

MILLIMAN REPORT

Mississippi Homeowners Insurance: Potential Premium Impacts from Subrogation Litigation Related to Hurricane Katrina

Prepared for: American Property Casualty Insurance Association (APCI)

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Executive Summary

- Mississippi property insurers paid approximately \$13.8 billion in covered windstorm¹ losses and adjustment expenses for approximately 515,000 Hurricane Katrina claims after the storm's landfall on August 29, 2005.² Katrina was the most destructive hurricane on record to impact the United States.
- Federal grants later funded the Homeowners' Grant Assistance Program (HAP) administered by the Mississippi Development Authority (MDA). HAP explicitly targeted homeowners in four impacted counties that faced uninsured flood (not wind) losses, and paid over \$2.0 billion in grants to nearly 29,000 homeowners.³
- Long after the statute of limitations for contesting windstorm claims expired, and long after the HAP funds were exhausted, the Mississippi Attorney General (MAG) brought a series of lawsuits (collectively, "HAP Subrogation Litigation") against individual insurers, alleging tortious underpayment of insurance claims, in part due to the known existence of HAP funds. By making the state the plaintiff, the MAG has circumvented the statute of limitations that applies to policyholders, and hopes to recover funds from insurers to redress HAP's expenditure of funds that allegedly should have been paid as windstorm claims.
- The HAP Subrogation Litigation has resulted in twelve publicly available complaints, three of which have been settled; each complaint contains a number of subject claimants, aggregate insurance claim amounts paid to these claimants, and HAP payments to these claimants. The complaints we studied address 15,798 claimants who were paid over \$233 million in insured windstorm losses and subsequently received over \$1.19 billion in HAP flood grants. The average ratio of HAP grant to paid loss is thus approximately 5 to 1.
- Mississippi homeowners insurers charged no premium for the flood peril and did not anticipate additional damages for flood at the time of policy issuance. A retroactive increase to the ultimate liability for Katrina losses could change actuarial projections of prospective future loss costs from similar catastrophic windstorm events in Mississippi. This is likely to raise future actuarially sound homeowners insurance premiums by an amount commensurate with the expected losses and expenses associated with this adjustment.
- Milliman has considered only the direct impact of anticipated incremental losses due to similar circumstances in future major hurricanes. The impact of subrogation of flood losses against windstorm insurers on market participation and composition, extent of coverage offered, and underwriting practices are out of scope for this assignment. Milliman estimates a reasonable range of adjustments to annual catastrophic windstorm premiums in Mississippi homeowners' insurance to be \$1.1 to \$55.2 million, which could affect the overall required rate level in the coastal "bottom six" counties⁴ by +0.5% to +25.0%.
- Our estimates are prospective and based on the current Mississippi homeowners insurance market, which has evolved since Katrina. The state-chartered and insurance industry-backed Mississippi Windstorm Underwriting Association (MWUA) has captured market share in the bottom six counties (the only counties in which it is authorized to offer insurance), as its rates have remained stable relative to increasing rates from private insurers in the region. In the bottom six counties, privately insured total house-years of exposure fell 6.4%, but total direct earned premium rose 38.0%, and total insured value rose 58.7% from 2005 to 2014⁵, according to county-level data collected in accordance with Mississippi law.

¹ For the purpose of this paper, "windstorm" is used to define claims that are caused by wind and not by flood.

² Insurance Information Institute, "Hurricane Katrina Fact File", published March 2010, with claims data as of June 8, 2006.

³ Data from the Disaster Recovery Grant Reporting System as of June 30, 2018 for the eight HAP line items tracked by the system.

⁴ Hancock, Harrison, Jackson counties closest to the coast, and Pearl River, Stone, and George counties adjacent and just inland. HAP applied in only Hancock, Harrison, Jackson, and Pearl River counties.

⁵ Data from the Mississippi Market Analysis Data Call authorized by the "Clarity Act".

Background

Even among the consecutive destructive Atlantic hurricane seasons of 2004 and 2005, Hurricane Katrina stands out as the single event that forever changed the catastrophe-exposed property insurance industry. Its landfall on August 29, 2005 as a strong Category 3 hurricane, after an earlier landfall in south Florida as a Category 1, occurred near Bay St. Louis in Hancock County, Mississippi. It caused tens of billions of dollars in both windstorm and flooding damages throughout Louisiana, Mississippi, Alabama, and Florida.

After the storm, Mississippi property insurers paid approximately \$13.8 billion in losses on 515,000 claims, according to the Insurance Information Institute (III). On an all-states basis, 43.1% of paid losses were from homeowners insurers. Among the market impacts of Katrina was difficulty in determining whether many claims should be assessed as windstorm damage or flood damage. Since most homeowners policies do not cover flood damage, the decision had great consequences for individual policyholders. Claims denied or partially denied on the basis of flood damage exclusions in policy contracts generated extensive controversy that continues to this day.

Recognizing the need for disaster recovery assistance, the U.S. government authorized various block grants to be administered by individual state governments. The Mississippi Development Authority (MDA) was tasked with the administration of a Homeowners Grant Assistance Program (known as HAP) that distributed grants in the four counties most impacted by Katrina – Hancock, Harrison, Jackson, and Pearl River. (Mississippi considers its coastal insurance market to consist of the “bottom six” counties, which include these four plus Stone and George, and the Mississippi Windstorm Underwriting Association operates in the bottom six.) The grant program had many conditions, including living outside the National Flood Insurance Program’s (NFIP) Special Flood Hazard Areas (SFHAs) or “flood zones” and having windstorm property insurance but insufficient flood insurance, and was specifically authorized “to provide a one-time grant payment, up to a maximum of \$150,000, to eligible homeowners who suffered flood damage to their primary residence”. A second phase offered grants of up to \$100,000 to a larger group of homeowners, including those of low incomes living in flood zones and who did not have property insurance. Importantly, all HAP grants were intended for flood, not windstorm, damage⁶.

After a number of years, the Mississippi statute of limitations for contesting homeowners insurance claims expired and nearly all Katrina claims were finally settled. The HAP program also exhausted its funds and was decommissioned. But many homeowners had received, in total and in their view, insufficient funds to rebuild or replace property. In 2015, after these expirations, the Mississippi Attorney General (MAG) began to bring a series of legal actions (collectively, the “HAP Subrogation Litigation”) against insurers representing a majority of the homeowners market at the time of Katrina. The twelve complaints are discussed below and listed in Exhibit 2.

The basic allegation in each complaint is that insurers underpaid, partially denied, or denied wind claims by classifying them as flood claims. In part, according to the allegations, this is because they knew the HAP program would likely reimburse damage identified as flood, because of insufficient flood insurance on the properties, and that the existence of HAP would lower the chance that policyholders would take action against their insurers for underpaying or denying the claims.

Milliman was engaged by the American Property Casualty Insurance Association (APCI) to analyze the potential impact on Mississippi homeowners insurance premiums in recognition of the fact that the increased costs to insurers associated with the HAP Subrogation Litigation can be expected to recur in some form in future major hurricanes, raising the ultimate losses in these events. As ratemaking is a prospective exercise, and rates should reflect all future costs associated with the transfer of risk (in this case major hurricane windstorm risk), these anticipated incremental future costs would be expected to enter the future data underlying rate indications, and consequently to result in increased premium charged to policyholders.

⁶ U.S. Dept. of Housing and Urban Development, “Recovery Snapshot: Mississippi Homeowners Grant Program”, <https://www.hudexchange.info/onecpd/assets/File/CDBG-DR-Case-Study-Mississippi-Homeowner-Compensation-Grants.pdf>, accessed October 2, 2018.

Methods, Data, and Assumptions

Gathering relevant data for an event more than a decade old is challenging. Our approach is to seek data pertaining to components of the analysis:

1. Market data. Sizing the market at the time of Katrina, its growth, and change over time, is critical to normalizing the historical data and setting the exposure base against which any incremental costs will be measured to assess premium impacts, as well as scoping the portion of the industry that is likely to bear those costs.
2. Cost data. To establish a base for the incremental cost at issue, it is necessary to understand the magnitude of amplification of insured losses likely to occur in connection to the problem at hand.
3. Frequency data. Premiums are charged annually and major hurricanes only occur in some years. Cost estimates, normalized to the current market size, must be annualized by considering the frequency of events that generate incremental state-driven subrogation costs.
4. Insurer expense data. Incremental costs, after expression as additions to the insured loss base, must be converted to premiums to make statements about rate impacts.

Statewide market data is available, beginning prior to Katrina, from SNL Financial. County-level data is only available from Mississippi-specific sources, in particular the annual data calls that were conducted under Mississippi's "Clarity Act", which was enacted after Katrina. To date, this data is available for the period from 2004 to 2014.

Cost data comes from the publicly available information associated with MAG's complaints, which were provided to Milliman by APCI. Additional baseline cost data comes from Insurance Services Office (ISO) advisory loss cost filings for Mississippi homeowners insurance.

Frequency of a major hurricane is estimated from publicly available information submitted by the leading catastrophe modeling firms to the Florida Commission on Hurricane Loss Projection Methodology in early 2017.

Expense data for insurers is taken from publicly available summaries of Statutory Annual Statement data provided by SNL Financial. Expenses were specific to Mississippi where possible.

Milliman developed a unique methodology to estimate the incremental costs for the entire targeted market from the historical data and normalize it to today's values using market data. The costs, expressed in today's dollars, are annualized using the frequency data, spread over the appropriate overall insured cost base (coastal ISO loss costs), and converted to incremental premium estimates by grossing up for expenses. A detailed step-by-step explanation of the sequence of calculations appears in the next section.

This exercise involves projecting incremental costs associated with a historical issue for which empirical data is highly limited. Therefore, most of the key assumptions involve an unusually high degree of uncertainty. As such, Milliman has developed a low (optimistic, from the point of view of ratepayers), central, and high (pessimistic) estimate for each key parameter with unusual uncertainty:

1. The ratio of settlement values to the underlying HAP grant losses;
2. The frequency of hurricanes likely to generate significant underinsured flood losses and similar litigation;
3. The market share of the insurance industry likely to be targeted in future litigation.

The conclusions regarding premium impacts are therefore also stated as low, central, and high estimates. We did not consider the joint distributions or correlations among our parameter ranges; in other words, our low premium estimate reflects all the low parameter estimates without any offset or tempering, and our high estimates reflect the same approach.

Enclosed Exhibits and Description of Analysis

The enclosed exhibits and description that follows detail our analysis, which is intended to provide an evaluation of the potential impact of this issue on residential property insurance rates in Mississippi's coastal (bottom six) counties. This section includes a discussion of each exhibit, along with a narrative explaining our assumptions, detailing our methodology, and providing references for data sources.

EXHIBIT 1: ESTIMATED IMPACT OF MAG ACTION ON POLICYHOLDER PREMIUMS

Exhibit 1 derives the potential range of impact to policyholder premiums as a result of prospective expanded payments of future hurricane claims, based on the HAP Subrogation Litigation, settled and ongoing. We estimate that the typical private market policyholder in coastal counties could see premium increases between \$10 and \$487 per annual policy, with a central estimate of \$74 per policy. Based on estimated current coastal premiums, these values correspond to increases of 0.5%, 25.0%, and 3.8%, respectively, to existing premiums.

Note that we included calculations using statewide premiums, in addition to using coastal county premiums, as the base for the impacts. This is only for informational purposes. We assume that future rate filings will take the actuarial approach that expansion of hurricane claim payments based on claims filed in (and perhaps disaster relief programs targeted to) the bottom six counties will result in increased prospective losses allocated solely to those counties, rather than spread over a statewide premium base.

These figures are estimated based on public information regarding the lawsuits that have been issued by the MAG. They are implicitly reflective of the insurance market at the time of Hurricane Katrina in Mississippi. As ratemaking is a prospective exercise, our challenge is to restate the impact of litigation over past events in terms of potential impact on future annual premiums, which are set not knowing when hurricanes will occur. The challenge can be decomposed in terms of parameters as follows:

1. What is the annual probability of a large hurricane that would generate a claims environment similar to that of Katrina and triggering federal assistance?
2. What is the likely ratio of disaster relief (or similar aid) payments to insured windstorm losses that could be allegedly subject to subrogation? And, what is the ratio of agreed settlement amounts to original alleged amounts?
3. What share of the private market is likely to be targeted for future relief payments?
4. How should past losses used in the study be normalized to reflect the current and future size of the private market (premiums and insured values)?
5. What is the best measure of the private market premium base and expense ratio needed to convert incremental losses to premium impacts?

To reflect the uncertainty in many assumptions, which is irreducible given a changing marketplace, evolving regional economy, advancing catastrophe modeling science, and event-specific litigation strategy, we used an optimistic, central, and pessimistic assumption for each component except the normalization of past premiums and insured values to current amounts, and estimated premium base and expense ratio.

The exhibit proceeds in major steps as follows:

1. Estimated Industry Total Amount at Issue
2. Estimated Insured Value Inflation Factor
3. Estimated Annual Probability of Hurricane Triggering Federal Assistance
4. Estimated Market Share of Industry with Losses at Issue
5. Projected Impact to Average Annual Loss
6. Projected Impact to Premiums

1. Estimated Industry Total Amount at Issue

HAP monies paid and estimated settlement amounts originate from Exhibit 2, and are based on known information regarding three settled cases, as opposed to the nine open cases. Each case represents a suit against a single

insurance entity, though multiple subsidiary insurers within a group may be included. We calculate the ratio of the estimated settlements against the total HAP dollars paid to claimants in those same cases. The sample size of settlements is small, so we have selected a wide range of possible settlement ratios of 10% to 25% to recognize uncertainty regarding the eventual industrywide settlement ratio, and we use the weighted average of the three cases as the central estimate.

Also from Exhibit 2, we show the 2005 share of industrywide losses borne by those companies who have settled their cases. We assume this is a proxy for the proportion of losses from Hurricane Katrina incurred by those companies. We use this share to convert the estimated range of settlement amounts to an industrywide figure. This represents our estimate of the settlement amounts that would be borne if the entire industry were subject to MAG's series of lawsuits.

2. Estimated Insured Value Inflation Factor

We gathered public data from the Mississippi Market Analysis Data Call, which was collected from year-end 2004 to 2014 pursuant to the state's "Clarity Act". This was the only source of market data available at the county level. We decided to normalize the historical claim data to 2014 levels using statewide figures from the Data Call, then to 2018 levels using a standard exponential extrapolation.

3. Estimated Annual Probability of Hurricane Triggering Federal Assistance

Devastating storms like Katrina that trigger massive losses, large numbers of claims, and federal assistance, are rare. However, the possibility must be actuarially reflected in prospective annual premiums. Therefore, a key assumption relates to the size and annual probability of an event of similar scale and impact. The estimation of this probability is based on annual occurrence rates of hurricane landfalls along coastline of Mississippi and Alabama, from two leading catastrophe modelers in their recent model submissions to the Florida Commission on Hurricane Loss Projection Methodology (FCHLPM).

4. Estimated Market Share of Industry with Losses at Issue

The MAG sued only select insurers, representing approximately two-thirds of the industry's all-perils incurred losses in 2005. It is unlikely to expect that the entire industry would be targeted in future actions. As a result, we established a range for the share of targeted insurers, reasoning that at least the top insurer or two would be targeted – State Farm had over 30% market share in 2005 and over 26% today – and that as much as 85%, roughly the share of the entire top 10 insurers, could be targeted. The central estimate is 67%, selected in alignment with the percentage in 2005.

5. Projected Impact to Average Annual Loss

The "estimated average annual loss at issue" for the industry is a key value in our analysis; it is the estimated industry total amount at issue, normalized using the inflation factor, times the probability of a triggering hurricane, adjusted for the proportion of the industry likely to be targeted.

We restate the average annual loss on a per-policy basis using policy count data from the 2014 Clarity Act data call, spreading it separately on a statewide basis and coastal bottom six county basis. The statewide value is shown for information, but we believe the loss per policy is most useful when assuming coastal counties bear the burden of the incremental losses. Note that the HAP program was only authorized for four of the bottom six counties (Harrison, Jackson, Hancock, and Pearl River).

6. Projected Impact to Premiums

The incremental losses per policy are converted to premiums per policy by grossing up for expenses. Expense ratios are calculated using Mississippi industrywide homeowners information from Annual Statement data (Insurance Expense Exhibits and Statutory Page 14). Finally, we use Insurance Services Office (ISO) information from its recent Mississippi homeowners' loss costs filing to derive a premium base, separately for statewide and for coastal bottom six counties only. The final percentage increase in premiums to anticipate an actuarially sound adjustment for prospective subrogation litigation is simply the estimated additional premium from lawsuits divided by the premium base.

EXHIBIT 2: SUMMARY OF HISTORICAL LOSS AND HAP PAYMENTS

Exhibit 2 supports both the “estimated industry total amount at issue” and “estimated market share of industry with losses at issue” components of Exhibit 1.

We first compile known quantitative information regarding the complaints from the MAG – the number of claimants subject to each complaint, their paid insured windstorm losses, their payments from HAP, and the attorney’s fees paid to MAG’s outside counsel. We estimate the settlement amount by grossing up attorney’s fees for the contingency percentage in MAG’s retention agreements with Watson Heidelberg Jones, PLLC against Balboa Insurance Company, MeritPlan Insurance Company, and Metropolitan Property and Casualty Insurance Company. The retention agreements all state that 25% of any recovery up to \$10 million will be paid to the law firm. However, the percentage of the recovery diminishes above \$10 million. As no fee payment is known yet to exceed \$2.5 million, we believe our approach is accurate.

The ratio of the settlement amount to the HAP payments to the same policyholders provides a “negotiation” factor used to reduce the HAP losses in Exhibit 1 prior to grossing them up to an industrywide potential value. The weighted average of this factor is 16.3%, but among the three companies the ratio varies from 11.2% to 24.8%.

The share of 2005 industry incurred loss among the three settled insurers is used to gross up the known figures to an estimated industrywide lawsuit loss total. The subtotal for the three insurers is 2.3%. The amount of representative settlement data for the industry is limited; so we recognize the uncertainty in the 2.3% value, but feel the settlement data we do have is the best representation of industrywide exposure.

EXHIBIT 3: ISO LOSS COSTS

Exhibit 3 contains ISO loss costs for Mississippi homeowners effective May 1st, 2018. Loss costs are listed for non-modeled losses and hurricane modeled losses respectively for the base class. Note that base class loss costs assume protection class 5, frame construction, and \$100,000 of coverage for Owners Form 3. The latest year’s classification and coverage factor is used to convert losses from a base class value to a value that reflects the average characteristics of the actual statewide book of business, including varying coverages and rating variables.

Note that the ISO Coastal territories of 05 and 06 exactly match up to the bottom six counties, so we used the coastal territory aggregate loss costs in Exhibit 1.

EXHIBIT 4: MISSISSIPPI HOMEOWNERS INDUSTRY EXPENSE RATIO

Exhibit 4 derives our estimate of the industrywide Mississippi homeowners expense to premium ratio. This is used in Exhibit 1 to derive premiums that correspond to average annual losses, predicated on the assumption that these expense components are fully variable with premiums. Commissions, Taxes, Licenses, and Fees, and Defense and Cost Containment expenses are obtained at the state level from Statutory Page 14 data, while Other Acquisition, General, and Adjusting and Other expenses are obtained at the countrywide level from IEE data.

We did not estimate fixed expense loadings, such as net reinsurance costs, and did not consider a profit provision as a variable expense within our estimated expense ratio. Note that these expenses include all loss adjustment expenses. The overall estimate of 37.1% is used to gross up various loss values on Exhibit 1.

EXHIBIT 5: MODELED HURRICANE OCCURRENCE RATES

Exhibit 5 supports the “estimated annual probability of hurricane triggering federal assistance” portion of Exhibit 1. According to the National Hurricane Center,

“Katrina first caused fatalities and damage in southern Florida as a Category 1 hurricane on the Saffir-Simpson Hurricane Scale. After reaching Category 5 intensity over the central

Gulf of Mexico, Katrina weakened to Category 3 before making landfall on the northern Gulf coast.”⁷

We obtained the estimated annual probability of Category 3, 4, and 5 hurricanes landfalling along the combined Alabama/Mississippi coastline. These values are derived from the model submissions by AIR Worldwide Corp. (AIR) and Risk Management Solutions, Inc. (RMS) to the Florida Commission on Hurricane Loss Projection Methodology (FCHLPM) in early 2017, based on its 2015 Standards⁸. We use the unweighted average of probabilities shown by RMS and AIR, with our central estimate representing the annual rate of Category 4 hurricanes and above, and our high estimate representing the annual rate of Category 3 hurricanes and above. Note that for both AIR and RMS, the model estimates the annual rate of Category 5 hurricanes to be 0%, likely due to rounding required by the reporting requirements of the FCHLPM. Noting that Hurricane Camille in 1969 made a Mississippi-area landfall, we make a judgmental selection for the low estimate of 0.5%.

EXHIBIT 6: EARNED HOUSE YEARS BY POLICY TYPE AND REGION

Exhibit 6 summarizes the exposure data, expressed as “earned house years”, that we obtained by year from 2004 to 2014. This data was collected as required under the Clarity Act. The data is separated by region (coastal vs. inland), and also by type of policy (homeowners policies with windstorm coverage, homeowners policies without windstorm coverage, and windstorm-only policies). The data was used to convert the total loss dollars to per-policy values for both coastal and statewide bases in Exhibit 1.

For a perspective on market evolution, the data is displayed visually in stacked area charts below. The x-axis represents the year, and the y-axis represents earned house years. So as to avoid double-counting of policies that have both a private homeowners insurance policy without wind coverage and a windstorm-only policy, the windstorm-only policies are represented separately by a black line with circular markers on each of the three charts.

The coastal earned house years chart shows that following 2005, the year of Hurricane Katrina, wind-only policies and homeowners policies without windstorm coverage increased, while homeowners with windstorm coverage decreased. This implies that private insurers became more reluctant to cover wind, and as wind coverage was reduced, policyholders began to purchase more wind-only policies (likely from the Mississippi Windstorm Underwriting Association). The inland earned house years chart also shows that insurers were generally still willing to cover wind perils as long as the home was inland, not coastal.

EXHIBIT 7: INDUSTRY INSURANCE STATISTICS BY COUNTY, EXCLUDING WIND-ONLY POLICIES

Exhibit 7 provides more detail on earned house years, direct earned premiums, dwelling insured value, and incurred losses, by county, for years 2005 and 2014 from the Clarity Act data call. Wind-only policies are excluded from this exhibit so as to not potentially double-count houses with both a wind-only policy and a homeowners policy that excludes wind coverage. Dwelling values have increased for both coastal and inland counties. Earned house years have declined in coastal counties, while they have increased for inland counties. 2004 incurred loss is also displayed for perspective.

This data is used to derive the inflation factor used to normalize statewide exposure in Exhibit 1.

EXHIBIT 8: INSURANCE COMPANIES BY 2017 MARKET SHARE

Exhibit 8, for perspective, displays market composition in 2017. The data comes from SNL Financial.

⁷https://www.nhc.noaa.gov/data/tcr/AL122005_Katrina.pdf

⁸<https://www.sbafla.com/method/ModelerSubmissions/PreviousYearsModelSubmissions/2015ModelSubmissions.aspx>

Conclusion

Notwithstanding the high degree of uncertainty inherently associated with anticipating the prospective premium impact of future precedents associated with litigation, much less using current litigation focused on an old event, it is possible to use well-known and publicly available data to form reasonable actuarial conclusions about the impact. Under the most optimistic assumptions, the change in the claims environment associated with the new precedents resulting from the litigation could be minimal. Under central assumptions based directly on the available data, coastal Mississippi homeowners could pay roughly \$75 per policy in additional premiums. And under reasonable but pessimistic assumptions, including a plausible frequency of future major hurricanes, a broad targeting of the insurance industry, and an aggressive plaintiff's approach to settling litigation, coastal homeowners could pay 25% or more in additional premiums. This last scenario would likely be a market-changing event with significant social implications.

Statement of Qualifications

John Rollins, FCAS, MAAA, and Cody Webb, FCAS, MAAA, of Milliman meet the actuarial qualification standards to provide this analysis.

Limitations

DATA

In performing this analysis, we relied on publicly available data. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete. In that event, the results of our analysis may not be suitable for the intended purpose.

We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

UNCERTAINTY

During the course of our review, we applied generally accepted actuarial procedures. However, due to the uncertainty involved in projecting future events, it is likely that actual results will vary from our projections, perhaps materially.

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Litigation Impact on Homeowners Insurance Market

Estimated Impact of MAG Action on Policyholder Premiums

Item	Description	Source	Value	Estimated Values		
				Low	Central	High
A.	HAP Dollars Paid to Claimants in Settled Cases	Exhibit 2, Column (3), Settled Cases Only	\$54,010,385			
B.	Estimated Settlement Amounts in Settled Cases	Exhibit 2, Column (5), Settled Cases Only	\$8,808,165			
C.	% Settlement Amounts to HAP Dollars Paid in Settled Cases	(B) / (A)	16.3%			
D.	Range of % HAP Amounts at Issue	Selected based on Exhibit 2, Column (6)		10.0%	16.3%	25.0%
E.	2005 Share of Industry Losses for Companies with Settlements	Exhibit 2, Column (7), Settled Cases Only	2.3%			
F.	Estimated Industry Total Amount at Issue	(A) * (D) / (E)		\$231,381,110	\$377,342,799	\$578,452,774
G.	2005 Mississippi Dwelling Insured Value (000s)	Exhibit 7, Column (7)	\$91,264,270			
H.	2014 Mississippi Dwelling Insured Value (000s)	Exhibit 7, Column (8)	\$133,467,932			
I.	Insured Value Inflation Factor (2005-2014)	(H) / (G)	1.46			
J.	Estimated Insured Value Inflation Factor (2005-2018)	(I) ^ [(2018-2005)/(2014-2005)]	1.73			
K.	Annual Probability of Hurricane Triggering Federal Assistance	Selected based on Exhibit 5		0.5%	1.2%	4.1%
L.	Estimated Market Share of Industry with Losses at Issue	Selected based on Exhibit 2, Column (7) Total		35.0%	66.5%	85.0%
M.	Estimated Average Annual Loss at Issue	(F) * (J) * (K) * (L)		\$701,147	\$5,282,221	\$34,729,437
N.	2014 Statewide Property Policies with Wind Coverage	Exhibit 6, Sum of Columns (7) and (9)	754,341			
O.	2014 Coastal Property Policies with Wind Coverage	Exhibit 6, Sum of Columns (1) and (3)	113,334			
P.	Impact to Average Annual Loss Statewide per Policy	(M) / (N)		\$1	\$7	\$46
Q.	Impact to Average Annual Loss in Coastal Counties per Policy	(M) / (O)		\$6	\$47	\$306
R.	2017 Industry Homeowner Multiperil Expense Ratio	Exhibit 4	37.1%			
S.	Estimated Additional Premium to Support Losses at Issue	(M) / [1 - (R)]		\$1,114,047	\$8,392,877	\$55,181,318
T.	Additional Premium per Policy	(S) / (N)		\$1	\$11	\$73
U.	Additional Premium per Coastal Policy	(S) / (O)		\$10	\$74	\$487
V.	ISO Implied Statewide Loss Cost	Exhibit 3, Column (9) Total	\$597,562,891			
W.	ISO Implied Aggregate Statewide Premium	(V) / [1 - (R)]	\$949,462,781			
X.	Estimated % Impact to Statewide Premium to Support Losses at Issue	(S) / (W)		0.1%	0.9%	5.8%
Y.	ISO Coastal Territory Loss Cost	Exhibit 3, Column (9), Territories 5 and 6	\$139,078,535			
Z.	ISO Implied Aggregate Coastal Premium	(Y) / [1 - (R)]	\$220,980,744			
AA.	Estimated % Impact to Coastal Premium to Support Losses at Issue	(S) / (Z)		0.5%	3.8%	25.0%

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Summary of Historical Loss and HAP Payments

Defendant	Case No.	Suit Date	Settle Date	(1) Number of Claimants (Note 1)	(2) To Plaintiff Claimants		(4) Attorney Fees Paid (Note 2)	(5) Estimated Settlement (Note 3)	(6) Ratio of Settlement to Paid HAP (Note 4)	(7) Share of 2005 Industry Incurred Loss (Note 5)
					Insurer Paid Loss (Note 1)	Paid HAP (Note 1)				
Metropolitan Property and Casualty Insurance Company	15-615	11/20/2015	12/20/2016	429	\$8,599,848	\$39,225,649	\$1,518,191	\$6,072,764	15.5%	1.3%
MeritPlan Insurance Company	15-614	11/20/2015	9/27/2017	110	2,195,357	7,928,175	491,909	1,967,635	24.8%	0.9%
Balboa Insurance Company	17-146	3/10/2017	9/26/2017	108	795,697	6,856,561	191,941	767,766	11.2%	0.1%
Total Settled				647	\$11,590,902	\$54,010,385	\$2,202,041	\$8,808,165	16.3%	2.3%
State Farm Fire & Casualty Company	15-221	4/21/2015		6,810	\$98,679,382	\$522,147,172	n/a	n/a	n/a	31.1%
Liberty Mutual Insurance Company (Note 6)	17-198	3/29/2017		180	1,831,410	13,841,446	n/a	n/a	n/a	0.4%
Safeco Insurance Company of America	17-197	3/29/2017		232	1,439,267	17,840,836	n/a	n/a	n/a	0.9%
USAA (Note 6)	18-210	4/16/2018		848	22,629,231	75,732,115	n/a	n/a	n/a	5.2%
Prime Insurance Company	18-211	4/16/2018		86	430,974	5,877,944	n/a	n/a	n/a	0.1%
Allstate Insurance Company (Note 6)	18-212	4/16/2018		4,593	68,529,867	320,956,587	n/a	n/a	n/a	17.8%
American Security Insurance Company (Note 7)	18-213	4/16/2018		115	1,209,012	7,163,303	n/a	n/a	n/a	n/a
National Security Fire and Casualty Insurance Company	18-214	4/16/2018		203	374,950	11,689,064	n/a	n/a	n/a	0.2%
Nationwide (Note 6)	18-215	4/16/2018		2,731	38,268,332	217,143,560	n/a	n/a	n/a	8.4%
Total Outstanding				15,798	\$233,392,425	\$1,192,392,027				64.2%
Total (Settled + Outstanding)				16,445	\$244,983,327	\$1,246,402,412				66.5%
Total HAP Payments (Note 8)				28,758		\$2,045,631,521				

Notes:

- From complaints filed by the State of Mississippi
- From Mississippi Attorney General Contingent Fund expenses (<http://www.ago.state.ms.us/wp-content/uploads/2018/11/Contingent-Fund-Attorney-Payments.pdf>)
- Estimated based on Column (4) and Exhibit A of the Attorney General's retention agreement with Watson Heidelberg Jones PLLC:
<http://www.ago.state.ms.us/wp-content/uploads/2017/03/Homeowners-Assistance-Program-6-contracts.pdf>
- Calculated as Column (5) / Column (3)
- Calculated based on Mississippi Direct Incurred Loss in 2005, data from SNL
- Includes all subsidiary companies listed in the Attorney General complaints. All subsidiaries were included for Liberty Mutual, where the subsidiary being sued was not specified.
- American Security was not listed explicitly by SNL.
- Data from the Disaster Recovery Grant Reporting System, sum of amounts paid to homeowners as of June 30, 2018 for the following HAP programs:
 - HAP Elevation (LOW/MOD)
 - HAP Elevation (UN)
 - HAP Phase I (LOW/MOD)
 - HAP Phase I (UN)
 - HAP Phase II (LOW/MOD)
 - HAP Phase II (UN)
 - HAP Delivery Phase I
 - HAP Delivery Phase II

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ISO Loss Costs

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	
Territory (Note 1)	Coastal Territory (Note 2)	Non-Modeled Base Class Loss Cost (Note 1)	Modeled Hurricane Base Class Loss Cost (Note 1)	Latest Year Classification and Coverage Factor (Note 1)	Hurricane Loss Costs = (2) * (3)	Property with Wind Coverage Loss Cost [(1) + (2)] * (3)	Wind-Only Earned House Years (Note 3)	Property with Wind Coverage Earned House Years (Note 3)	LAE Load Removal Adjustment (Note 4)	Aggregate Loss Cost (Note 6)
03	Inland	\$313.16	\$94.64	2.672	\$252.88	\$1,089.64	-	68,072	1.145	\$64,780,668
05	Coastal	320.79	186.79	2.713	506.76	1,377.06	1,728	22,243	1.145	27,515,637
06	Coastal	164.21	516.33	2.380	1,228.87	1,619.69	43,501	45,862	1.145	111,562,897
31	Inland	280.09	31.07	2.751	85.47	856.00	-	133,984	1.145	100,166,520
32	Inland	330.89	15.28	2.520	38.51	872.35	-	385,282	1.145	293,537,168
Total										\$597,562,891

Notes:

- From ISO filing, SERFF tracking number ISOF-131269447, effective May 1st, 2018.
- Territory 05 consists of the coastal counties of George, Pearl River, and Stone.
Territory 06 consists of the coastal counties of Hancock, Harrison, and Jackson.
All other territories are composed of inland counties.
- Data from the 2014 Clarity Act.
The data does not include city level detail, so Territory 30, which is the City of Jackson, is excluded.
The City of Jackson is implicitly included in territories 31 and 32.
- The loss costs in columns (1) through (4) include an LAE load of 14.5%. We restated these losses to be net of LAE by applying Column (6).
- Trending of earned house years was omitted, as data from the Clarity Act shows stable earned house years over time.
- Calculated as ((4) * (6) + (5) * (7)) / (8)

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Mississippi Homeowners Industry Expense Ratio

Item	(1)	(2)	(3)	(4)	(5)
	2015	2016	2017	Average 2015 to 2017	Selected Expenses
A1. Written Premium (Mississippi only)	\$957,972	\$960,348	\$967,593		
Written Premium (Countrywide)	\$88,728,238	\$91,077,554	\$93,898,862		
B1. Earned Premium (Mississippi only)	\$941,188	\$962,253	\$961,513		
Earned Premium (Countrywide)	\$86,996,855	\$90,081,005	\$92,291,283		
C1. Commissions and Brokerage (Mississippi only)	\$123,504	\$133,183	\$125,303		
C2. C1 / A1	12.9%	13.9%	13.0%	13.2%	13.2%
D1. Other Acquisition Expenses (Countrywide)	\$6,797,317	\$6,958,020	\$6,929,370		
D2. D1 / A1	7.7%	7.6%	7.4%	7.6%	7.6%
E1. General Expenses (Countrywide)	\$4,145,080	\$4,132,489	\$4,403,392		
E2. E1 / B1	4.8%	4.6%	4.8%	4.7%	4.7%
F1. Taxes, Licenses & Fees (Mississippi only)	\$31,347	\$31,374	\$30,453		
F2. F1 / A1	3.3%	3.3%	3.1%	3.2%	3.2%
G1. Direct Defense and Cost Containment Incurred (Mississippi only)	\$5,330	\$16,227	\$6,137		
G2. G1 / B1	0.6%	1.7%	0.6%	1.0%	1.0%
H1. Adjusting and Other Expenses Incurred (Countrywide)	\$6,030,235	\$6,179,630	\$7,665,986		
H2. H1 / B1	6.9%	6.9%	8.3%	7.4%	7.4%
I. Total Above	36.1%	37.9%	37.2%	37.1%	37.1%
C2 + D2 + E2 + F2 + G2 + H2					

Notes:

1. Data from Industry IEE Part III. Mississippi specific values from Statutory Page 14.
2. Dollar amounts are in thousands.
3. Column (5) selected based on (4).

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Modeled Hurricane Occurrence Rates

Category Storm (Note 2)	Modeled Rate (Note 3)		
	RMS	AIR	Average
1	5.2%	7.0%	6.1%
2	2.6%	3.8%	3.2%
3	2.6%	3.1%	2.9%
4	0.9%	1.4%	1.1%
5	0.0%	0.1%	0.1%
	Low	Central	High
Selections (Note 4)	0.5%	1.2%	4.1%

Notes:

1. RMS and AIR data obtained from the Florida Commission on Hurricane Loss Projection Methodology, 2015 Model Submissions.
2. Strength of hurricane as measured on the Saffir-Simpson scale.
3. Rates are based on Modeled event count per 115 and 50,000 years for RMS and AIR based on their documentation, respectively.
4. We define the lower, central, and upper bound as follows:
 Lower bound: Selected as 0.5% to represent a small probability.
 Central estimate: Average Category 4 or above
 Upper bound: Average Category 3 or above
 Rates based on modeled rates on a 115 year
5. Upper bound corroborates with return periods from NOAA technical Memorandum NWS NHC-6
<https://www.nhc.noaa.gov/pdf/nws-nhc-6.pdf>

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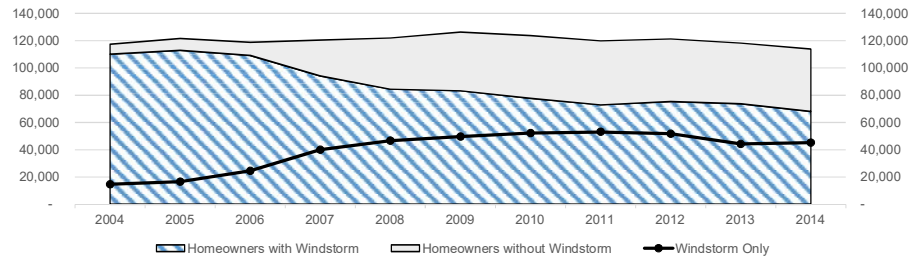
Earned House Years by Policy Type and Region

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Coastal Counties (Note 1)			Inland Counties (Note 1)			Total State		
Year	Homeowner Policies with Windstorm Coverage	Homeowner Policies without Windstorm Coverage	Windstorm Only Policies	Homeowner Policies with Windstorm Coverage	Homeowner Policies without Windstorm Coverage	Windstorm Only Policies	Homeowner Policies with Windstorm Coverage	Homeowner Policies without Windstorm Coverage	Windstorm Only Policies
2004	110,080	7,356	14,665	557,842	177	284	667,922	7,533	14,949
2005	112,848	8,690	16,604	595,937	108	297	708,785	8,797	16,901
2006	109,070	9,728	24,437	617,296	110	325	726,366	9,838	24,762
2007	94,205	26,119	39,905	628,914	201	451	723,118	26,320	40,356
2008	84,294	37,600	46,717	639,317	251	501	723,610	37,852	47,218
2009	83,176	43,142	49,642	654,247	228	460	737,423	43,370	50,102
2010	77,653	45,994	52,227	654,051	189	506	731,704	46,182	52,733
2011	72,902	46,951	52,955	645,687	187	511	718,589	47,138	53,466
2012	75,349	45,886	51,646	648,845	173	399	724,193	46,058	52,045
2013	73,818	44,362	44,215	646,123	160	191	719,941	44,522	44,406
2014	68,105	45,681	45,229	640,855	150	152	708,960	45,832	45,381

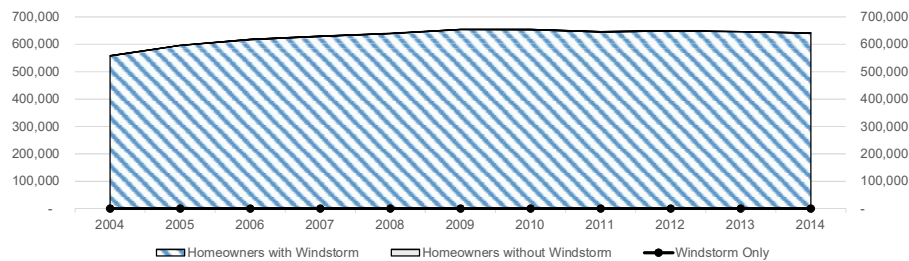
Notes:

- Coastal counties include George, Hancock, Harrison, Jackson, Pearl River, and Stone. All other counties are considered inland.
- Data from the Clarity Act / Mississippi Market Analysis Data Call (<http://www.mid.ms.gov/companies/madc/madc.aspx>).
- Homeowner policies "with windstorm" coverage denotes full-coverage policies, which provide coverage for windstorms as well as other perils. Homeowners policies "without windstorm" coverage denote policies which provide coverage for other perils, but not windstorm, which are typically paired with policies offering "windstorm only" coverage. As a result, the total number of policies providing coverage for windstorms is roughly equal to the sum of policies "with windstorm" coverage and those with "windstorm only" coverage.

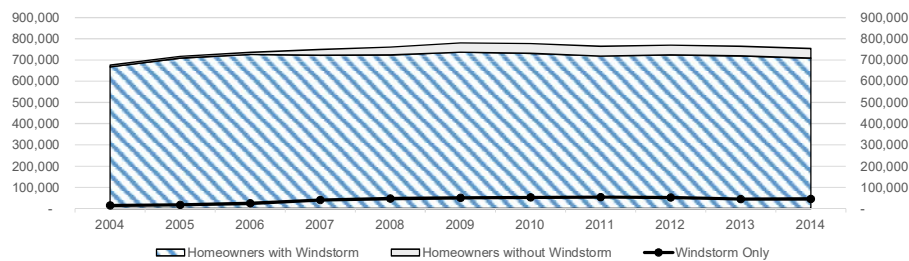
Coastal Earned House Years



Inland Earned House Years



Statewide Earned House Years



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Industry Insurance Statistics by County, Excluding Wind-Only Policies

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
		<u>Earned House Years</u>			<u>Direct Earned Premium (000s)</u>			<u>Dwelling Insured Value (000s)</u>			<u>Incurred Loss (000s)</u>		
<u>Region</u>	<u>County</u>	<u>2005</u>	<u>2014</u>	<u>% Difference</u>	<u>2005</u>	<u>2014</u>	<u>% Difference</u>	<u>2005</u>	<u>2014</u>	<u>% Difference</u>	<u>2004</u>	<u>2005</u>	<u>2014</u>
Coastal	Hancock	11,557	10,950	-5.3%	\$13,988	\$15,722	12.4%	\$1,586,154	\$2,488,531	56.9%	\$2,645	\$199,682	\$2,637
	Harrison	51,028	47,020	-7.9%	57,913	75,407	30.2%	6,608,139	10,120,407	53.2%	12,546	873,872	8,872
	Jackson	35,198	31,446	-10.7%	41,172	54,768	33.0%	4,392,036	7,292,653	66.0%	16,042	386,864	8,916
	Pearl River	13,485	13,587	0.8%	12,198	22,836	87.2%	1,433,568	2,223,496	55.1%	2,946	191,358	5,959
	Stone	4,191	4,418	5.4%	3,854	6,945	80.2%	404,612	671,173	65.9%	1,125	47,865	407
	George	6,079	6,365	4.7%	4,871	9,181	88.5%	548,551	970,879	77.0%	6,623	51,265	1,217
		121,538	113,786	-6.4%	133,996	184,858	38.0%	14,973,059	23,767,140	58.7%	41,928	1,750,906	28,008
Inland	All Counties	596,044	641,005	7.5%	434,027	698,237	60.9%	76,291,211	109,700,792	43.8%	192,183	1,174,396	435,170
Total		717,582	754,792	5.2%	\$568,023	\$883,094	55.5%	\$91,264,270	\$133,467,932	46.2%	\$234,111	\$2,925,302	\$463,178

Notes:

1. Data from the Clarity Act / Mississippi Market Analysis Data Call (<http://www.mid.ms.gov/companies/madc/madc.aspx>).
2. Data categorized as "Unknown" county has been grouped with the inland counties

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Insurance Companies by 2017 Market Share

2017 Rank	2005 Rank	Company Name	(1)	(2)	(3)	(4)
			2017 Direct Written Premium (000s) (Note 1)	2017 Market Share (Note 1)	2005 Direct Written Premium (000s) (Note 1)	2005 Market Share (Note 1)
1	1	State Farm	\$254,104	26.3%	\$175,656	30.3%
2	11	Southern Farm Bureau Casualty	159,990	16.5%	9,817	1.7%
3	3	Allstate Corp	88,354	9.1%	61,191	10.6%
4	4	Nationwide Mutual Group	71,896	7.4%	41,907	7.2%
5	12	Liberty Mutual	71,356	7.4%	9,586	1.7%
6	8	USAA	44,051	4.6%	15,498	2.7%
7	5	Farmers Insurance Group of Cos	37,824	3.9%	31,165	5.4%
8	7	Alfa Mutual Group	33,837	3.5%	16,328	2.8%
9	9	Shelter Insurance	27,425	2.8%	15,394	2.7%
10	6	MetLife Inc.	21,659	2.2%	24,061	4.2%
11	10	Travelers Companies Inc.	21,387	2.2%	13,549	2.3%
12	20	Assurant Inc.	15,565	1.6%	3,226	0.6%
13	15	American International Group	12,871	1.3%	4,834	0.8%
14	28	Munich Re	12,835	1.3%	974	0.2%
15	18	State Auto Insurance Companies	12,256	1.3%	3,318	0.6%
16	N/A	Coastal American Insurance Co.	10,018	1.0%	0	0.0%
17	N/A	Progressive	9,887	1.0%	0	0.0%
18	13	Chubb	8,150	0.8%	7,458	1.3%
19	N/A	Centauri Spclty Ins Hldgs Inc.	6,196	0.6%	0	0.0%
20	23	Hartford Financial Services	5,724	0.6%	2,284	0.4%
21	43	Markel Corp.	5,123	0.5%	5	0.0%
22	N/A	PURE	3,889	0.4%	0	0.0%
23	17	American National Insurance	3,865	0.4%	4,018	0.7%
24	16	National Security Group Inc.	3,756	0.4%	4,026	0.7%
25	48	QBE	3,750	0.4%	(40)	0.0%
26	N/A	Gulfstream P&C Insurance Co.	3,663	0.4%	0	0.0%
27	30	Auto Club Exchange	2,993	0.3%	880	0.2%
28	N/A	IAT Insurance	2,918	0.3%	0	0.0%
29	32	AmTrust Financial Services	2,213	0.2%	405	0.1%
30	N/A	Ameriprise Financial Inc.	1,976	0.2%	0	0.0%
31	22	Aegis Security Inc.	1,887	0.2%	2,890	0.5%
32	27	American Family Insurance	1,263	0.1%	1,158	0.2%
33	19	Kemper Corp.	875	0.1%	3,242	0.6%
34	33	Amica Mutual Insurance Co.	670	0.1%	349	0.1%
35	31	Armed Forces Insurance	643	0.1%	778	0.1%
36	N/A	Kinsale Insurance Co.	534	0.1%	0	0.0%
37	N/A	Ocean Harbor Insurance	431	0.0%	0	0.0%
38	N/A	Spinnaker Insurance Co.	371	0.0%	0	0.0%
39	N/A	Canopus US Insurance Inc.	351	0.0%	0	0.0%
40	N/A	National General Holdings Corp	207	0.0%	0	0.0%
41	N/A	Berkshire Hathaway Inc.	192	0.0%	0	0.0%
42	34	WT Holdings Inc.	186	0.0%	233	0.0%
43	N/A	Palomar Spclty Ins Co	169	0.0%	0	0.0%
44	40	Pharmacists Mutl Ins Co	99	0.0%	53	0.0%
45	N/A	Anchor Insurance	89	0.0%	0	0.0%
46	41	General Electric Co.	83	0.0%	45	0.0%
47	N/A	First American Financial Corp.	65	0.0%	0	0.0%
48	N/A	First Acceptance Corp.	41	0.0%	0	0.0%
49	42	Global Indemnity	17	0.0%	33	0.0%
50	29	Prime Insurance	16	0.0%	967	0.2%

Notes:

1. Data from SNL Market Share Report