

February 23, 2009

The Honorable Bev Perdue
Office of the Governor
20301 Mail Service Center
Raleigh, NC 27699-0301

Dear Governor Perdue:

Over the last several months, there has been much debate and general confusion about the coastal insurance issues facing North Carolina. While I am extremely empathetic to the timing of the recent insurance rate increases, given the economic downturn facing the country, the Department of Insurance took bold and decisive action to provide long-term solutions to the coastal insurance problems.

In fact, I truly believe that the Department has acted, to date, with foresight and leadership in addressing this crisis. This does not mean, however, that the Department's actions are popular decisions that come without a price. I understand personally that any insurance rate increases can be a burden for homeowners.

Many groups have voiced complaints against the rate increases approved by the Department of Insurance late last year. After more than a year of analysis and discussion, the Department took the following action:

- In November 2008, the Department of Insurance approved several requests from the N.C. Insurance Underwriting Association. In its filings, the Association (commonly called the Beach Plan) requested three major changes: 1. an increase in rate factors of 10 points for both full homeowners policies and wind-only policies; 2. increases in the minimum wind-only deductibles for Beach Plan policies; and 3. an increased retention limit for their allowable surplus. These changes were effective February 1, 2009.
- In December 2008, the Department of Insurance settled with the North Carolina Rate Bureau (an organization, unaffiliated with the Department and created by the legislature, that represents all auto and homeowners insurance companies in the state) to allow both rate increases and decreases, based on insurance territories and risk factors. For example, homeowners in the central and western part of the state received decreases, while many coastal territories received increases. According to the Department's expert staff, all ordered rates — both increases and decreases — were actuarially sound and substantially less than what the industry requested. These changes are effective May 1, 2009.

The truth of the matter is that North Carolina is a state that has been, and will again be hit by major hurricanes, and we must be prepared. History has shown and statistical prediction models support the fact that the majority of damages caused by hurricanes occur along the coast. The rate increases will go far in ensuring the viability of the Beach Plan and availability of insurance in coastal areas. North Carolina will still continue to have homeowners' insurance rates lower than South Carolina and Virginia, our neighbors who also have coastlines exposed to hurricanes.

I encourage you as leaders of the North Carolina General Assembly to work with the Department of Insurance to build upon the solutions already improving the insurance issues facing our state by taking the following steps:

- **Reject** bills proposing any stay of increased homeowners rates and Beach Plan factors. Any rate stay for the beach and coastal areas will put the entire state in jeopardy of an insurance availability crisis, leading to less competition and higher rates.
- **Prohibit** the Beach Plan's member companies from taking the Beach Plan's surplus for their own use; instead **mandate** that the Beach Plan's surplus can build over time, which better prepares the organization to pay claims related to major storms and will keep insurance rates more affordable.
- **Require** that the Beach Plan report to the General Assembly every two years about its financial status and ability to handle a 1/100 year storm.
- **Require** that North Carolina adopt the Windborne Debris Region as defined by the adopted edition of the International Building Code; and **support** the concept of credits and lower rates for consumers who have taken steps to mitigate their property from storm damage.

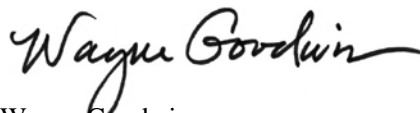
Under my direction, the Department of Insurance will take additional measures as appropriate to address coastal insurance issues and ensure fair, appropriate rates for all North Carolinians. These include the following:

- **Analyze** both long- and short-term solutions that will better prepare North Carolina for a major storm and help lower rates for North Carolinians. This analysis includes, but is not limited to, considering a state catastrophe fund and considering participation in a regional wind pool. Some Members of Congress in other states and many of our southern state neighbors (including Insurance Commissioners and Governors) have been weighing these concepts, but have not yet reached consensus.
- **Realign** the membership of the Beach Plan Board of Directors to have an even more diverse representation, both geographically and professionally.
- **Continue** to use emerging technology to build upon and expand public awareness of and participation in the ratemaking process.

Because this issue is complex, I have directed my staff to create the attached fact sheets to help you better understand the issues at hand.

If you have any further questions, please do not hesitate to call on your Department of Insurance. Until that time, I remain

Respectfully and very truly yours,



Wayne Goodwin
N.C. Insurance Commissioner

Enclosures

CC: Members of the General Assembly
Governor Beverly Perdue and members of the Council of State
Members of North Carolina's Congressional delegation