

Insurance Crisis Articles for this Week

Becky Mowbray's Friday article about NFIP's memo to waive flood adjustment requirements includes the proud admission of authorship by the American Insurance Association.

Lots of other news: Alabama federal judge wants Scruggs prosecuted for giving copies of whistleblower documents to state AG and US Attorney;

I selected four of the many Florida articles out there, most concerned that the state has made commitments that it probably cannot fulfill;

Southeast Texas joins insurance news in a big way - three Rita cases and a suit against an insurer that waited until hurricane season to drop policyholders;

It's not just a Gulf Coast problem: Liberty Mutual cites hurricane risk to drop Staten Island couple after 42 years;

North Carolina struggles with windstorm building codes;

Follow the money: State Farm sets up a Bermuda reinsurer to sell catastrophe bonds to reinsure a State Farm-owned Bermuda company that reinsures State Farm's catastrophe risk, while, Allstate reinsures its CT, NJ, NY hurricane risk through a new Cayman Islands reinsurer; so those premium increases to pay rising reinsurance costs now can be untaxed profits in Bermuda and the Caymans.

Memo called 'blank check': FEMA accepted risk of overpayment

Rebecca Mowbray, New Orleans Times-Picayune

The private insurance industry's alleged practice of overbilling the National Flood Insurance Program for Hurricane Katrina damage has Congress clamoring for answers and a federal judge calling for the Justice Department's intervention. But there's one problem with the calls to action. The Federal Emergency Management Agency may have told the insurance industry that it was OK to load up damages on the taxpayer-financed flood program while shorting people on their wind-damage payments.

[snip] Until

now, exactly what role insurance companies played in developing that memo has been something of a mystery. On Thursday, the American Insurance Association took credit for developing the procedures with FEMA. "We came up with the idea of doing it," said Eric Goldberg, assistant general counsel at the trade group. "We thought there ought to be some sort of policy in place that would enable the (insurance) companies to get money into the hands of consumers when it was absolutely clear that there was damage caused by flooding."

Judge wants law firm prosecuted - Val Walton, Birmingham News

A prominent

Mississippi trial lawyer and his firm should be prosecuted on criminal contempt charges involving Hurricane Katrina damage documents taken from a Birmingham company, a federal judge ruled Friday. U.S. District Judge William Acker is requesting that federal prosecutors in north Alabama prosecute Richard Scruggs and the Scruggs Law Firm on allegations Scruggs did not comply with an order issued in early December.

Craig Crawford's 1600: Storm Aid as the New Ethanol

Craig Crawford, CQ Politics column in New York Times

If Florida gets

its way, hurricane insurance will be the new ethanol in presidential politics. Jealous that Iowa's first-in-the-nation status for White House balloting always boosts that state's self-interested obsession with corn-based fuel, Florida's political elites are uprooting the campaign calendar in large part to put their own pet issue on the national agenda. Lobbying presidential candidates to back a federal catastrophe insurance fund is at the root of a bipartisan crusade in Florida to make the nation's fourth-largest state one of the early battlegrounds in the 2008 nomination races of both parties.

Crist may hedge hurricane risk - Paige St. John, Tallahassee Democrat

Gov. Charlie

Crist is quietly considering hedging Florida's gigantic hurricane bet

and, with it, raising the odds homeowners will get socked with a bailout bill. A draft report shows state financial advisers are considering spending \$670 million to buy \$6 billion in protection for the Florida Hurricane Catastrophe Fund. The state fund sells discount storm coverage to insurance companies and, in turn, is backed by Florida consumers who would pay for any deficits caused by storm losses. The losses are paid with special charges on insurance premiums.

Big Fla. Storm Assessments Could Exceed \$50 Billion: Report - Susanne Sclafane, National Underwriter News Service

If a 1-in-250-year storm were to hit Florida, policyholder assessments to support the state's hurricane catastrophe fund and its insurer of last resort could total \$53 billion, a reinsurance broker reported this week. Paul Kneuer, senior vice president and chief reinsurance strategist for Holborn Corp., a New York-based reinsurance broker, one of the authors of a new white paper on the Florida property insurance market, said the \$53 billion figure represents the burden of such a storm on Florida homeowners-and ultimately, perhaps on the federal government.

Guest Column: Lawmakers did poor job addressing insurance crisis - Martin County Taxpayers Association, Treasure Coast Newspapers

As we await the Florida Legislature's rulings on property taxes - and acknowledge the arrival of the 2007 hurricane season - it seems appropriate to review the result of the state's last major effort to help property owners: reducing insurance premiums. In the beginning, that effort envisioned 24 percent rollbacks for homeowners with private insurance, and a restructuring of Citizens Property Insurance Corp. to make it actuarially sound. However, the "reductions" now being received from private insurers have been much smaller, and most of the rate increases required to make Citizens self-sufficient have been rescinded.

Insurance company pulls stakes as hurricane season begins, local resident files class action - David Yates, Southeast Texas Record

The Atlantic Hurricane Season has just begun, and with the weather community predicating a tumultuous season one insurance company's decision to pull up stakes has resulted in a class action lawsuit on behalf of thousands of Golden Triangle residents that are now uninsured. Serving as a class action representative of all Capitol County Mutual Fire Insurance Co. policyholders who paid premiums from November through June, Rebecca Joseph filed suit against the insurer with the Jefferson County District Court on June 11.

Port Arthur man sues insurer for denying portion of Hurricane Rita claim - David Yates, Southeast Texas Record

Port Arthur resident Ollie Wilson is suing Capitol County Mutual Fire Insurance Co. for denying a portion of his claim that was submitted after Hurricane Rita struck the Golden Triangle area.

Couple sues Allstate over hurricane claim - David Yates, Southeast Texas Record

Hermie and Norma Bundick are the latest Golden Triangle couple to sue Allstate Texas Lloyd's and Allstate Insurance Co. for not paying the full proceeds of a claim submitted following Hurricane Rita.

Orange insurance suit moves to federal court - David Yates, Southeast Texas Record

Hurricane victims and Orange County residents Murphy and Debra Hunt will have their \$75,000 lawsuit against State Farm Lloyds plucked from the county's court and placed in hands of the U.S. District Court for the Eastern District of Texas, Beaumont Division.

Abandoned by insurance giant: Citing hurricane threat, couple is dropped after 42 years with Liberty - Karen O'Shea, Staten Island Advance

STATEN ISLAND, N.Y. -- Pedro and Millie Flores have been Liberty Mutual Insurance customers for 42 years, filing only a single \$1,200 claim after a car crashed into the front steps of their New Dorp home nearly 15 years ago. So the two were stunned when they received a letter from Liberty Mutual in late May, informing them their homeowners' policy would not be renewed.

Builders resist wind standard - Martha Quillin, Charlotte News and Observer

RALEIGH - It

doesn't take a meteorologist to predict that if a hurricane rips a two-by-four off one house and throws it into the window of another that the glass will probably break and rain will pour in. The question the N.C. Building Code Council has been grappling with is how far homebuilders must go to guard against that kind of damage.

Fitch Expects to Rate Merna Reinsurance Limited Notes

Fitch Ratings expects to assign the following ratings to the proposed notes of Merna Reinsurance Ltd. (Merna Re) listed below:

--\$500,000,000
tranche A 'AAA'; --\$1,200,000,000 tranche B 'AA'; --\$850,000,000
tranche C 'A-'; --\$690,000,000 tranche D 'BB'; --\$780,000,000 tranche E
'B'.

The expected ratings on all notes are based on stressed modeled loss statistics provided by an independent, third party modeling firm; the transaction's legal and cash flow structure; the financial strength of the sponsor, State Farm Mutual Automobile Insurance Company (State Farm); and the credit enhancement provided by the subordinated notes.

This transaction effectively transfers a portion of State Farm's risk of natural catastrophe losses in the U.S. and Canada including hurricane, earthquake, tornado, hail, winter storm and brush fire to the capital markets. Thus, the rated securities are indemnity-based catastrophe bonds that provide cumulative, three-year aggregate excess of loss protection. The cumulative three-year indemnity-based trigger and \$4 billion size of this transaction make this transaction unique relative to prior catastrophe bonds.

Merna Re is a special-purpose reinsurance entity, owned by a purpose trust, domiciled in Bermuda and licensed as a Class 3 insurer. Merna Re will provide fully-collateralized excess of loss catastrophe reinsurance to Oglesby Reinsurance Ltd. (Oglesby Re) under the terms of a three-year retrocession agreement. Oglesby Re is captive reinsurer, owned by State Farm, domiciled in Bermuda and licensed as a Class 3 insurer. Oglesby Re provides excess of loss catastrophe reinsurance to State Farm under the terms of a three-year reinsurance agreement.

A.M. Best Assigns Rating to Willow Re Ltd.'s Principal-at-Risk Variable Rate Notes

A.M. Best Co.

has assigned a debt rating of "bb " to the \$250 million Class B, Series 2007-1 principal-at-risk variable rate notes (the notes) due June 16, 2010 issued by Willow Re Ltd. (the issuer), a newly created Cayman Islands exempted company licensed as a Restricted Class B Insurer in the Cayman Islands. The notes are the first series issued under the issuer's \$2.0 billion principal-at-risk variable rate note program. The issuer may, from time to time, issue additional classes of notes. The rating outlook is stable.

Under the reinsurance agreement, the issuer will provide Allstate with up to \$250 million of aggregate protection over a three-year period beginning June 15, 2007, when the event index value caused by a U.S. hurricane event occurring in the Northeast territory (defined as Connecticut, New Jersey and New York) exceeds a specific attachment point.