Forty Years of Involuntary Property Insurance Markets in the U.S.

*Note: to receive a copy of this paper with the graphs/tables, please contact bacopes@ilstu.edu

Abstract

The article traces the history and development of the FAIR and beach plans. It reports on operating philosophy as well as procedures and practices in place in the involuntary property markets today. It reports mixed success in effort to depopulate the plans. In addition, it provides some indication of the costs of the involuntary markets to the insurance industry. Finally, the article reports some initiatives undertaken by various of the involuntary market mechanisms.

Goals and Purposes

The purpose of this paper is to examine the development and evolution of involuntary property insurance markets in the United States. A central focus is historical and contemporary problems in the urban markets. These are generally the result of social and economic forces that impact the underwriting function. A closely related subject is redlining, a practice clearly illegal and unethical, when an insurer simply "redlines" an area on a map as a "no write" zone[1]. The article also includes some discussion of the weather driven coastal markets and involuntary property insurance solutions.

Insurance is critical to the efficient and successful functioning of capitalism because it facilitates the ownership of property. Without insurance property owners would divert their resources from more productive activity to uneconomic and excessive loss control activities and would accumulate large emergency funds in case of losses. Insurance frees property owners and their resources to be employed in other more productive activities. It follows that when insurance is unavailable, there are economic losses borne by society. This paper deals with society's response over the last 40 years including an assessment of the present.

The earliest reported urban market program was in Massachusetts in 1960. The Boston Plan was a forerunner of the FAIR plans that appeared across the nation a decade later. The Boston Plan was established to help property owners obtain insurance in neighborhoods with a high frequency of fire losses. The program was operated

through the local fire rating bureau. The Boston plan was a voluntary market assistance plan. A property would be inspected and then offered to an insurer that could issue coverage, require certain conditions be corrected, or reject the risk[2]. By 1967 similar plans existed in CA, DE, IL, KS, LA, MA, MI, MN, NC, NY, OH, PA, and WI[3] [4].

The urban insurance market environment changed dramatically in the late 1960's. There were major civil disorders in urban areas of the United States including the Watts District of Los Angeles, Newark, Detroit, and Chicago. The contraction of property insurance markets in urban areas became a crisis. Underwriters naturally feared further catastrophic riot losses. An insurance industry executive voiced the prevalent mood before the Hughes Panel stating:

> *... without some financial assistance from government to protect them against catastrophic riot losses, insurance companies will be unable to continue offering property insurance in the center city*[5]

In July 1967, the National Commission on Civil Disorders (known as the Kerner Commission) was formed (Executive Order 11365). Subsequently the National Advisory Panel on Insurance in Riot-Affected Areas, which became known as the Hughes Panel, was established in August 1967. The findings and recommendations of the Kerner Commission were published in March 1968.

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[1] The reader should see “Redlining, Property Insurance, and Urban Markets: Concepts, Issues, Initiatives and Solutions”, by Rosemary Baptiste et all, CPCU Journal, Summer 1996 as well as “Market Failure in Urban Property Insurance Market: An Assessment of Potential Solution”, by William J. Warfel in the same volume.

[2] “The Boston Plan”, **Proceedings, Twentieth Anniversary Meeting, National Association of Independent Insurers,** Nov. 1-4, 1965, Des Plains, IL is the only identified source on the subject although similar accounts probably appeared in the industry press.

[3]**Meeting the Insurance Crisis of Our Cities – A Report by the Presidents National Advisory Panel on Insurance in Riot Affected Areas**, 1968, U.S. Government Printing Office (1968) is the official name of the Hughes Report which is the source of this list of states.

[4]The reader should see “Los Angeles riots: Background and Lessons Learned”, Robert B. Holtman in CPCU Journal, December 1994. The articles include a brief discussion of the California market assistance plan in place before the arrival of the FAIR plan.

Included were the National Advisory Panel findings and recommendations[6]. The conclusions of the report are summarized below.

National Advisory Panel Findings and Recommendations

Findings:

1. There is a serious availability problem in the property insurance market in many urban areas and the riots and the threat of riots is aggravating the situation.
2. Insurance is a necessity for homeowners and business [people] and is an essential force in revitalizing our cities.
3. Where property insurance is available in core urban areas, the costs are often prohibitive

Recommendations:

1. The insurance industry, in conjunction with the states, should institute in all states, plans establishing fair access to insurance requirements (FAIR plans).
2. A FAIR plan assures every property owner in a state:
   * an inspection of his[her] property
   * written notice of any improvements or loss prevention measures to make his [her] property insurable
   * Insurance if the property is adequately maintained according to reasonable underwriting standards
3. FAIR plans should make available coverage to both dwelling and commercial buildings and their contents, for the perils of fire and extended coverage, vandalism and malicious mischief and burglary and theft.
4. The Federal Government should charter a National Insurance Development Corporation to provide reinsurance to insurers against the risk of extraordinary loss from civil disorders (riot reinsurance).
5. The federal government should assess the performance of FAIR plans and other insurance programs designed to deal with the problems of the inner city by gathering information, analyzing data and preparing studies for the benefit of the public, the industry and government.

Congress responded to the findings of the Kerner Commission and the Hughes Panel. Cognizant both of the need for access to property insurance and concerns regarding solvency and stability, Congress enacted the *Urban Property Protection Reinsurance Act of 1968* (UPPRA) which included many Kerner/Hughes recommendations[7]. Congress also established the National Insurance Development Program. It was empowered to write riot reinsurance. The reinsurance was offered to insurance company members of the newly created FAIR plans, so named for the acronym, Fair Access to Insurance Requirements. The FAIR plans themselves could not purchase riot

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[5] Quotation from the Hughes Report, p 47.
[6] Report of the National Advisory Commission on Civil Disorders – Appendix H page 305 – 312, U.S. Government Printing Office, March 1, 1968.
[7] The Urban Property Protection Reinsurance Act of 1968 12 U.S.C. 174 9bbb-21 – Part 1905 – Statewide "FAIR" plans.

reinsurance. Instead, FAIR plans assessed members to recover plan losses whether or not related to riots. The majority of FAIR plans were established by state statue and all insurers writing property insurance in plan state are members. A few states have voluntary membership (see Table 2). Riot reinsurance was never mandatory and many insurers opted not to buy it.

Involuntary Property Markets in Place

The operating philosophy of the FAIR plan is that there should be essential coverage available for properties that are uninsurable because of environmental factors, such as neighborhood conditions including high levels of criminal activity or above average fire activity. At the outset, property insurance was provided against direct loss to property as set out and limited in standard fire policies with the extended coverage endorsement, that is, fire and lightning, windstorm and hail, explosion, riot and civil commotion, aircraft and vehicles, and smoke from a friendly fire. Federal legislation added the peril of vandalism and malicious mischief to the list in 1970.

To this day the operation of FAIR plans involves heavy emphasis on property inspection. Although FAIR plans vary between states and have changed over time, generally coverage can only be denied for one of three reasons included in the Federal FAIR plan legislation:

(1) physical condition of the property (although the mere fact that a property does not meet building codes is generally not sufficient)

(2) extended vacancy or improper storage of flammable materials; or

(3) other specific characteristics of ownership, condition, occupancy, or maintenance that are in violation of public policy and that result in substantially increased exposure to loss.

An example of the above might be an abandoned property that the FAIR plan would not insure. However, the building adjacent to the abandoned structure clearly exposed to hazards created by it would be insurable. Moreover, FAIR plans are required to list specifics that would make the building insurable as well as promptly send copies of the action reports to the applicant, including appeals procedures.

While FAIR plans developed on a state-by-state basis, some perceived no need to establish a plan. Table 1 lists FAIR plan states with date of inception. Included are beach plans that were formed for entirely different reasons and with no federal involvement but which are similar in that they provide an involuntary market for property

coverage. There are a number of variations between FAIR plans regarding eligible areas, eligible risks, rates applicable and specific underwriting standards applicable. Table 2 compiles selected salient characteristics of the FAIR and beach plan while Table 3 provides the current market penetration of the plan In early days, all plans had to meet federal Guidelines for member companies to be eligible for federal riot reinsurance. Today, FAIR plans operate with no federal involvement, as the federal riot reinsurance program no longer exists. Beach plans were created by the states to respond to market availability problems in hurricane prone areas where FAIR plans did not exist or as a second market mechanism separate from the FAIR plan. Beach plans are discussed briefly later.

Table I

State Property Insurance Plans

(FAIR plans)

State	Inception
Arkansas (R)	1988
California	1968
Connecticut	1969
Delaware	1968
District of Columbia	1968
Florida	1993
Georgia	1970
Hawaii	1991
Illinois	1968
Indiana	1968
Iowa	1968
Kansas	1970
Kentucky	1968
Louisiana	1968
Maryland	1970
Massachusetts	1968
Michigan	1968
Minnesota	1969
Mississippi (R)	1987
Missouri	1969
New Jersey	1968
New Mexico	1969
New York	1968
North Carolina	1969
Ohio	1968
Oregon	1968
Pennsylvania	1968
Rhode Island	1968
Virginia	1968
Washington	1968
West Virginia	1986
Wisconsin	1970

Beach Plans

State	Inception
Alabama	1970
Florida (wind & hail)	1970
Louisiana	1970
Mississippi (wind & hail)	1987
North Carolina	1969
South Carolina (wind & hail)	1970
Texas (wind & hail)	1971

(R) indicates Rural Only

Source: Property Insurance Plan Service Office (PIPSO)

The early years were times of substantial federal involvement. The Federal Insurance Administration was given (in UPPRA) oversight authority through the office of Review and Compliance of the National Insurance Development Program. Member companies of FAIR plans that were not compliant with federal requirements were not permitted to purchase federal riot reinsurance. The Property Insurance Plans Service Office (PIPSO) was established in 1972 and became the vehicle through which plans received recommendations from the national level. PIPSO exists today as a servicing agency to FAIR and beach plans.

Coverage offered by the plan varies substantially between states as Table 2 illustrates. Some plans created underwriting rules that were included in a statute, making changes difficult. Others maintained flexibility by including the standards in a plan of operation that can be changed by the plan governing board and/or the regulator. Many plans incorporated the federal underwriting standards, as written, into their operating documents. Federal standards were general in nature and thus open to interpretation.

Local rating bureaus initially operated most plans until replaced by the Insurance Service Office in 1971. Underwriters from local companies performed the underwriting. PIPSO developed bulletins on underwriting, covering areas such as expirations, insurable value and coinsurance, binders, cancellations and loss control. However, the matter of defining reasonable underwriting standards was left unaddressed by PIPSO bulletins. Each FAIR plan developed underwriting standards through governing committees and staff.

At that time, most plans operated using servicing carriers to issue and service policies. The servicing carriers were reimbursed by the FAIR plan for paid losses and expenses plus a service fee. In 1970 there were a total of 1,189,000 new and renewal applications, which resulted in the issuance of 917,500 policies[8]. The result was an aggregate loss in all plans of $57,000,000. This was followed by a 1971 loss of $26,000,000 with an application count of 1,092,689. Exhibit One tracks applications and policies through the period of 1999. Exhibits Two reports statutory underwriting results for the same period.

[8] PIPSO has collected statistics on the FAIR and Beach plans since their inception. The data cited in this sentence as well as all other cited in the article are from PIPSO.

Exhibit 1 here

Exhibit 2 here

Underwriting losses throughout the history of the plan were not the result of riot losses as there were no major civil disorders in the U.S. until a major riot occurred in Los Angeles, CA in 1992. By that time, the federal riot reinsurance program had ended. The program paid minimal losses during its existence and ceased in 1983[9].

A concern for the plans in the early years of operation was to quickly and effectively process the large number of applications received by the plans starting off at scratch. FAIR plans generally were and are the insurer of last resort, and the orientation at the time was to accept risks submitted. Similar expectations existed at most insurance departments. Because of the perceived need to process submissions on a timely basis, the lack of automation at the time, and the relative newness of the plans, underwriting standards were lax. Marginal risks sometimes were accepted with little evaluation of the amount of insurance provided. Moreover, many plans were required by regulation to accept risks at standard rates.

Twin Challenges in the Middle Years: Arson and Broader Coverage

A defining event since the inception of the FAIR plans was the absence of large-scale civil disorders after the late 1960's. Nevertheless the FAIR plans grew as the need for urban property coverage continued to exist and the FAIR plans responded. See Exhibit Two for aggregate statutory underwriting results 1970 through 1998. The estimated aggregate underwriting loss for all FAIR plans is $1.5 billion. $1.5 billion is modest when compared to industry losses from Hurricane Andrew ($15.5 billion, 1992) and the Northridge earthquake ($12.5 billion, 1994) as well as to other involuntary markets. When viewed from the perspective of 29 states over 30 years and spread out over an average of 400 companies, the cost is nominal.

Although there were no major civil disorders, the "environmental hazards" of the inner city, which initially caused underwriters concern, remain. Built up properties within close proximity of each other present the threat of conflagration. Narrow streets and parked vehicles make the movement of fire-fighting equipment difficult. Buildings insured and often owned by absentee landlords often just meet the marginal requirements of insurability.

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[9] The authors were informed by Neil Furst of FEMA/FIA that from 1968 to termination in 1983, the riot reinsurance program paid losses amounting to $23.5 million. At the time the Program was teminated it had over $100 million on hand and that amount would have been considerably greater had the FIA not used the fund to pay Federal Crime Insurance Program Losses.

Arson for profit schemes proliferated during the middle years. In a Report to the NAIC Availability of Essential Insurance Subcommittee submitted in June 1971, a spokesperson for the insurance industry stated:

> "It is safe to say ... that fire and extended coverage insurance is being made available in the FAIR plan states to those who have any semblance of an insurable structure be it dwelling or mercantile property[10].

In the early 1970's, it became clear that uniform-underwriting standards might be beneficial in the face of the arson problem. The industry viewpoint was that if there existed some continuity from state to state the industry would be able to better gauge its obligations. Consequently, using the vehicle of PIPSO, the industry developed and distributed a FAIR plan Underwriting Guide in May 1974[11]. This Guide included objective criteria, which the plans could use as the basis for identifying property that was not insurable. It also incorporated all previous underwriting bulletins of PIPSO and was based on federal standards on the subject of what defines a building in poor condition. Also, in December 1974, guidelines for conducting underwriting reviews were issued. The purpose of an underwriting review is to determine if the Plan underwriters were applying the standards established.

Through these and other efforts, it became apparent that FAIR plan experience included many fire losses that were the result of arson for profit. One proximate cause identified was overinsurance. Investigation revealed that arsonists misunderstood the nature of indemnity insurance and assumed they would collect the face of the policy in the event of a total loss[12]. Fire officials and other public authorities criticized the plans for insuring arson prone risks at inflated values. The writers recall that neighborhoods and tenant groups developed profiles of arson prone risks and documented that these were often insured by a FAIR plan.

At the same time the plans were being criticized for being ineffective in combating arson, the Federal Insurance Administration expressed different concerns. In a 1974 report to the Department of Housing and Urban

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[10] Statement on behalf of the FAIR Plan Procedural Advisory Committee by Maurice B. Baker of the NAIC Availability of Essential Insurance (D4) Subcommittee – June, 1971.

[11] PIPSO Bulletin AP-74-5 distributed May 23, 1974.

[12] The reader should note that some states with FAIR plans also have valued policy laws where a total loss does call for the payment of the face amount of insurance.

Development, the Federal Insurance Administration (FIA) faulted the FAIR plans:

1. that the plans did not provide the coverages (package policies) found in the voluntary market
2. that the plans were poorly managed and inefficient,
3. that the plans compiled only inadequate statistics for analyzing operations, and
4. that the FAIR plans had become the insurer for many insurable, loss free risks which belonged in the voluntary market[13].

The reader will recall that Exhibit One reveals the growth in applications that occurred in the late 1970's.

In response, the FAIR plans implemented a number of changes. Most states changed their FAIR plans from servicing carriers to underwriting syndicates, issuing policies and servicing claims. See Table 2 for current status. The plans increased professional staffs to perform insurer functions. External audits were conducted to assure that standards were met. PIPSO underwriting guidelines were adopted by many plans and model applications were developed aimed at the detection of potential arson[14].

The problem of risks insured in FAIR plans that could be insured elsewhere remained a problem. To try to maintain a true involuntary market, some plans began to require evidence that a property had been rejected three times by voluntary market companies before the Plan would consider it for coverage. At the current time, few plans have this requirement, with Illinois an exception among others. Other means have also been used to encourage depopulation as will be discussed below. Because of the overinsurance problem, plans began to require justification for amounts of insurance in excess of a property's insurable value and refused to automatically accept any limit requested. Many plans became and remain involved in anti-arson activities, funding arson hot lines, arson award programs and supporting and funding anti-arson committees.

The Holtzman Amendment to federal FAIR plan legislation was passed in 1978[15]. The writers recollect the alarm with which the legislation was greeted in the industry. The legislation required plans to utilize rate levels not exceeding the level set by the state rating organization. It also required that one third of the voting members of plan governing committee be representatives of the public-at-large (not affiliated with the insurance industry). Those

[13] Report of the Federal Insurance Administrator, "Full Insurance Availability", September 1974

plans that failed to meet requirements were no longer able to purchase federal riot-reinsurance. Eight plans opted to not comply with the federal requirements and withdrew from the federal riot reinsurance program. It should be remembered that riots and the perception of potential riots had diminished considerably by this time. The federal riot reinsurance program had paid few losses and the voluntary reinsurance market was again offering riot coverage at reasonable rates. Other changes occurred. Generally, plans that had been limited in their operation to urban areas were extended to statewide operation. Legislatures and regulators came to see the plans as a mechanism to solve rural and coastal insurance availability problems in addition to those in urban areas.

The issue of broader coverage raised by Congress continued to be an issue. Homeowner insurance had been added as essential property insurance in the Rhode Island FAIR plan in 1972. In 2000, twelve states offer homeowners insurance. Homeowner's coverage, with its additional exposure for theft, liability and replacement cost (except HO-8), resulted in expanded underwriting standards and inspection service to account for the broadened coverages. Other plans have been expanded to offer monoline liability and theft coverage. Table 2 summarizes current FAIR plan characteristics.

In 1980 the Federal Insurance Administrator (operating at this time as part of the Federal Emergency Management Agency) approved new underwriting standards[16]. These were designed to allow the plans more latitude in rejecting arson prone risks. In addition to allowing cancellation/declination for certain "financial" reasons, the revised regulations allowed for five-day notice of cancellation for specified conditions. Not all of the plans were successful in obtaining approval of the new standards at the state level. Moreover, in some cases, those plans, which obtained the short-term (5-day) cancellation provision, were not able to obtain a similar provision for their member companies, which continued to require thirty- (30) day notice.

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[14] PIPSO Bulletin AP-74-7
[15] Housing and Community Development Amendments of 1978

FAIR Plans Today: Depopulation and other Trends

There were no further changes in the federal FAIR plan regulation following the last bout of revisions in 1980. In 1983, Congress passed a housing bill that ended the federal government's role by terminating the federal riot reinsurance program. Some states amended their enabling legislation by eliminating references to federal law and the sunset provisions predicating continuation of the plan on federal riot reinsurance. Of the plans in place today, only two must periodically seek extension of their mandate from state legislature. See Table 2.

In thirty years of operation, FAIR plans have been a small but very important part of the insurance market place. In the early years, FAIR plans wrote sizable percentages of the fire insurance market. In some states in some years they wrote 10% of total property writings. In the period of the1990's, the average FAIR plan market penetration country wide has remained below 2%[17]. To some extent, movement of business into the residual (involuntary) markets reflects voluntary property insurance market cycle conditions. Soft market conditions in the voluntary market generally result in the plans being depopulated. Likewise hard markets tend to draw business back in. See Exhibit One. The effect of the hard market that followed Hurricane Andrew and the Northridge earthquake is reflected in the results. This relationship is much more pronounced in the commercial insurance markets. During the great hard market of the 1980's, FAIR plan books of business were approximately evenly divided between habitational and commercial business. For example in 1987 the commercial book accounted for 48% of the overall FAIR plan written premium. Eleven years later, in 1998, the FAIR plan commercial writings generated only 7% of the total written premium, a reflection of the soft voluntary commercial market, according to PIPSO.

n recent years, the trend in many states has been toward depopulation. Table 3 divides the states according to whether they have increased or decreased in size during the period 1994-1998. Many states have had dramatic success at depopulation. Others clearly have not. Table 4 divides the states by the trend of underwriting results. Some states have had substantial improvement in profitability. Indeed six states turned an underwriting profit in 1998, which is very unusual for the involuntary market.

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[16] FEMA Regulation Part 55.9(a)

[17] 1998 FAIR and Beach Plan Underwriting Results and Market Penetraton Report, PIPSO, September 1999

Table 3

FAIR PLAN MARKET PENETRATION
SUMMARY OF FIVE-YEAR DATA: 1994-1998
FAIR PLAN EARNED PREMIUM
(AS A PERCENT OF TOTAL MARKET)

States with INCREASING share of all property lines combined and adjusted.

STATE	1994	1995	1996	1997	1998
OHIO	0.28%	0.29%	0.34%	0.41%	0.49%
CALIFORNIA	1.35	1.83	2.90	2.93	2.32
GEORGIA	.52	.64	.65	.78	.87
NEW JERSEY	1.24	1.39	1.54	1.76	1.77
MARYLAND	.21	.21	.21	.25	.28
MINNESOTA*	.23	.25	.28	NA	NA
MASSACHUSETTS	3.21	3.45	3.72	3.52	3.8
RHODE ISLAND	1.73	1.91	2.10	1.99	1.98
IOWA	.07	.08	.07	.07	.08
DELAWARE	.46	.45	.44	.46	.52
HAWAII*	NA	8.59	9.61	NA	NA
NEW YORK	1.14	1.25	1.38	1.42	1.24

States with DECREASING share of all property lines combined and adjusted.

STATE	1994	1995	1996	1997	1998
KENTUCKY	1.45%	1.36%	1.29%	1.13%	.99%
MISSOURI	.74	.66	.62	.58	.51
WASHINGTON	.07	.06	.06	.05	.05
WISCONSIN	.29	.26	.24	.23	.21
KANSAS	NA	.51	.45	.42	.38
INDIANA*	.13	.12	.12	.11	.11
DISTRICT OF COLUMBIA	.94	.85	.91	.85	.81
CONNECTICUT	.63	.63	.65	.65	.55
MICHIGAN	3.94	3.61	3.42	3.51	3.51
VIRGINIA	.67	.53	.52	.57	.60
NEW MEXICO*	1.63	1.62	1.54	1.55	1.47
WEST VIRGINIA	.23	.22	.21	.23	.21
ILLINOIS	.28	.27	.27	.27	.26
PENNSYLVANIA	.85	.83	.86	.85	.84

***Calculation based upon incomplete data.**

Source: 1998 Fair and Beach Plan Underwriting Results and Market Penetration Report, Property Insurance Plans Service Office, Inc.

Table 4
FAIR PLAN UNDERWRITING RESULTS
SUMMARY OF FIVE-YEAR DATA: 1994-1998
UNDERWRITING PROFITS
(AS A PERCENT OF VOLUNTARY MARKET EARNED PREMIUM)

States with IMPROVING underwriting results 1994-98.

STATE	1994	1995	1996	1997	1998
KENTUCKY	-.11%	0.32%	-0.2%	.17%	.16%
OREGON	.01	.01	-.05	.04	.03
NEW YORK	.12	.22	.39	.41	.33
MASSACHUSETTS	-1.22	-.38	-1.98	-.49	.61
CALIFORNIA	-2.91	-.46	.97	1.23	.56
DELAWARE	-.12	-.25	-.15	.80	.02
PENNSYLVANIA	-.21	-.2	-.07	-.11	-.03
MARYLAND	-.07	-.06	-.02	.00	-.02
RHODE ISLAND	-.91	-.7	-1.47	-.85	-.36
WEST VIRGINIA	-.15	-.2	-.18	-.05	-.06
CONNECTICUT	-.48	-.41	-.35	-.22	-.23
GEORGIA	-.16	-.06	-.028	.06	-.08
NEW JERSEY	-.95	-.65	-.94	-.81	-.48
MINNESOTA*	-.18	-.08	-11	NA	NA
MICHIGAN	-2.85	-2.55	-2.78	-4.02	-1.89
ILLINOIS	-.19	-.17	-.13	-.13	-.13
DISTRICT OF COLUMBIA	-.44	-.32	-.3	-.15	-.31
INDIANA	-.06	-.04	-.09	-.09	-.05
WISCONSIN	-.13	-.09	-.08	-.07	-.12
FLORIDA JUA	NA	NA	NA	NA	3.98
IOWA	0.0	.01	.02	-.03	.01

States with DETERIORATING results 1994-98.

STATE	1994	1995	1996	1997	1998
MISSOURI	.01	-.13	-.03	-.03	-.05
VIRGINIA	-.02	.02	-.04	.09	-.1
OHIO	-.07	-.12	-.17	-.18	-.17
WASHINGTON	.01	-.05	.01	.01	.00
KANSAS	NA	.09	.07	.12	.05
NEW MEXICO	.41	.62	-.04	.36	.35
HAWAII*	NA	6.25	6.10	NA	NA

***Calculation based upon incomplete data.**

Source: 1998 Fair and Beach Plan Underwriting Results and Market Penetration Report, Property Insurance Plans Service Suite Office, Inc.

It is very difficult to generalize about Table 2 and 3. Some states stand out like Kentucky. Kentucky has depopulated and moved from underwriting loss to profitability. In contrast, California's FAIR plan has grown

substantially but now turns an underwriting profit. It appears there might be a weak relationship between improving underwriting results and decreasing plan size, but the authors attribute no causation whatsoever[18].

Coastal Problems

As mentioned earlier, 7 states have beach plans. See Table 1. Beach plans have more natural origins than FAIR plans. They were created with no federal involvement. On the other hand, they are involuntary property insurance market mechanisms. Beach plans were created by the states to respond to market availability problems in hurricane prone areas. The beach plans that operate in seven coastal states had been relatively stable prior to Hurricane Andrew hitting Florida in 1992. For the period 1988-1992 the total policies issued by the beach plans averaged 145,000 per year. In 1997 that number had risen to 637,000. (See Exhibits Three and Four.) Part of the explanation must be voluntary market insurers attempting to better manage their coastal exposure. In 1993 the Florida Residential Property Casualty Joint Underwriting Association (FRPCJUA) was created to relieve the insurance crisis in that state. Exhibits three and four do not include data from the FRPCJUA. In September of 1996, the FRPCJUA had over 936,000 policies in force[19]. That number stood at 115,000 in June 1999 reflecting a change in voluntary market conditions and the use of monetary incentives for insurers who depopulate the FRPCJUA.

[18] The chi-square test was performed. The null hypothesis was that there is a relationship between two data sets, while the alternative hypothesis is that there is no relationship between the two data sets. It was found that the significance level was to a power of negative 249, which showed that the null hypothesis was rejected and alternate hypothesis was accepted, since p (significance level)<0.05.

[19] The reader should see "The Expansion of the Public Sector's Involvement in Florida's ResidentialProperty Insurance Market", David Marlett, CPCU Journal, Summer 1999.

Exhibit 3 here

Exhibit 4 here

Conclusions

The FAIR plans have and continue to provide products and services necessary to meet the needs of property owners in their respective states. They have been in existence for thirty years with minimal compliance problems. The roles expanded to eligible territory and coverages where a demonstrated need has been shown.

Throughout their history, the plans have been involved in a variety of activities in the area of fire prevention and loss control, anti arson programs, and community programs. Listed below are some of these activities:

- Several FAIR plans are involved in activities to assist communities in fire prevention and anti-arson programs. The plans in Connecticut, Massachusetts and Rhode Island sponsor statewide fire prevention poster contests through the school system. Many plans are involved in the funding of arson committees, arson seminars, Tip Award Programs and Arson Hot Lines. One plan has purchased arson investigative vans for the state fire marshals office.
- The Illinois, Wisconsin and other FAIR plans are working with the Neighborhood Reinvestment Corporation and similar organizations to improve neighborhoods through fire prevention, to educate property owners regarding insurance matters, and to ultimately assist in making the properties eligible for insurance in the voluntary market.
- Many plans have ongoing education programs for producers and applicants/insureds regarding the working of the plans, the importance of adequate insurance, and how to protect the property from loss by fire and other perils.
- Numerous plans have or are developing websites to improve communications with producers, consumers, regulators and member companies.
- PIPSO is developing a website that will provide a single location for plan member companies to download plan financial reports.
- The plans continue to enhance coverage where there is a demonstrated need for such additional coverage. At the same time, Table 3 reports on continuing depopulation progress.

The beach plans have also been involved in activities other than writing insurance as indicated below:

- The beach plans are involved in working with insurance industry groups and community affairs departments to improve the quality of structures in hurricane prone areas.
- The plans are working with public officials in the area of response and recovery to allow prompt assistance to insureds following a catastrophe.
- Working through insurance industry and other national and local organizations that beach plans encourage the strengthening and enforcement of building codes, use of improved building materials and protective devices, etc. and can often provide premium credits where these standards are applied.

- The beach plans issue hurricane kits and other loss prevention information to plan policyholders and hold seminars on these subjects in territories where they offer insurance.

- The beach and some coastal FAIR plans purchase reinsurance, maintain lines of credit and in the case of the Florida plans, issue bonds. These financing techniques are a means of minimizing assessments to the member companies, thus stabilizing the voluntary market in these states.

The FAIR and beach plans have, for thirty years, fulfilled their obligation of providing essential property insurance to eligible applicants. They will continue to do so in the future when the voluntary market is unable to meet needs. The future growth or depopulation of the plans will depend, to a large degree, on voluntary market activity. That in turn will be affected by natural and manmade disasters, financial conditions and any other number of factors that makes predicting the future of markets very difficult.

ENDNOTES

[1] "The Boston Plan", **Proceedings, Twentieth Anniversary Meeting, National Association of Independent Insurers**, Nov. 1-4, 1965, Des Plaines IL is the only known reporting on the subject although similar accounts probably appeared in the industry press.

[2] Meeting the Insurance Crisis of Our Cities - A Report by the Presidents National Advisory Panel on Insurance in Riot Affected Areas, 1968, U.S. Government Printing Office (1968) is the official name of the Hughes Report. This quotation is taken from the report.

[3] Report of the National Advisory Commission on Civil Disorders - Appendix H page 305 -312 published March 1, 1968

[4] The Urban Property Protection Reinsurance Act of 1968 12 U.S.C. 174 9bbb-1749bbb-21 -Part 1905 - Statewide "FAIR" plans

5. Since 1969, PIPSO has collected statistics for the FAIR and Beach plans. The data cited in this sentence as well as all other cited in the article are from PIPSO.

[6] The authors were informed by Neil Furst of FEMA/FIA that from 1968 to termination in 1983, the riot reinsurance program paid losses amounting to $23.5 million. At the time the Program was terminated it had over $100 million in the fund and this would have been considerably greater had the FIA not used the fund to pay Federal Crime Insurance Program losses."

[7] Statement on behalf of FPPAC by Maurice B. Baker to the NAIC Availability of Essential Insurance (D4) Subcommittee - June, 1971

[8] PIPSO Bulletin AP-74-5 distributed May 23, 1974

[9] Report of the Federal Insurance Administrator, "Full Insurance Availability," September 1974

[8] PIPSO Bulletin AP-74-7

[9] Housing and Community Development Amendments of 1978

[10] FEMA Regulation Part 55.9(a)

[11] The chi-square test was performed. The null hypothesis was that there is a relationship between two data sets, while the alternate hypothesis is that there is no relationship between the two data sets. It was found that the significance level was to power of negative 249, which showed that the null hypothesis was rejected and alternate hypothesis was accepted, since p (significance level)<0.05. \