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**BULLETIN NO. 07-05**

**TO: All Property and Casualty Insurance Companies**

**FROM: James J. Donelon, Commissioner**

**RE: Wind Deductible Credits and Wind Exclusion Credits  
Residential Property Insurance**

**DATE: August 29, 2007**

The residential property insurance environment has changed significantly in Louisiana and other coastal states. Since the 2004 and 2005 hurricane seasons, the state of Louisiana has seen sharp increases in rates, changes in the hurricane models being used, and changes in the use of wind deductible credits and wind exclusion credits. Changes in wind/hurricane loss expectations have in many cases rendered pre-2006 credits inaccurate and/or obsolete. Because of the diversity and complexity of the factors being used and the increased importance of these factors to Louisiana policyholders, as Commissioner of Insurance, I hereby issue Bulletin 07-05.

**All future rate level filings for residential property insurance in Louisiana shall contain adequate, relevant and appropriate evaluation of wind deductible credits and wind exclusion credits currently filed and being used in the rating plan. Every property and casualty company shall make an informational rate level filing or an actual rate level filing containing said evaluation not later than October 31, 2007. Such evaluation shall consider catastrophe modeling, geographical influences, consistency across differing deductible credits, and all other relevant considerations.**

Louisiana statutes allow for the consideration of a wide variety of data and analysis methods when establishing premiums for property credits. LSA R.S. 22:1404(1) states, in part, that in the ratemaking process: "Due consideration shall be given to past and prospective loss experience within and outside this state, to catastrophe hazards, if any, to a reasonable margin for underwriting profit and contingencies, ... and to all other relevant factors within and outside this state."

LSA R.S. 22:1404(2) states that: "Rates shall not be excessive, inadequate or unfairly discriminatory." Based on a recent internal study of wind deductible and wind exclusion factors currently in use, I have concluded the following:

- (1) Companies may not be providing adequate credit for policies excluding coverage for wind that are currently being written or will be written in the future;
- (2) Companies have simplistic sets of factors which do not reflect appropriate loss elimination ratios by geographical area and which fail various consistency and/or reasonableness tests; and
- (3) Companies have been reluctant to change the above referenced factors to keep up with Louisiana's changing environment.

Actuarial standards of practice adopted by the Actuarial Standards Board set forth principles and considerations for an actuary estimating costs associated with the transfer of risk. Of particular relevance are principles 1, 2, and 3 from Actuarial Standard of Practice No. 9 — *Documentation and Disclosure in Property and Casualty Insurance Ratemaking, Loss Reserving and Valuations*:

Principle 1: A rate is an estimate of the expected value of future costs.


Principle 2: A rate provides for all costs associated with the transfer of risk.

Principle 3: A rate provides for the costs associated with an individual risk transfer.

The "catastrophe hazard" is significant in Louisiana, and sound, accurate actuarial analysis must underlie ratemaking for property insurance. When applied, the three principles outlined above should lead to property premiums, wind deductible credits, and wind exclusion credits that are reasonable, not excessive, not inadequate, and not unfairly discriminatory.

For more guidance on these matters, please contact Mr. Lawrence J. Steinert, FCAS, Senior Property & Casualty Actuary at (225) 342-4699 or [lsteinert@ldi.state.la.us](mailto:lsteinert@ldi.state.la.us).

Baton Rouge, Louisiana this 29th day of August 2007.

  
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JAMES J. DONELON  
COMMISSIONER OF INSURANCE