total (of selected counties)	45,197	49,856	49,845	44,446	40,759	-8.30%

New writings also decline: The data shown in the table below indicate decreases in NYPIUA's *new writings* from 1999 to 2000 in each of these selected counties except Richmond. In addition, it shows decreases in *renewal business* in all of the selected counties.

Coastal Residential NYPIUA
Policies In Force — New & Renewals
Selected Downstate Coastal Counties, 1996-2000

	12/31/96	12/31/97	12/31/98	12/31/99	12/31/00	Percentage Change 1999-2000
KINGS						
New	3,362	2,870	2,219	1,298	**1,029**	-20.72%
Renewal	13,848	14,851	15,183	14,438	**13,445**	-6.88%
Total	17,210	17,721	17,402	15,736	**14,474**	-8.02%
BRONX						
New	777	699	606	465	**380**	-18.28%
Renewal	2,662	2,880	2,940	2,801	**2,720**	-2.89%
Total	3,439	3,579	3,546	3,266	**3,100**	-5.08%
NASSAU						
New	2,195	1,840	1,187	607	**457**	-24.71%
Renewal	2,087	3,493	4,235	4,026	**3,730**	-7.35%
Total	4,282	5,333	5,422	4,633	**4,187**	-9.63%
QUEENS						
New	3,384	2,847	1,988	1,159	**827**	-28.65%
Renewal	5,314	7,038	7,955	7,656	**7,109**	-7.14%
Total	8,698	9,885	9,943	8,815	**7,936**	-9.97%
RICHMOND						
New	636	541	369	136	**154**	13.24%
Renewal	804	1,133	1,288	1,171	**1,003**	-14.35%
Total	1,440	1,674	1,657	1,307	**1,157**	-11.48%
SUFFOLK						
New	3,159	2,804	2,075	1,156	**890**	-23.01%
Renewal	6,318	8,149	9,037	8,886	**8,427**	-5.17%
Total	9,477	10,953	11,112	10,042	**9,317**	-7.22%
WESTCHESTER						
New	244	209	204	105	**93**	-11.43%
Renewal	407	502	559	542	**495**	-8.67%
Total	651	711	763	647	**588**	-9.12%
TOTAL COASTAL						
New	13,757	11,810	8,648	4,926	**3,830**	-22.25%
Renewal	31,440	38,046	41,197	39,520	**36,929**	-6.56%
Total	45,197	49,856	49,845	44,446	**40,759**	-8.30%

II. INSURANCE DEPARTMENT INITIATIVES

States have responded to the homeowners' insurance problem in various ways. States such as California and Florida, which are prone to earthquakes and weather-related disasters, were compelled to address these issues in an acute crisis atmosphere. By contrast, New York has been responding to market disruptions that result largely in anticipation of a hypothetical catastrophe that has not yet occurred. Because New York's coastal areas are densely populated and highly developed, the potential losses from such a storm could be significant.

One of Governor Pataki's major objectives in the insurance arena has been to provide financial security for New York's families living in coastal areas by encouraging the availability of homeowners' insurance. Recognizing that free market initiatives offer the best opportunity to achieve an effective and lasting solution, Governor Pataki has stressed the importance of participation of the voluntary insurance market in a coordinated program of response. As a result, New York's efforts to address the problem were renewed and strengthened.

A. Capital Market Development of Catastrophe Risk Financing

The Department continues to encourage the development of innovative approaches for the financing of natural catastrophe insurance exposures. Finding more efficient ways to access the capital markets is key to this endeavor. The Department's initiatives with respect to capital markets include:

- facilitating transactions using catastrophe bonds and similar instruments;
- considering legislation to permit special purpose entities and protected cells to securitize insurance risk;
- reviewing the use of derivatives to transfer insurance risk;
- licensing the Catastrophe Risk Exchange, Inc. as a reinsurance intermediary;
- proposing legislation that permits the issuance of capital notes; and
- developing a model for a tax deductible pre-event catastrophe reserve on a national level.

Some of these initiatives are, *prima facia*, capital market approaches while others have the potential to be integrated with capital market approaches in the financing of natural catastrophe risk.

The following is a Year 2001 update on these activities:

Monitoring Capital Markets Activities: The Department continues to review specific transactions which facilitate insurers' access to the capital markets through the sale of catastrophe and insurance linked securities by insurers. These securities have variable interest payment and principal repayment obligations, the specific mechanics of which depend on the risk alleviation objectives of the issuing insurer. The Department continues to review such transactions upon request by insurers or investment banks.

The Department also serves as the Vice-Chair of the NAIC Insurance Securitization Working Group, which is charged with reviewing the continuing developments in insurance securitization. This Working Group developed a Protected Cell Model Act, which was adopted by the NAIC late last year, and is reviewing special purpose vehicles and derivatives that could be used in the transfer of insurance risk.

Authorization of Derivatives: Derivative legislation drafted with significant input from the Department became effective on July 1, 1999. This legislation authorizes licensed New York insurance companies to use a wide range of derivative instruments for the purpose of hedging assets and liabilities. Although the primary focus of the law is to allow the use of derivatives to hedge against the fluctuation in value of investments (either due to market risk or foreign currency exposure), certain derivative instruments, such as catastrophe options traded on the Chicago Board of Trade, can be used to transfer insurance risk to the capital markets.

Licensing of the Catastrophe Risk Exchange, Inc.: The Catastrophe Risk Exchange, Inc. (CATEX) continues to be licensed as a reinsurance intermediary under New York Insurance Law. Via a highly secure yet flexible computer based trading exchange, CATEX provides a means whereby primary insurers and reinsurers can have access to a wider and more efficient distribution for their risks.

Tax Deductible Pre-Event Catastrophe Reserve: The Department, along with other state regulators, is involved in developing a proposal for a tax-deductible pre-event catastrophe reserve. This proposal requires that insurers establish a reserve based on a portion of premiums collected each year for property lines of business. A key component of the proposal is the tax-deductibility of the proposed reserve. This will require a ruling or regulation by the U.S. Treasury. The Department continues to believe that the proposal promotes the safety and soundness of the insurance industry by enhancing the ability of insurers to fund a major catastrophe and that it provides appropriate incentives for insurers to expand capacity to handle larger catastrophic events.

B. Regulation 154 — Voluntary Market Experience

Voluntary writings increase — Regulation 154 requires insurers writing homeowners insurance in the voluntary marketplace to report the number of policies in force; new policies written; terminated policies; transfers of business; and the number of producers authorized to transact business on behalf of the insurer. This information was collected quarterly for all counties in New York State and for designated zip codes from September 30, 1997 through September 30, 2000.

The data shown below represent policy in force figures for designated coastal areas. It should be noted that from the beginning to the end of the three-year period, voluntary policies in force along coastal areas have increased by approximately 62,000.

Policies In Force, Selected Counties September 30, 1997 to September 30, 2000					
Counties	**Policies in Force 9/30/97**	**Policies in Force 9/30/98**	**Policies in Force 9/30/99**	**Policies in Force 9/30/00**	**Percentage Change 1997-2000**
Bronx	79,397	77,311	79,816	77,787	-2.03%
Kings	196,884	187,751	194,048	195,068	-0.92%
Queens	297,986	292,146	301,128	302,686	1.58%
Richmond	94,521	94,214	97,858	111,424	17.88%
Westchester	222,802	224,436	230,188	233,470	4.79%
Nassau	367,103	367,498	374,428	390,196	6.29%
Suffolk	402,870	402,673	416,838	413,379	2.61%
Total for Selected Counties	1,661,563	1,646,030	1,694,304	1,724,010	3.76%

Note: The policy in force data shown above were collected pursuant to Regulation 154, and therefore represent writings only from insurers writing at least $500,000 in homeowners premium during a calendar year. Those companies had premiums comprising 98.6% of the total homeowners market as of September 30, 2000.

C. Regulation 159

Windstorm deductibles and disclosure rules — The Department permits the use of windstorm deductibles in order to encourage insurers to participate in New York's voluntary market. The Department issued Circular Letter No. 11 in September 1993 following a series of meetings with concerned public officials, producers and insurers. The Circular Letter set forth guidelines for mandatory and optional windstorm deductibles for catastrophic and non-catastrophic losses. The Circular Letter also permitted insurers to file independent windstorm deductible programs supported with adequate justification. Supplements to the Circular Letter were issued in October 1993 and June 1995.

As of January 10, 2001, 49 independent windstorm deductible programs (submitted either by individual insurers or groups) have been approved by the Department. Two rate service organizations (AAIS and URB) have filed and received approval for programs on behalf of their member companies that follow the Department's guidelines. ISO has filed and received approval for an independent windstorm deductible program on behalf of its members. The approved programs provide windstorm coverage subject to certain mandatory deductibles depending on the geographical location of the risk.

The mandatory deductibles range from 1% to 5% of the insured amount, with optional deductibles available at higher percentages. The event that triggers the use of these deductibles varies widely from insurer to insurer. Some insurers use a Category One Hurricane as the triggering event while others use a Category Two Hurricane. In any event, the hurricane would have to be designated as such by either the National Weather Service or the National Hurricane Center. Some insurers use either a specific mile per hour wind speed as a trigger or a mandatory $500 deductible for all windstorm loss. A summary of all approved windstorm deductibles—including percentage

amounts, descriptions of the triggering event and the time frames the deductible is effective—is provided in Appendix A.

Due to the increased use of windstorm deductibles by insurers, the Legislature enacted a new Section 3445 of the Insurance Law which called for insurers to provide proper notice to their insureds of any windstorm deductibles attached to their homeowners' policies. In August 1998, the Department promulgated Regulation 159 that sets forth the information to be contained in the notice. In addition to outlining the specific information to be contained in the notice it directed insurers to attach this notice to all new and renewal homeowners' policies issued on or after January 1, 1999.

D. CMAP

The Department established the Coastal Market Assistance Program (CMAP) in March 1996. This is a voluntary network of insurers and insurance producers who assist New York homeowners in coastal areas in obtaining insurance. The program was established for owner-occupied, one-to-four family dwellings, including condominiums and cooperative apartments, in the Bronx, Brooklyn, Nassau, Queens, Staten Island, Suffolk and Westchester. On Long Island's north and south shores, as well as in Brooklyn, Queens, and Staten Island, the dwelling must be located within one mile of the shore. On the north shore of Long Island and in the Bronx and Westchester, the home must be within 2,500 of the shore to qualify for consideration.

Before applying to CMAP, a homeowner must have been notified that an existing policy is being canceled or nonrenewed for other than nonpayment of premium. In the case of the sale of real estate, the homeowner or prospective property owner must be unable to find insurance through the voluntary market. Insureds may apply to CMAP through their insurance agent or broker or by contacting the Department for further information.

CMAP participation consists of insurers which collectively write over 80% of the homeowners market in New York. Policies may be placed in the CMAP program through either the company/agent rotation process or the self-certification process. In the company/agent rotation process, an insured will be reviewed for coverage by a participating insurer, according to the CMAP Plan of Operations, who has been assigned this risk on a rotating basis. Insurers may also use the self-certification process by voluntarily accepting a risk which does not meet their "proximity to shore" underwriting guidelines and which was not brought to them through CMAP. Once the insurer has filed the appropriate self-certification documentation with the CMAP program regarding its voluntary acceptance of this risk, the insurer will received a credit in the CMAP rotation process.

From the inception of this program (March 18, 1996) through November 2000, a total of 3,776 policies were written. Of this, 408 were placed through the company/agent rotation process, while 3,368 were placed in CMAP through the self-certification process. CMAP was most active during 1996 and 1997. From January 1, 2000-November 30, 2000, 316 policies were issued through the CMAP mechanism.

E. Multi-tier Programs

Chapter 42 of the Laws of 1996 added Section 2351 to the Insurance Law to permit the use of multi-tier programs for homeowners insurance in order to enhance the availability of homeowners insurance in the voluntary market. A multi-tier program is one in which there is more than one rate

level, or tier, in the same company, with a complete rating system associated with each tier. Specific underwriting rules applicable to each tier determine the placement of insureds in the various rating tiers.

Multi-tier legislation for homeowners insurance formalized the rating options that had previously been available to (and were implemented by) insurer groups. Many such groups employed diverse underwriting criteria and rate levels that were exclusive to individual companies within the group. Approval had also been granted to independent insurers, which were able to satisfactorily demonstrate that specially established preferred rate classifications would be objectively applied in accordance with the principles of the open rating law. As a result, there have not been a great number of proposals filed for multi-tier programs under the new law. As of March 2001, the Department had approved 14 multi-tier programs for homeowners insurance.

F. Insurance Disaster Coalition

The New York State Insurance Department assigns representatives to participate in the disaster response activities undertaken at the State Emergency Operations Center (EOC), which is operated by the New York State Emergency Management Office (SEMO). There the emergency situation is managed by multiple disciplines until it is successfully concluded. Coordination of disaster management falls under the jurisdiction of SEMO, who is charged with protecting New York's communities from natural and technological disasters and other emergencies threatening the New York State.

SEMO officials provide leadership, planning, education and resources necessary to protect lives, property and the environment – while ensuring the most appropriate resources are dispatched to impacted areas. SEMO also develops disaster preparedness plans and mitigation activities, and provides training and exercise programs, working throughout the State with local governments, volunteer organizations and the private sector.

III. FEDERAL INITIATIVES

Summary of Federal Natural Disaster Legislation

Earthquake Loss Reduction Act of 2001 (S. 424)

Senator Dianne Feinstein (D-CA) introduced the Earthquake Loss Reduction Act of 2001, S. 424. The bill does not directly impact insurance. However, it provides incentives (*e.g*., tax breaks, accelerated depreciation, bonds, etc.) to encourage private sector efforts to reduce earthquake losses. The bill also establishes a national disaster earthquake mitigation program to provide grants to local governments, Indian tribes, hospitals, and public institutions of higher learning for purposes of retrofitting. The bill has no co-sponsors at this time and currently sits in the Committee on Finance. The House version is H.R. 1669 with 43 cosponsors and has been referrred to the House Subcommittee on Research.

Policyholder Disaster Protection Act of 2001 (H.R. 785)

The purpose of H.R. 785 is to facilitate the growth of disaster protection funds by property/casualty insurance companies with the intent of preventing their insolvency and reliance on government funds in the event of an extraordinary natural disaster.

H.R. 785 would:

- Amend Section 832(c) of the Internal Revenue Code of 1986 to provide for the creation of disaster protection funds by property/casualty insurers;
- Allow qualified contributions to a Policyholder Disaster Protection Fund to be tax deductible;
- Provide for the payment of policyholders' claims arising from future catastrophic events through the drawdown of this fund; and
- Establish guidelines for making contributions to the Fund, investing within the Fund, and making distributions from the Fund.

Representative Foley (R-FL) introduced the bill, which has 31 sponsors and bipartisan support. The bill is in the House Ways and Means Committee.

IV. Conclusions

This Report of the Temporary Panel on Homeowners' Insurance Coverage, the Panel's fifth, updates the issues affecting the affordability and availability of homeowners' insurance in New York State. The Panel concludes that the New York homeowners' insurance market continues to improve as fewer and fewer New Yorkers are turning to the New York Property Insurance Underwriting Association, New York's insurer of last resort.

In addition, the Panel continues to believe that the establishment of a statewide catastrophe insurance fund in New York State is unwarranted at this time, for the following reasons:

1) The primary industry, with $50 billion in excess capacity, is well prepared to handle the cost of a natural disaster;

2) The insurance industry surplus has increased over 80% since 1994 following losses from Hurricane Andrew and the Northridge Earthquake;

3) The cost of catastrophe reinsurance has stabilized; and

4) Capital markets continue to develop and implement products to securitize insured catastrophe risk and provide additional capacity to insurers.

Appendix A
Approved Homeowners' Insurance Windstorm Deductible Filings
New York State, as of 6/1/01

Insurer	Deductible % based on Dwelling Coverage Amount	Trigger (Circumstances under which deductible is applicable)	Territory
AAIS	Optional, See Note A	The deductible is applicable when a windstorm loss occurs 12 hours before or 12 hours after a Category 2 hurricane, as determined by the National Weather Service, makes landfall anywhere in NYS.	See Note A.
American Internat'l Ins. Co.	2%	Category 2	Nassau and Suffolk counties within 1 mile of the North or South Shore (Long Island South or Atlantic Ocean).
AIG	This hurricane deductible is a flat dollar amount: $50,000, $25,000 & $10,000, depending upon distance from shore.	The trigger for the mandatory hurricane deductible is a Category 1 hurricane making landfall in NYS.	The $50,000, $25,000 and $10,000 mandatory hurricane deductibles are applicable for risks located within 1 mile of the South Shore of Suffolk, 1 mile of the North Shore of Suffolk and South Shore of Nassau counties and 1 mile of the North Shore of Nassau county, respectively.
Allstate	5%; a 7% hurricane deductible is available on an optional basis to the insured	The deductible is applicable to a windstorm loss that occurs during the following time period: a) beginning 24 hours prior to the time that a one minute average sustained wind speed exceeding 100 mile per hour at an altitude of 10 meters above any part of NYS during a hurricane, as estimated by the National Hurricane Center; b) during the duration of such hurricane; and c) ending 12 hours after the last time the National Hurricane Center declares that the hurricane has been downgraded to a tropical storm.	Staten Island, Bronx Queens, New York, Brooklyn, Nassau and Suffolk.
American Modern Home	$500; the insured has the option to buy back to the all-peril deductible.	The deductible is applicable when a windstorm loss occurs 12 hours before or 12 hours after a Category 2 hurricane, as determined by the National Weather Service, makes landfall anywhere in NYS.	Staten Island, Bronx Queens, Westchester, Brooklyn, Nassau and Suffolk

Appendix A
Approved Homeowners' Insurance Windstorm Deductible Filings
New York State, as of 6/1/01

Insurer	Deductible % based on Dwelling Coverage Amount	Trigger (Circumstances under which deductible is applicable)	Territory
Am Motorists	5%	The deductible is applicable when a windstorm loss occurs 12 hours before or 12 hours after a Category 2 hurricane, as determined by the National Weather Service, makes landfall anywhere in NYS.	Staten Island, Bronx Queens, New York, Brooklyn, Nassau and Suffolk.
Atlantic Mut.	5% applicable within 1000 feet of the shore or on a barrier island and 2% for the rest of Long Island.	The deductible is applicable when a windstorm loss occurs 12 hours before or 12 hours after a Category 2 hurricane, as determined by the National Weather Service, makes landfall anywhere in NYS.	Nassau and Suffolk.
Balboa	5% applicable up to 1 mile from the coastal areas and 2% applicable from 1 mile to the rest of the coastal areas	The deductible is applicable to a windstorm loss if, according to the National Weather Service, a Category 2, 3, 4 or 5 hurricane makes landfall anywhere in New York State within 12 hours before or 12 hours after the windstorm loss.	Bronx, Kings, Queens, Nassau, Suffolk, Richmond and Westchester counties.
Chubb	5% mandatory hurricane deductible to be applicable up to 1 mile on the North Shore of Nassau & Suffolk & up to 5 miles on the South Shore of Nassau and Suffolk. Hurricane deductible capped at $50,000. The insured has the option of installing approved windstorm protection in accordance with Chubb's guidelines, thereby eliminating this hurricane windstorm deductible.	Category 1 hurricane trigger .	Nassau and Suffolk.

Appendix A
Approved Homeowners' Insurance Windstorm Deductible Filings
New York State, as of 6/1/01

Insurer	Deductible % based on Dwelling Coverage Amount	Trigger (Circumstances under which deductible is applicable)	Territory
Cigna Ind & Ind Co. of North America – Special LI Program	3%	The hurricane deductible applies to windstorm loss that occurs within a period of 12 hours before or 12 hours after the storm which caused the loss makes landfall anywhere in NYS as declared the National Weather Service to be Category 1,2,3,4 or 5 hurricane.	Nassau, Suffolk, Brooklyn, & Queens.
Cigna - applicable to the rest of the companies other than those approved for the Special LI Program	3%; optional 5% hurricane deductible is available.	Category 1 or higher hurricane	applicable within 2500 feet of an ocean, sound, bay or similar body of water in the following counties: Nassau and Suffolk Kings, Queens, Richmond, Westchester and Bronx
Clarendon	Optional hurricane deductibles, ranging from 2%, 5% &10%.	Trigger is a Category 2 hurricane, making landfall in NYS.	Available only for the coastal areas
CNA Companies	5% & 3% 5% for risks located 1 mile or less from the shore of the entire counties of Queens, Kings, Richmond, New York and Bronx and the entire Southern Shore of Nassau county and Suffolk county, including the forks and the Northern Shore of Suffolk east of and including zip code 11778. 3% for risks located in the remainder of the above mentioned areas and for risks located within 1500 feet from shore in Westchester county.	Category 2 or higher hurricane as designated by the National Weather Service, at the time it impacts anywhere in New York.	Brooklyn, Queens, Westchester, Nassau, Suffolk, Bronx, Richmond, & New York counties.

Appendix A
Approved Homeowners' Insurance Windstorm Deductible Filings
New York State, as of 6/1/01

Insurer	Deductible % based on Dwelling Coverage Amount	Trigger (Circumstances under which deductible is applicable)	Territory
Colonial Penn	See Note A.	The deductible is applicable to a windstorm loss if, according to the National Weather Service, a Category 2, 3, 4 or 5 hurricane makes landfall anywhere in New York State within 12 hours before or 12 hours after the windstorm loss.	See Note A.
Commercial Union	See Note A.	The deductible is applicable to a windstorm loss if, according to the National Weather Service, a Category 2, 3, 4 or 5 hurricane makes landfall anywhere in New York State within 12 hours before or 12 hours after windstorm loss.	See Note A.
Electric	2%; deductible is capped for any policy with Coverage A limits greater than $250,000 at $5000.	The deductible will apply when a windstorm loss occurs within a period of 12 hours before and 12 hours after a Category 2 hurricane or higher, as determined by the National Weather Service, makes landfall anywhere in NYS.	Brooklyn, Queens, Staten Island, Bronx, Nassau and Suffolk.
Empire	5% for risks up to 1 mile of the south shore of LI and within 1000 feet of the north shore of LI and Westchester. A 3% will apply to the remainder of the Bronx, Brooklyn, New York, Queens, Richmond, Nassau and Suffolk counties. Insureds with the 3% mandatory hurricane deductible have the option of purchasing a 4% or 5% hurricane deductible.	The deductible applies to losses which occur as a result of either: a) a Category 1 or higher hurricane making landfall in NYS, or b) a hurricane making landfall outside of NYS, but which is determined by the National Weather Service to be a Category 1 or higher hurricane force winds in the area within NYS in which the losses occur.	Brooklyn, Queens, Westchester, Nassau, Suffolk, Bronx, Richmond, & New York counties.
Farmers New Century,	Band I 5% Band II 2% Band III 1% Band IV no special deductible Bands are based on zip codes.	Applies to windstorm loss within a period of 12 hrs. before or after the storm which caused the loss makes landfall anywhere in New York State as declared by NWS as Category 2 or higher hurricane..	Suffolk, Nassau, Queens, Kings, Richmond and Westchester counties.

Appendix A
Approved Homeowners' Insurance Windstorm Deductible Filings
New York State, as of 6/1/01

Insurer	Deductible % based on Dwelling Coverage Amount	Trigger (Circumstances under which deductible is applicable)	Territory
Fireman's Fund	2% or 1%; optional 2%, 5% and 10% hurricane deductibles are available.	The deductible applies to losses which occur as a result of either: a) a Category 1 or higher hurricane making landfall in NYS, or b) a hurricane making landfall outside of NYS, but which is determined by the National Weather Service to be a Category 1 or higher hurricane force winds in the area within NYS in which the losses occur.	mandatory 2% for Nassau and Suffolk. Mandatory 1% for SI, Queens, & Brooklyn.
Gen Accident	See note A.	The deductible is applicable to windstorm loss to covered property, that occurs within a period of 12 hours before or 12 hours after the storm which caused the loss makes landfall anywhere in New York State as declared to be a Category 2, 3, 4 or 5 hurricane by the National Weather Service.	See Note A.
Greater NY Mut. & Ins. Co. of Greater NY	3%	Category 2 hurricane	3% hurricane deductible to be applicable to all risks located within 2500 feet and 1000 feet from the waterfront in Brooklyn, Queens, Nassau and Suffolk.
Hanover Grp.	HIC / MB / CIC 1001 ft – 1ml: 5% / n/e / n/e 1 – 2 miles.: 2% / 2% / n/e 2 – 5 miles.: 1% / 1% / 2% n/e = not eligible	Applies to windstorm loss that occurs within a period of 12 hrs before or 12 hrs after the storm, which caused the loss, makes landfall anywhere in NYS as a declared Category 2, 3, 4, or 5 hurricane.	South facing areas of Long Island, Brooklyn, Queens and Richmond counties.

Appendix A
Approved Homeowners' Insurance Windstorm Deductible Filings
New York State, as of 6/1/01

Insurer	Deductible % based on Dwelling Coverage Amount	Trigger (Circumstances under which deductible is applicable)	Territory
Hartford	5% & 2%. For renewal business, policies not within 2 miles of the south shore and 1 mile of the north shore having a mandatory 5% hurricane deductible will be offered the opportunity to purchase a 2% mandatory hurricane deductible.	The hurricane deductible applies to windstorm loss that occurs within a period of 12 hours before or 12 hours after the storm which caused the loss makes landfall anywhere in NYS as declared by the National Weather Service to be a Category, 2,3,4 or 5 hurricane or creates hurricane force winds of Category 2 or higher, as determined by the National Weather Service, anywhere in the county within NYS in which the covered property is located.	5% hurricane deductible applicable within 2 miles of the south shore or within 1 mile of the north shore in Suffolk, Nassau, Brooklyn, Queens and Staten Island counties. In other areas of these counties, a mandatory 2% hurricane deductible is required.
ISO	Optional See Note A	The deductible is applicable when a windstorm loss occurs 12 hours before or 12 hours after a Category 2 hurricane, as determined by the National Weather Service, makes landfall anywhere in NYS.	See Note A.
Kemper Group	2% & 5%; the 2% mandatory hurricane deductible is applicable to the 5 NYC boroughs, Nassau, Suffolk counties, except for insureds located within 2500 feet of any shoreline. The 5% mandatory hurricane deductible is applicable to those insureds located within 2500 feet of any shoreline.	The deductible is applicable when a windstorm loss occurs 12 hours before or 12 hours after a Category 2 hurricane, as determined by the National Weather Service, makes landfall anywhere in NYS.	5 NYC boroughs, Nassau, Suffolk and Westchester counties
Lancer	See Note A.	The deductible shall be activated only in the event a Category 2 Storm, as defined by the National Weather Service, makes landfall within the geographic boundaries of the State of New York and shall apply only to losses as a result of that storm for damage and loss covered under the peril of windstorm.	See Note A.

Appendix A
Approved Homeowners' Insurance Windstorm Deductible Filings
New York State, as of 6/1/01

Insurer	Deductible % based on Dwelling Coverage Amount	Trigger (Circumstances under which deductible is applicable)	Territory
Liberty Mut.	5% and 2%.	The mandatory hurricane deductible applies to a windstorm loss that occurs within a period of 12 hours before or 12 hours after the storm which caused the loss makes landfall anywhere in NYS as declared by the National Weather Service to be a Category 1 hurricane or higher; or makes landfall outside of NYS, but which is determined by the National Weather Service to be a Category 1 or higher hurricane force winds in the area within NYS in which the loss occur.	The 5% hurricane deductible is applicable to all risks located within 1 mile of the south shore of Brooklyn, Queens, Nassau and Suffolk counties. The 2% hurricane deductible is applicable to the rest of Brooklyn, Queens, Nassau, Suffolk and the entire Staten Island.
Merchants Mutual	Adopted ISO's deductible with the exception of a mandatory $500 windstorm deductible for the affected areas.	Does not have a mandatory hurricane deductible, however, has a mandatory $500 all wind deductible.	Kings, Queens, LI, SI, Westchester, and Bronx.
Met P & C	The base policy deductible is mandatory and an optional 2% and 5% hurricane deductible is available.	Category 2 hurricane or higher, as declared by the National Weather Service, making landfall anywhere in NYS.	SI, Queens, Bronx, Brooklyn, Nassau, and Suffolk.
National General	1%	The deductible is applicable to a windstorm loss that occurs within a period of 12 hours before or 12 hours after the storm, which caused the loss, makes landfall anywhere in New York State as declared Category 2, 3, 4 or 5 hurricane by the National Weather Service.	LI South Shore, Kings, Queens, SI, and LI Forks.
National Grange	2%	The deductible is applicable to a windstorm loss that occurs within a period of 12 hours before or 12 hours after the storm, which caused the loss, makes landfall anywhere in New York State as declared Category 2, 3, 4 or 5 hurricane by the National Weather Service.	Long Island

Appendix A
Approved Homeowners' Insurance Windstorm Deductible Filings
New York State, as of 6/1/01

Insurer	Deductible % based on Dwelling Coverage Amount	Trigger (Circumstances under which deductible is applicable)	Territory
Nationwide	2%; higher hurricane deductibles may be elected on an optional basis.	The deductible applies in the event of a loss caused by any one storm declared to be a hurricane by the National Hurricane Center/Tropical Prediction Center; and makes landfall in NYS or contiguous states; and causes loss in NYS while it is a hurricane or throughout any subsequent downgrades in storm status by the National Hurricane Center/Tropical Prediction Center, until it is no longer a tropical storm.	Bronx, Kings, NY, Queens, Richmond, Westchester (7 coastal zip codes), Suffolk, & Nassau Counties.
NY Casualty	1%	The hurricane deductible applies to windstorm loss that occurs within a period of 12 hours before or after the storm which caused the loss makes landfall anywhere in NYS as declared by the National Weather Service to be a Category 1,2,3,4 or 5 hurricane.	Kings, Queens, Richmond, Suffolk, & Nassau Counties
NY Central Mut.	2%, 3% & %5%	The deductible applies to windstorm loss that occurs within a period of 12 hours before or after the storm which caused the loss makes landfall anywhere in NYS as declared by the National Weather Service to be a Category 2, 3, 4, or 5 hurricane	Bronx, Kings, Queens, Richmond, Suffolk, & Nassau Counties 3% / 5% - applicable for areas within 1000 feet from the shore. 2% - applicable for the balance of the affected areas.
Norfolk & Dedham	5%, 2% or 1%, depending upon distance from shore.	The deductible applies to losses which occur as a result of either: a) a Category 1 or higher hurricane making landfall in NYS, or b) a hurricane making landfall outside of NYS, but which is determined by the National Weather Service to be a Category 1 or higher hurricane force winds in the area within NYS in which the losses occur.	Long Island, Westchester, Brooklyn and Queens : 0-1 mile = 5% 1-2 miles = 2% over 3 miles = 1%

Appendix A
Approved Homeowners' Insurance Windstorm Deductible Filings
New York State, as of 6/1/01

Insurer	Deductible % based on Dwelling Coverage Amount	Trigger (Circumstances under which deductible is applicable)	Territory
Peerless	2%	The hurricane deductible applies to windstorm loss that occurs within a period of 12 hours before or after the storm which caused the loss makes landfall anywhere in NYS as declared by the National Weather Service to be a Category 1,2,3,4 or 5 hurricane.	Staten Island, Queens, Bronx, Brooklyn, Westchester, Nassau and Suffolk.
Providence Washington	1%	The deductible applies to windstorm loss that occurs within a period of 12 hours before or after the storm which caused the loss makes landfall anywhere in NYS as declared by the National Weather Service to be a Category 1, 2, 3, 4, or 5 hurricane.	See Note A.
Prudential	2%; the insured has the option of buying back to the regular policy deductible.	The deductible is applicable to a windstorm loss caused by winds in New York from at least a Category 2 hurricane as classified by the National Weather Service.	See Note A.
Royal	2%; for the remaining affected territories, hurricane deductibles are optional.	Category 1 hurricane.	Nassau and Suffolk counties.
Security of Hartford	2%; optional higher hurricane deductible is available.	Category 2 hurricane making landfall in NYS.	Bronx, Kings, Queens, Richmond, New York, Suffolk, & Nassau Counties
Shelby	3%; optional 5% hurricane deductible is available.	The deductible is applicable to windstorm loss to covered property, that occurs within a period of 12 hours before or 12 hours after the storm which caused the loss makes landfall anywhere in New York State as declared to be a Category 2, 3, 4 or 5 hurricane by the National Weather Service.	Applicable within 2500 feet of an ocean, sound, bay or similar body of water in the following counties: Nassau and Suffolk Kings, Queens.

Appendix A
Approved Homeowners' Insurance Windstorm Deductible Filings
New York State, as of 6/1/01

Insurer	Deductible % based on Dwelling Coverage Amount	Trigger (Circumstances under which deductible is applicable)	Territory
State Farm	5% & 2%; optional hurricane deductibles are available.	The deductible is activated if a hurricane produces a minimum windspeed of at least 74 mph (Category 1) At any National Weather Service (NWS) measuring site in the county in which the dwelling is located. The deductible is applicable during the following time frame: beginning 12 hours prior to the time hurricane force wind speeds are measured at any NWS measuring site in this state, continuing for the time period during which the hurricane conditions exist anywhere in this state and ending 12 hours after the last time the NWS declares that the hurricane has been downgraded to a tropical storm.	The 5% mandatory hurricane deductible is required for all risks located on barrier islands or within 1000 feet of the water in Staten Island, Queens, New York, Bronx, Brooklyn, Nassau, Suffolk and Westchester counties. The 2% mandatory hurricane deductible is mandatory in Nassau and Suffolk counties for more than 1000 feet from water.
St. Paul	1% & 2%; the hurricane deductible is capped at $50,000.	The deductible applies to windstorm loss that occurs within a period of 12 hours before or after the storm which caused the loss makes landfall anywhere in NYS as declared by the National Weather Service to be a Category 2 hurricane or higher .	1% for Nassau 2% for Suffolk
TIG	5% mandatory deductible one mile in the coastal areas and 2% mandatory deductible further inland. Optional higher hurricane deductibles are available.	The deductible applies to losses which occur as a result of either: a) a Category 1 or higher hurricane making landfall in NYS, or b) a hurricane making landfall outside of NYS, but which is determined by the National Weather Service to be a Category 1 or higher hurricane force winds in the area within NYS in which the losses occur.	5 NYC boroughs and Long Island

Appendix A
Approved Homeowners' Insurance Windstorm Deductible Filings
New York State, as of 6/1/01

Insurer	Deductible % based on Dwelling Coverage Amount	Trigger (Circumstances under which deductible is applicable)	Territory
Tower Ins. Co. of NY	5% & 2%	The deductible applies to windstorm loss that occurs within a period of 12 hours before or after the storm which caused the loss makes landfall anywhere in NYS as declared by the National Weather Service to be a Category 1 hurricane or higher.	5% - within 1 mile of the coast in Nassau & Suffolk and 2% over 1 mile and within 3 miles of the coast. 2% - within 1 mile from the coast in Richmond, Brooklyn, Queens and Bronx.
Travelers	Category 1 hurricane applies to a flat $1,000. Category 2 or higher hurricane applies to a 3% or 5%, depending upon the distance from shore and/or amount of coverage A.	Category 2 – applies if hurricane is determined by NWS to be a Category 2 or higher hurricane that results in Category 2 or higher force winds anywhere in any coastal county regardless of the specific location of insured property.	5% deductible applies: within 1mile of Long Island south shore, within 1,000 ft. of Long Island north shore (including that portion of Westchester County within 1,000 ft. of the north shore). 3% or 5% deductible applies to the remainder of Bronx, Kings, New York, Queens, Richmond, Nassau, and Suffolk Counties- 3% applies to risk with less than $500,000 of coverage A and the 5% applies to risks with $500,000 of coverage A or greater.
Tristate	2%	The deductible applies to losses which occur as a result of either: a) a Category 1 or higher hurricane making landfall in NYS, or b) a hurricane making landfall outside of NYS, but which is determined by the National Weather Service to be a Category 1 or higher hurricane force winds in the area within NYS in which the losses occur.	5 NYC boroughs, Westchester, and Long Island

Appendix A
Approved Homeowners' Insurance Windstorm Deductible Filings
New York State, as of 6/1/01

Insurer	Deductible % based on Dwelling Coverage Amount	Trigger (Circumstances under which deductible is applicable)	Territory
Ulico	5% and 2%	The hurricane deductible applies to windstorm loss that occurs within a period of 12 hours before or 12 hours after the storm which caused the loss makes landfall anywhere in NYS as declared by the National Weather Service to be a Category 2 or higher hurricane.	The mandatory 5% hurricane deductible is applicable to homes located in Barrier Islands, including, but not limited to Atlantic Beach, Long Beach, Island Park, Lido Beach, Fire Island Dune Road, and all island communities located in Middle Bay, East Bay South Oyster Bay and the Great South. Also, homes located on Fisher Island and Shelter Island will have the 5% mandatory hurricane deductible. In addition, risks located in the remainder of Nassau and Suffolk counties, Richmond and Kings counties within 1000 feet of salt water will have a 2% mandatory hurricane deductible.
URB	See Note A		
USF&G	2%	The hurricane deductible applies to windstorm loss that occurs within a period of 12 hours before or after the storm which caused the loss makes landfall anywhere in NYS as declared by the National Weather Service to be a Category 1,2,3,4 or 5 hurricane.	Staten Island, Queens, Bronx, Brooklyn, Nassau and Suffolk.
Utica First	1%	The deductible is applicable when a windstorm loss occurs 12 hours before or 12 hours after a Category 2 hurricane, as determined by the National Weather Service, makes landfall anywhere in NYS.	Queens, Staten Island Nassau & Suffolk Counties.

Appendix A
Approved Homeowners' Insurance Windstorm Deductible Filings
New York State, as of 6/1/01

Insurer	Deductible % based on Dwelling Coverage Amount	Trigger (Circumstances under which deductible is applicable)	Territory
Utica Mutual	A flat dollar amount hurricane deductible ($1000, $2000, $5000, $10,000 and $20,000).	The deductible is applicable when a windstorm loss occurs 12 hours before or 12 hours after a Category 2 hurricane, as determined by the National Weather Service, makes landfall anywhere in NYS.	NYC and Long Island. The following is the application of the flat $ hurricane deductible: 1. If Coverage A is less than $250,000: a. And Section I deductible is $1,000 or less; roll to $2,000 hurricane deductible with option for insured to buyback to $1,000. b. And Section I deductible is greater than $1,000, roll to $ 5,000 hurricane deductible. 2. If Coverage A is $250,000 to $ 499,000: a. Roll to $5,000 hurricane deductible. 3. If Coverage A is $500,000 or greater: roll hurricane deductible to $ 10,000. 4. The $20,000 hurricane deductible option can be used for risks which are located: (1) less than 1500 feet from salt water on the south shore of Long Island; or (2) less than 500 feet from salt water on the north shore of Long Island; or (3) less than 500 feet from salt water for all other coastal areas in the five boroughs of New York City; and which have home values of $400,000 or more of coverage A.
Worcester R97001510 6/5/97	2%	The deductible is applicable to a windstorm loss if, according to the National Weather Service, a Category 1, 2, 3, 4 or 5 hurricane makes landfall anywhere in New York State within 12 hours before or 12 hours after windstorm loss to covered property first occurs.	Bronx, Brooklyn, LI, Queens, and SI.

NOTE A: This filing reflects the guidelines contained in the Supplement No. 2 to Circular Letter No. 11 (1993), which was issued on 6/15/95 to all insurers writing homeowners policies.

Appendix B
Recent Risk Securitization Activity

Horace Mann Educators Corporation - Agreement involving a $100 million transaction with Center Re. The transaction was managed by Aon Capital Markets. (1999)

Constitution Re - Transferred its East and Gulf Coast hurricane risk to Arrow Re. The risk was spread through a series of securitization and risk-transfer transactions. The transaction involved a $10 million risk transfer. Goldman Sachs, Swiss Re New Markets and E.W. Blanch Capital Markets served as advisors. (1999)

St. Paul - Completed a $45 million securitization transaction. The transaction provides additional capacity for a defined portfolio of U.S. property catastrophe excess-of-loss reinsurance contracts. Mosaic Re II issued the debt securities for the securitization. (1999)

Kemper - Acquired $100 million of earthquake coverage. The capital markets transaction funds a fully collateralized reinsurance agreement providing $100 million of Midwest earthquake coverage to the Kemper Insurance Companies. The transaction was managed by Aon Capital Markets. (1999)

Sorema - Issued a three-year $17 million deal to protect its European windstorm exposures and Japanese typhoon and earthquake risks. The bonds have an annually renegotiable interest rate and allow Sorema to adjust the size of the coverage and the premium to meet market conditions. Merrill Lynch and Aon Capital Markets arranged the transaction. (1999)

Oriental Land Company - The owner of Tokyo Disneyland, Oriental Land Company, placed two catastrophe bonds totaling $200 million to protect against earthquake risk. In the first bond, Concentric Ltd. would pay Oriental Land $100 million upon the occurrence of an earthquake that meets certain trigger conditions. The second bond provides Oriental Land with a $100 million post earthquake financing facility. Goldman Sachs and Company was the placement agent for both transactions. (1999)

USAA - Acquired $200 million in catastrophe reinsurance from Residential Reinsurance Limited. The proceeds of the sale of the bond were segregated into a trust to pay USAA's claims in excess of $1.0 billion arising from a category 3, 4, or 5 storm on the Saffir-Simpson index. The placement was co-managed by Goldman Sachs & Company, Lehman Brothers Holding and Merrill Lynch. (1999)

Gerling Global Re - Has secured $80 million of cover in a three-year deal to protect the company against US hurricane losses of more than $200 million. The securitized retrocession is provided by a special purpose vehicle, Juno Re, based in the Cayman Islands. The deal was managed by Goldman Sachs. (1999)

Marsh & McLennan - Has completed a $50 million insurance-linked swap transaction covering losses in six states around the New Madrid faultline. (1999)

ACE Bermuda Insurance Ltd – Is offering a new product, known as ACE Futures, that allows commercial property policyholders to hedge against future rate increases. The product is based on the catastrophe futures offered by reinsurers. ACE Futures allows the policyholder to pre-purchase up to $200 million in all-risk capacity and up to $25 million in earthquake capacity. (1999)

American Re. Corp. – Placed $182 million in catastrophe bonds. The bonds, called Modeled Index Linked Securities, will protect American Re and its subsidiaries against losses from East Coast and Gulf Coast hurricanes, along with earthquakes in California and the New Madrid region. The pay-off on the securities is linked to an index of losses developed by Risk Management Solutions Inc. (1999)

Gerling Global – Placed $100 million in notes to cover earthquake losses in Japan. Proceeds from the notes have been used to fully collateralize a reinsurance agreement between Gerling and Manazu Re, which covers earthquake risk for a five-year period in certain areas of Japan. (2000)

Lehman Re Ltd. – A unit of Lehman Brothers Holdings, Inc. has completed a $150 million risk securitization deal covering portions of its California earthquake exposure. Coverage will be triggered if insurance industry losses from California quakes hit $22.5 billion during a 22-month period ending at year-end 2001. To launch the transaction, a Cayman Islands-based special purpose company, Seismic Ltd., was formed. (2000)

SCOR – Placed a multi-year $200 million reinsurance cover for natural catastrophe event exposures. The cover was placed through a special purpose vehicle, Atlas Re, to protect SCOR's property and construction portfolio for three years against the occurrence of an earthquake in the United States or Japan or a severe windstorm in Europe. (2000)

Tokio Marine & Fire Insurance Co. Ltd. Of Tokyo and State Farm Mutual Automobile Insurance Co. – In Illinois have agreed to a risk exchange. The deal involves the exchange of $200 million of New Madrid risk from State Farm. (2000)

State Farm Fire & Casualty Co. – Obtained $100 million in reinsurance through a catastrophe-securitization agreement with Arrow Reinsurance Co. Ltd. The securities offer State Farm $100 million in coverage, with Arrow Re issuing $90 million in securities and retaining the rest. (2000)

USAA – Closed a one-year, $200 million securitization deal that provides cover for storm losses along the U.S. East Coast. Investors were sold $200 million in bonds through Cayman Islands-based special purpose vehicle Residential Reinsurance 2000 Ltd. Proceeds from the bonds will be used to cover claims against USAA in the event that its losses from a single storm of category three or higher exceed $1.1 billion. (2000)

Vesta Insurance Group – Completed a second securitization, placing $50 million of catastrophe reinsurance-linked notes and common stocks through INEX. The deal will protect against losses in the Northeast United States and Hawaii. (2000)

Source: Reinsurance Association of America

Appendix C

NEW YORK STATE
INSURANCE DEPARTMENT
REGULATION 159
(11 NYCRR 74)

HOMEOWNER'S INSURANCE DISCLOSURE INFORMATION

I, Neil D. Levin, Superintendent of Insurance of the State of New York, pursuant to the authority granted by Sections 201, 301 and 3445 of the Insurance Law, do hereby promulgate the following new Part 74 of Title 11 of the Official Compilation of Codes, Rules and Regulations of the State of New York, (Regulation 159), to take effect upon publication in the State Register to apply to policies issued or renewed on or after January 1, 1999, to read as follows:

All matter is new.

Section 74.0 Introduction and purpose.

(a) Chapter 44 of the Laws of 1998 enacted a new Section 3445 of the Insurance Law, requiring the Superintendent to establish by regulation disclosure requirements with respect to the operation of any deductible in a homeowner's insurance policy or dwelling fire personal lines policy which applies as the result of a windstorm. Further, Section 3445 requires such regulation to prescribe the form of a notice to be provided by an insurer to an insured and provides that the notice shall explain in clear and plain language the amount of the deductible, the circumstances under which the deductible applies and any other matters which the Superintendent, in his or her discretion, shall deem necessary or appropriate.

(b) The purpose of this Part is to set standards for the uniform display of windstorm deductibles, which consist of hurricane and non-hurricane deductibles, in the policy declarations; and to provide the minimum provisions to be contained in the policyholder disclosure notice, which will explain the purpose and operation of the hurricane deductible, and must accompany new and renewal policies containing such deductibles.

Section 74.1 Policyholder disclosure.

(a) Every homeowner's and dwelling fire personal lines policy containing a hurricane deductible shall display the applicable percentage amount and corresponding dollar amount of the hurricane deductible in the policy declarations. The non-hurricane deductible, as well as any deductible applicable to all other covered perils, may be shown as a dollar amount only. The hurricane deductible provisions shall be shown in close proximity to the non-hurricane deductible provisions and shall be given equal or greater prominence as the non-hurricane deductible provisions applicable to the policy.

(b) Every homeowner's and dwelling fire personal lines policy containing a hurricane deductible shall be accompanied by a policyholder notice, to be filed with the Insurance Department, and which shall contain the following minimum information:

(1) a prominent announcement that the accompanying policy is subject to a hurricane deductible;

(2) a clear explanation that a hurricane deductible means the amount for which the policyholder is responsible in the event of a covered loss caused by a hurricane;

(3) a plain-language explanation of the coverage part or parts subject to the hurricane deductible and of whether the hurricane deductible applies separately to each coverage part or in the aggregate to total losses under all affected coverage parts;

(4) a statement that a clear display of the actual dollar amount as well as a description of the hurricane deductible as a percentage of the insured value can be found on the declarations page;

(5) generic examples of how sample deductible amounts would apply to some theoretical loss scenarios, including losses smaller than and greater than the deductible amount;

(6) a clear explanation of the event which shall trigger the hurricane deductible;

(7) a clear explanation of the time period during which the hurricane deductible will be triggered; and

(8) a clear explanation that, if a coverage part limit of liability or policy limit of liability is changed (for example, due to contractual inflation protection provisions, adjustments reflecting changes in replacement cost or a request by the insured), then the dollar amount of the deductible will be changed based on the amount of the new limit of liability.

(c) This policyholder notice shall accompany all new homeowner’s and dwelling fire personal lines policies subject to a hurricane deductible and first written to become effective on or after January 1, 1999; and all renewal homeowners and dwelling fire policies subject to a hurricane deductible renewed effective on or after January 1, 1999.

(d) This policyholder notice shall accompany all renewals of affected homeowner's and dwelling fire personal lines policies annually thereafter.

(e) At its option, an insurer may combine the flood insurance notice required by Section 3444 of the Insurance Law with the policyholder notice required by this subsection.

I, Neil D. Levin, Superintendent of Insurance of the State of New York, do hereby certify that the foregoing is 11 NYCRR 74 (Regulation 159), promulgated by me on March 5, 1999, pursuant to the authority granted by Sections 201, 301 and 3445, to take effect upon publication in the State Register for all policies issued on or after January 1, 1999.

Pursuant to the provisions of the State Administrative Procedure Act, prior notice of the proposed new part was published in the State Register on December 30, 1998. No other publication or prior notice is required by statute.

Appendix D

Reinsurance Association of America:
CAPACITY IS ABUNDANT IN THE REINSURANCE MARKETPLACE

The analysis of the 2000 reinsurance renewal season, provided by reinsurance broker Guy Carpenter , states that capacity is abundant. As reported its September 2000 report, "The World Catastrophe Reinsurance Market 2000," the capacity of reinsurance has risen. The average retention by primary insurers in 2000 was $320 million, up from $125 million in 1992.

There is currently an overabundance of reinsurance capacity in the U.S. Reinsurance broker, U.S. Re Corporation, released a report reflecting the then-current marketplace for reinsurance in July 1999.The Report states that: (1) approximately $13-$15 billion of "excess of loss" catastrophe reinsurance capacity is in place per region, per event in the U.S.; (2) an additional 40 percent of capacity is in place from other forms of reinsurance being purchased (facultative, per risk excess of loss and proportional); and (3) an additional $1 billion of capacity per region is also available from capital markets products. These factors would result in approximately $20 billion of catastrophe reinsurance capacity available per region, per event. This number does not include the capacity provided by the primary industry to finance catastrophes.

Consistent with the U.S. Re report, the Renaissance Re report, issued in June 1999, analyzing the reinsurance marketplace, concludes that: (1) there is approximately $14 billion in capacity, per event, per region of excess of loss reinsurance purchased by the primary marketplace at this time; (2) reinsurers are offering additional capacity in the excess of loss market, but many insurance companies have decided to retain the risk on their own balance sheets, rather than purchase reinsurance; and (3) in addition to the $14 billion of excess of loss reinsurance available per region, there is additional reinsurance catastrophe protection currently being purchased from other forms of reinsurance agreements including, proportional, facultative and per risk excess of loss contracts. This additional protection adds approximately 40 percent more reinsurance being purchased, resulting in approximately $20 billion of reinsurance sold per region. This number does not include the capacity of the primary industry to finance catastrophes. (Renaissance Re is one of the largest catastrophe writers in the world. It maintains an exhaustive database of all catastrophe offerings and is considered to have the most comprehensive database of catastrophe cover purchased in the U.S.)

COST OF REINSURANCE

The cost of catastrophe reinsurance is very low and had in fact dropped for five years in a row. 2000 year-end renewal season evidences hardening of rates.

- ·Guy Carpenter reports that the 2000 renewal period showed signs of firming reinsurance pricing. Although prices for catastrophe covers have increased in the single digit range, given the high level of price cutting in the past years, rates are still viewed as inadequate. Catastrophe reinsurance prices peaked in 1994, but fell in 1995, 1996, 1997, 1998 and 1999. Although prices rose in 2000, they remain below pre-Hurricane Andrew levels.

- ·On May 26, 2000, Paragon Risk Management Services issued its Catastrophe Price Index and reported that reinsurance prices for renewals for January 1, 2000, have dropped for the eleventh semi-annual period in a row. Paragon's report concludes that global catastrophe pricing remains

under pressure as reinsurance capacity exceeds demands in all regions. Current pricing continues to be almost 35% below the index's peak in July 1994.

PRIMARY INSURANCE MARKETPLACE

The primary industry is also well prepared to handle the cost of a natural disaster. Factors to be considered must include the capacity of the primary insurers (not just reinsurers) for they are responsible for absorbing some of the cost of a natural disaster. Historically, the primary insurers have paid 2/3 to 3/4 of catastrophic claims, passing the remainder through to reinsurers. Here are some facts about the primary marketplace:

- According to a December 2000 AM Best Study, the industry has nearly $50 billion in excess capital. The study involved a detailed capital analysis of 996 individual companies and groups representing 99% of the industry's capital base. Best's analysis revealed the over three quarters of the property/casualty companies maintain capital totaling $88 billion -- 26% of the industry's 1999 surplus. (Excluding the two capital rich groups - State Farm and Berkshire Hathaway, the industry still maintains $48 billion in extra capital. The extra capital accounts for the property/casualty insurers' financial risks identified within Best's year-end capital review including $ 30 billion of potential losses stemming from insurers' I 00-year catastrophic events.

- According to a January 2000, GA0 Report, *Insurers Ability to Pay Catastrophe Claims* analysis of current industry capacity to pay natural catastrophe claims, "insurers could pay for most or all claims from a single '1-in-100-year catastrophe loss' that strikes a single state." The study also concludes that the industry's financial resources have grown substantially since 1990 and currently are large relative to the natural catastrophe claims estimated to arise from a <u>single</u> major catastrophe. The report also noted that as of January 2000 when the study was completed, reinsurance was widely available and prices were low relative to historic levels.

According to a July 14, 1999, Wharton School Catastrophe Risk Management Study analyzing the capacity of the U.S. property insurance industry's ability to finance major catastrophic losses, the insurance industry has more than adequate capacity to pay at least 98.6 percent of a $20 billion loss. For a catastrophe of $1 00 billion, the industry could pay at least 92.8 percent. The report concludes that the gaps in catastrophic risk financing are presently not sufficient to justify Federal government intervention in private insurance markets in the form of catastrophe reinsurance.

According to A.M. Best, 1999 insurance industry surplus stands at $338.4 billion, an increase of 80.4% percent since 1994 afterthe insurance industry suffered losses from Hurricane Andrewand the Northridge Earthquake. Policyholder surplus for the top five homeowner's insurers, controlling 52 percent of the market share (State Farm, Allstate, Farmers, Nationwide and Travelers) currently stands at $79.6.4 billion, more than doubling their surplus over the last five years.

CAPITAL MARKETS

Capital markets continue play a role with regard to both the index-based and traditional products. The reinsurance broker Guy Carpenter reports "that in most situations, the optimal risk managements solution is comprised of a blend of all different product structures -- traditional, structured risk, and indexed based -- utilizing both reinsurance and capital market capacity." The capital markets continue to develop and implement products to securitize insured catastrophe risk and provide additional capacity to insurers ($2.5 billion in 1998; $1.9 billion in 1999; plus $1 billion the first half of 2000).

Appendix E

STATE OF NEW YORK
INSURANCE DEPARTMENT
AGENCY BUILDING ONE
EMPIRE STATE PLAZA
ALBANY, NEW YORK 12257

Circular Letter No. 11 (2001)
May 10, 2001

To: **All Property/Casualty Insurers Licensed to Do Business in the New York State**

Re: New York State Insurance Disaster Coalition

In keeping with New York Governor George E. Pataki's mandate to anticipate potential problems for the citizens of New York State, this Circular Letter is intended to identify and organize specific Insurance Department and insurance industry resources to serve victims of natural disasters and other state emergencies. (This letter supercedes Circular Letter 1996-5)

When an emergency or disaster situation occurs, this Department is looked upon to provide the Governor and the State Emergency Management Office (SEMO) with critical information regarding the amount and extent of property losses, as well as other damage assessments. Based on this information the Governor determines whether and when to request a federal disaster declaration and how to prioritize the deployment of state assets.

The insurance community has been identified as a key resource to providing early assessments of damages arising from disasters. Insurers play an important role in quantifying the magnitude of losses - insured and uninsured - and determining both the degree and duration of insurer response to losses. Accordingly, all licensed property/casualty insurers are requested to assist this Department in obtaining the information needed to accomplish the above objective – both before and after disasters strike.

Furthermore, a "New York State Insurance Disaster Response Plan" has been developed by a public-private disaster coalition under the joint direction of the New York Department of Insurance, State Emergency Management Office, and the Institute for Business & Home Safety. The plan provides complete instructions for insurance disaster responders and can be found in the Emergency Disaster Information section of the Insurance Department's web site at www.ins.state.ny.us/disaster,htm. Insurance company catastrophe team leaders should be notified of the availability and content of this site.

The success of the New York State Insurance Disaster Response Plan and fulfillment of its critical mission require knowledgeable personnel operating in a partnering environment and within the larger incident command structure. Incorporation of the Insurance Disaster Response Plan into individual company catastrophe plans and a cooperative NYSID/Industry process of continuing evaluation and change are critical to this process, and therefore must be institutionalized.

In order to expedite New York's response time to catastrophes and facilitate the recovery of those who have insured losses, this plan provides the opportunity to forge a new private/public disaster planning team that will result in a comprehensive strategy for cooperation, communication and the leveraging of resources. The Insurance Department urges all property/casualty insurers to read the attached circular letter and participate in the Insurance Disaster Coalition. Broad range participation is essential.

Acknowledgment of this letter and instructions should be sent no later then June 1, 2001 to:

Paul Orkwis, Principal Insurance Examiner
New York State Insurance Department
Agency Building 1
Empire State Plaza
Albany, NY 12257
porkwis@ins.state.ny.us

Acknowledgement should include the respondent's full name and title, company name, telephone number and email address. Any questions concerning this letter may be directed to Mr. Orkwis at (518) 474-9837, or by e-mail.

Very truly yours,

Gregory V. Serio
Superintendent

Attach.

NOTE:
See Department Web Site for Attachments
to Circular Letter No. 11 (2001)