ANALYSIS AND INTERPRETATION OF THE CLARITY ACT DATA CALL

ON BEHALF OF THE MISSISSIPPI INSURANCE DEPARTMENT

December 16, 2015

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I. BACKGROUND AND APPROACH

Homeowners' insurance premiums in Mississippi have been increasing, are amongst the most expensive in the U.S., and vary by region

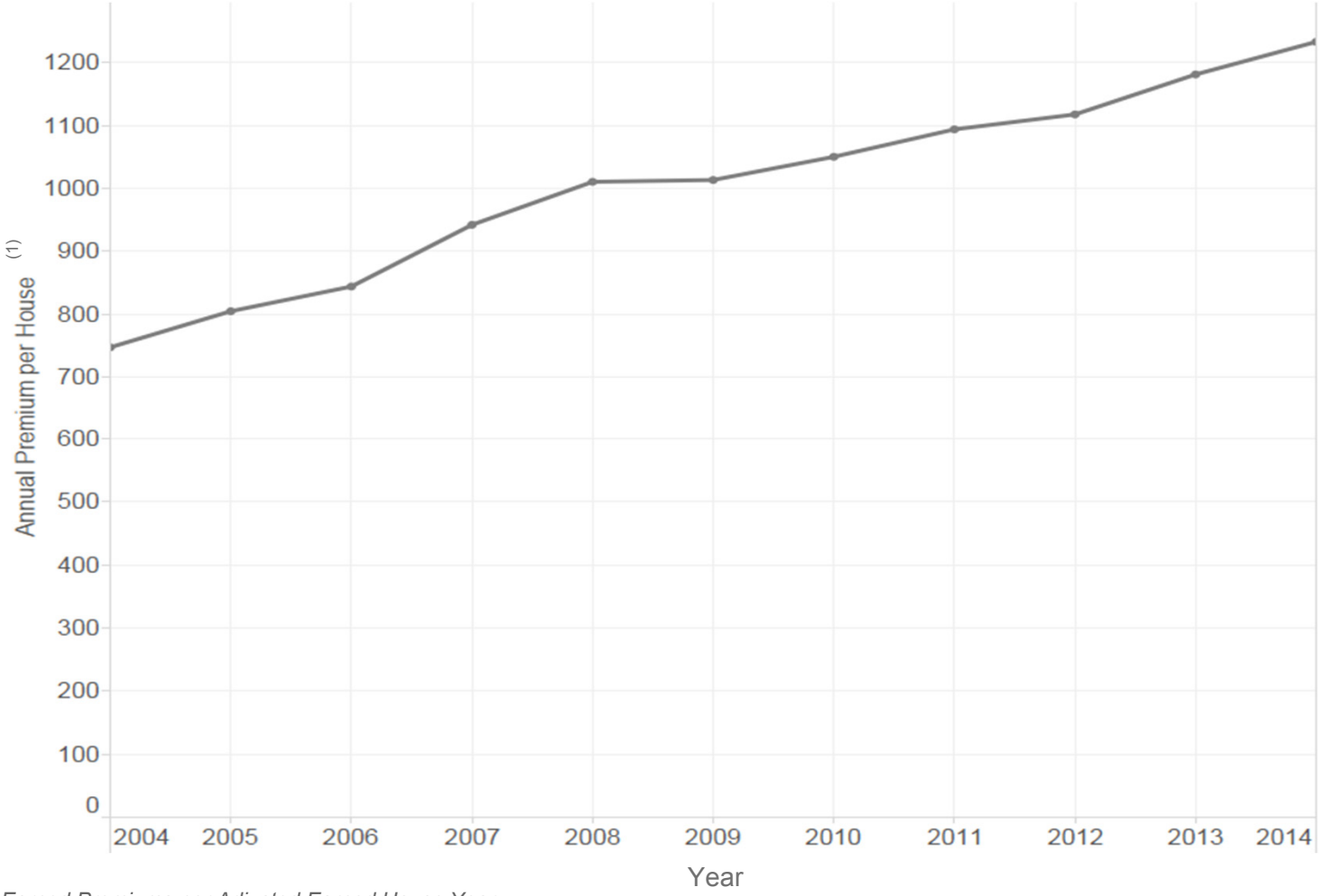
In Mississippi, homeowners' insurance premiums have increased at an average rate of approximately 4.8% annually over the last decade

The Gulf Coast states, including Mississippi, are the most expensive U.S. states for homeowners' insurance

Homeowners' insurance premiums are higher in Mississippi's Coastal counties than its Inland counties

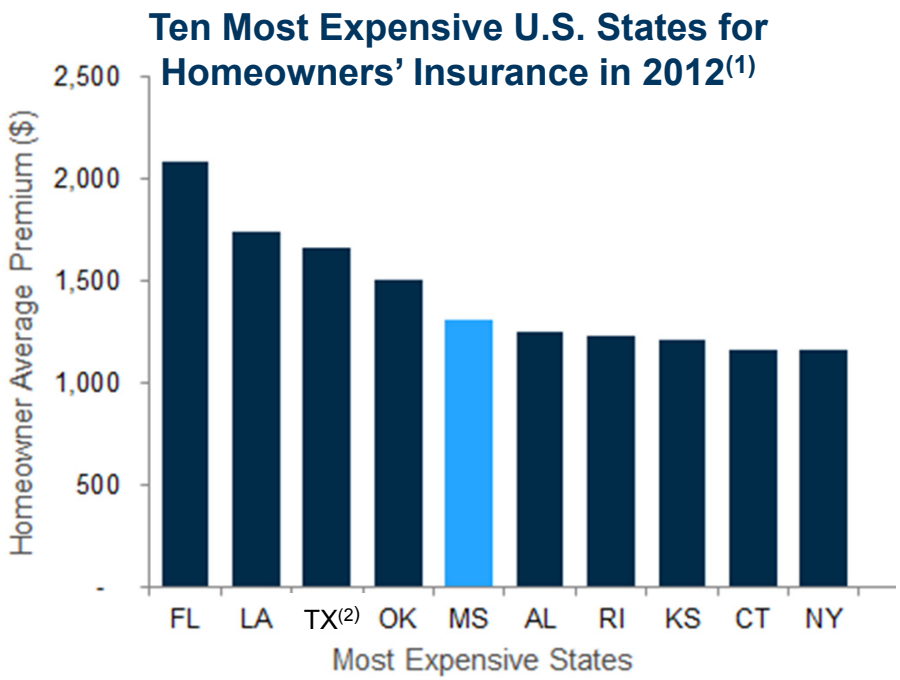
In Mississippi, homeowners' insurance premiums have increased at an average rate of approximately 4.8% annually over the last decade

Average Annual Premium for Homeowners' Insurance in Mississippi, 2004-2014



(1)*Direct Earned Premiums per Adjusted Earned House Year.*
Source: Data provided by Participating Insurers and A&M analysis. Note these results are ***averages that include renters (HO4) and condominium (HO6) insurance policies****, whose Direct Earned Premiums are substantially lower than those for policies that cover structural damage to the property as well as to contents.*

The Gulf Coast states, including Mississippi, are the most expensive U.S. states for homeowners' insurance



- The five states with coastal exposure along the Gulf of Mexico (i.e. FL, LA, TX, MS and AL) are five of the six most expensive states for homeowners' insurance
- All of the Gulf Coast states are at risk from large hurricanes, as well as to hailstorms and tornados
- OK is the only non-Gulf Coast state that is more expensive than MS – possibly due to its exposure to tornado and hail risk

(1) Includes policies written by Citizens Property Insurance Corp. (Florida) and Citizens Property Insurance Corp. (Louisiana), Alabama Insurance Underwriting Association, Mississippi Windstorm Underwriting Association, North Carolina Joint Underwriting Association and South Carolina Wind and Hail Underwriting Association. Other southeastern states have wind pools in operation and their data may not be included in this chart. Based on the HO-3 homeowner package policy for owner-occupied dwellings, 1 to 4 family units. Provides "all risks" coverage (except those specifically excluded in the policy) on buildings and broad named-peril coverage on personal property, and is the most common package written.

(2) The Texas Department of Insurance developed home insurance policy forms that are similar but not identical to the standard forms. In addition, due to the Texas Windstorm Association (which writes wind-only policies) classifying HO-1, 2 and 5 premiums as HO-3, the average premium for homeowners insurance is artificially high.

Note: Average premium=Premiums/exposure per house years. A house year is equal to 365 days of insured coverage for a single dwelling. The NAIC does not rank state average expenditures and does not endorse any conclusions drawn from this data.

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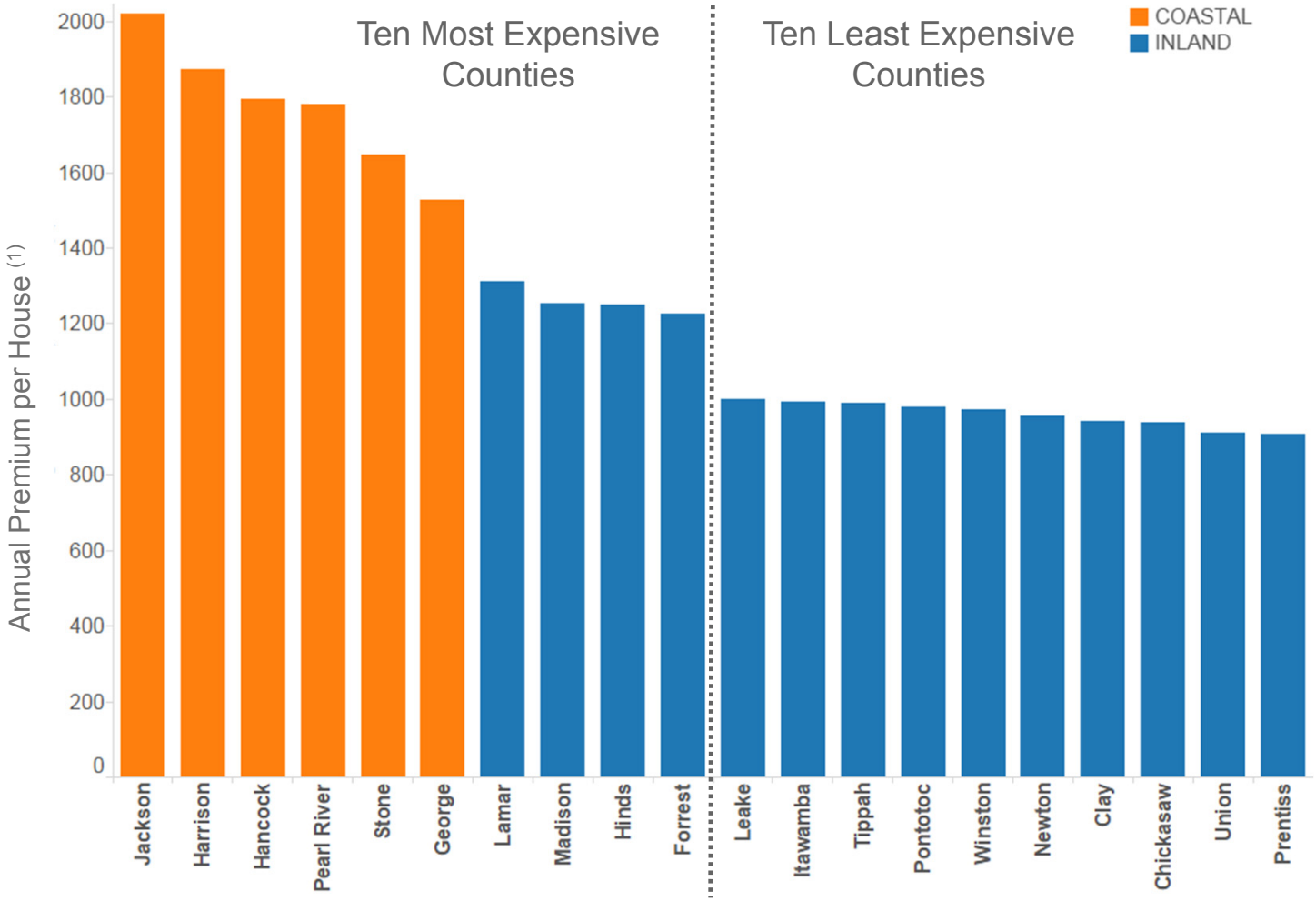
Homeowners' insurance premiums are higher in Mississippi's Coastal counties than its Inland counties

Ten Most and Least Expensive Counties for Homeowners Insurance in the State of Mississippi in 2014



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Homeowners' insurance premium rates are requested by insurers, then approved or denied by the Department, based on key actuarial principles

Homeowners' insurance premium rates are based on actuarial estimates of all future costs of providing the insurance for each property individually

When estimating future costs, actuaries must consider historical trends as well as costs related to catastrophes and reinsurance, which is necessary for most insurers

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The Casualty Actuarial Society has established four ratemaking principles:

- A rate is an **estimate** of the expected value of **future costs**

  Ratemaking is prospective because the property and casualty insurance rate must be developed prior to the transfer of risk

- A rate provides for **all costs** associated with the transfer of risk

- A rate provides for the costs associated with **an individual risk** transfer

- A rate is **reasonable and not excessive, inadequate, or unfairly discriminatory** if it is an actuarially sound estimate of the expected value of all future costs associated with an individual risk transfer.

Source: Statement of Principles Regarding Property and Casualty Insurance Ratemaking.
https://www.casact.org/professionalism/standards/princip/sppcrate.pdf

When estimating future costs, actuaries must consider historical trends as well as costs related to catastrophes and reinsurance, which is necessary for most insurers

- **Trends:** When using past losses as a proxy for expected future losses, consideration should be given to past and prospective changes in claim costs, claim frequencies, exposures, expenses and premiums

- **Catastrophes:** Consideration should be given to the impact of catastrophes on the experience, and procedures should be developed to include an allowance for the catastrophe exposure in the rate. Catastrophe costs include the expected loss caused by the peril under consideration, reinsurance costs to protect the insurer and the cost of increased capital required to maintain solvency after a high-severity event

- **Reinsurance:**[1] Consideration should be given to the effect of reinsurance arrangements. Reinsurance premiums paid less the amount of claims and expenses that are expected to be reimbursed by the reinsurer is the "Net Cost of Reinsurance."

Insurers must demonstrate to insurance regulators and ratings agencies their ability to pay losses from a major catastrophe (e.g. a "1-in-100" year event). Typically, insurers with major catastrophic property exposure must purchase reinsurance in order to satisfy this requirement.

[1] Supplementary comments in blue text
Source: Statement of Principles Regarding Property and Casualty Insurance Ratemaking.
https://www.casact.org/professionalism/standards/princip/sppcrate.pdf

In 2015, the Mississippi Legislature and Department took action to clarify whether the differences in premiums by region are justified

In 2015, the Mississippi Legislature passed a law (the "Clarity Act") intended to clarify whether differences in costs justify the differences in premium rates by region

The Department and its consultants gathered data to assess premium adequacy by region, while taking trends, catastrophes and reinsurance costs into account

A&M used two primary analytical approaches to assess premium adequacy by region – i.e. the "Actual" and "Modeled" approaches

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Purpose

The Clarity Act requires insurers to provide data (via a "Data Call") to the Department that can be used for the purposes of determining the accuracy and adequacy of catastrophic models and the **adequacy of homeowners' insurance premium rates**

Data Scope & Structure

- Include condominium insurance, dwelling fire policies, renters/tenants insurance and mobile home/manufactured housing property insurance policies
- Submit data **by zip code**, for each calendar year from 2004 through 2014
- Submit data by policy category, including those that (i) cover windstorms and other perils; (ii) exclude windstorm coverage; (iii) only cover windstorms

Required Data Fields

- Direct incurred losses
- Direct earned premiums
- Policy limits
- Reinsurance
- Allocated loss adjustment expense
- The number of policies in force by earned house years

Source: Mississippi Legislature, Regular Session 2015, House Bill No. 739 – the "Property Insurance Clarity Act"
http://www.mid.ms.gov/companies/madc/HB0739SG.pdf

The Department and its consultants gathered data to assess premium adequacy by region, while taking trends, catastrophes and reinsurance costs into account

Required by Clarity Act	• The data submitted in response to the Clarity Act, including premiums, losses and certain expenses by type of policy
Unallocated Expenses	• LAE-Adjusting and Other Expenses • Commissions and Brokerage Expenses • Taxes, Licenses and Fees • Other Acquisition Expenses • General Expenses
Data by Type of Peril	• **Hurricane or Named Storm** such as hurricane Katrina • **Non-Named Wind Catastrophe** such as major hail storms or tornados • **Other Wind**, including any windstorm or winter storm that isn't a catastrophe • **Other Non-Named Catastrophe** such as wildfires or explosions • **All Other Perils** that aren't included in the above categories
Catastrophe Model Results	• Key inputs to and outputs from catastrophe models, by zip code, including: – Model inputs: policy count, in-force value, premiums – Model outputs: average annual loss ("AAL") predicted by the catastrophe model
Reinsurance Data	• Description of the reinsurance program structure used by the insurer • Summary of estimated and historical losses ceded to reinsurers

A&M used two primary analytical approaches to assess premium adequacy by region – i.e. the "Actual" and "Modeled" approaches

In both approaches, the Unallocated Expense estimates were derived from annual statements[1], and the Net Cost of Reinsurance was estimated from data[2] provided by Participating Insurers

The primary difference between the approaches is in the treatment of Premiums, Losses and ALAE:

1 Actual Premiums, Losses and ALAE:

- Are based on the raw results from the Data Call as reported by Participating Insurers
- Do not take into account trends such as the impact of inflation or changes in frequency and severity of losses
- Will tend to overstate catastrophe losses if the time period covered by the reported data includes a very large (e.g. "1-in-100" year) event, and understate catastrophe losses if there is no such event in the reported data

2 Modeled Premiums, Losses and ALAE:

- Based on the results from the Data Call, adjusted to reflect (i) catastrophe model estimates of hurricane and severe convective storm losses, and (ii) trends in premiums and other costs over the last decade
- ALAE estimated based on each insurer's average ratio of ALAE to direct losses incurred
- This approach is consistent with the actuarial principles outlined in the prior section of this report

[1] Compiled and estimated from publicly-available sources, including the annual statement page 14 ("State Pages") and the Insurance Expense Exhibit
[2] Non-public information submitted by Participating Insurers in response to data calls issued by the Department

II. RESULTS

The data shows that the regional premium differential is attributable to hurricane risk, which causes higher costs – both Actual and Modeled – on the Coast than Inland

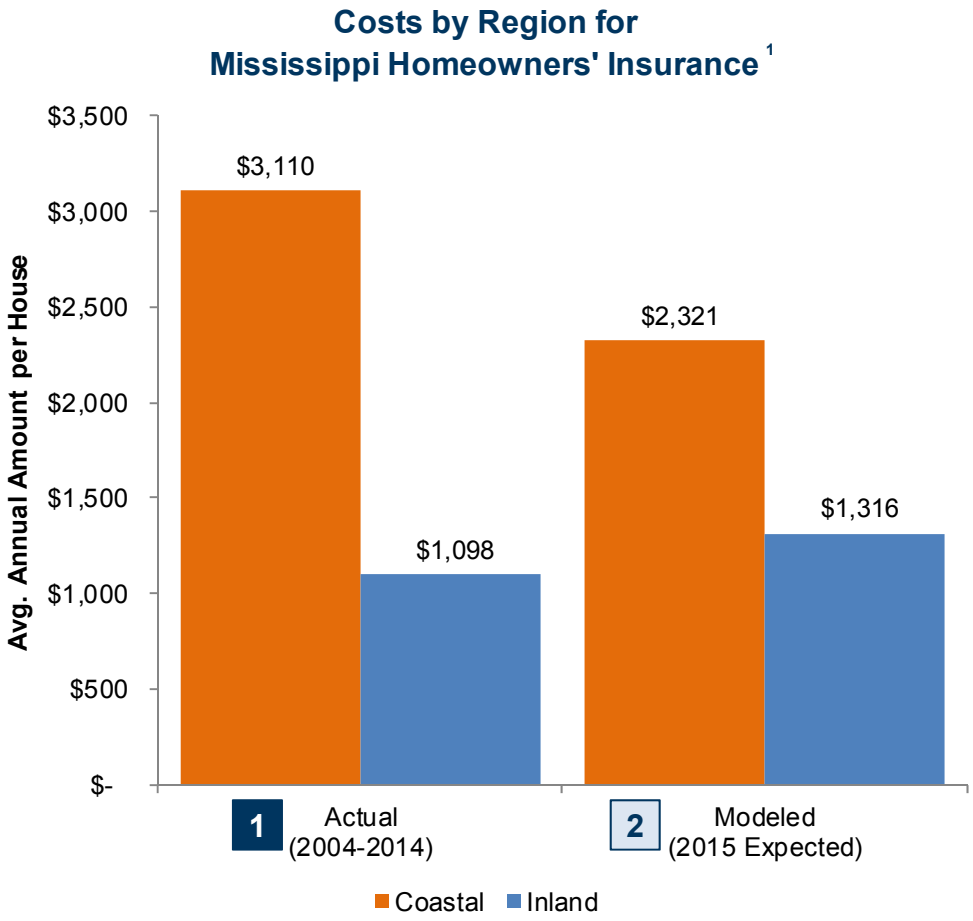
Coastal costs are higher than Inland costs

Hurricane losses and ALAE are the primary reason for the difference in the Actual cost by region from 2004 through 2014

Hurricane losses and ALAE are the primary reason for the difference in the Modeled cost by region in 2015

As compared to the Coastal region, lower hurricane losses and ALAE in the Inland region more than offset higher costs from other perils

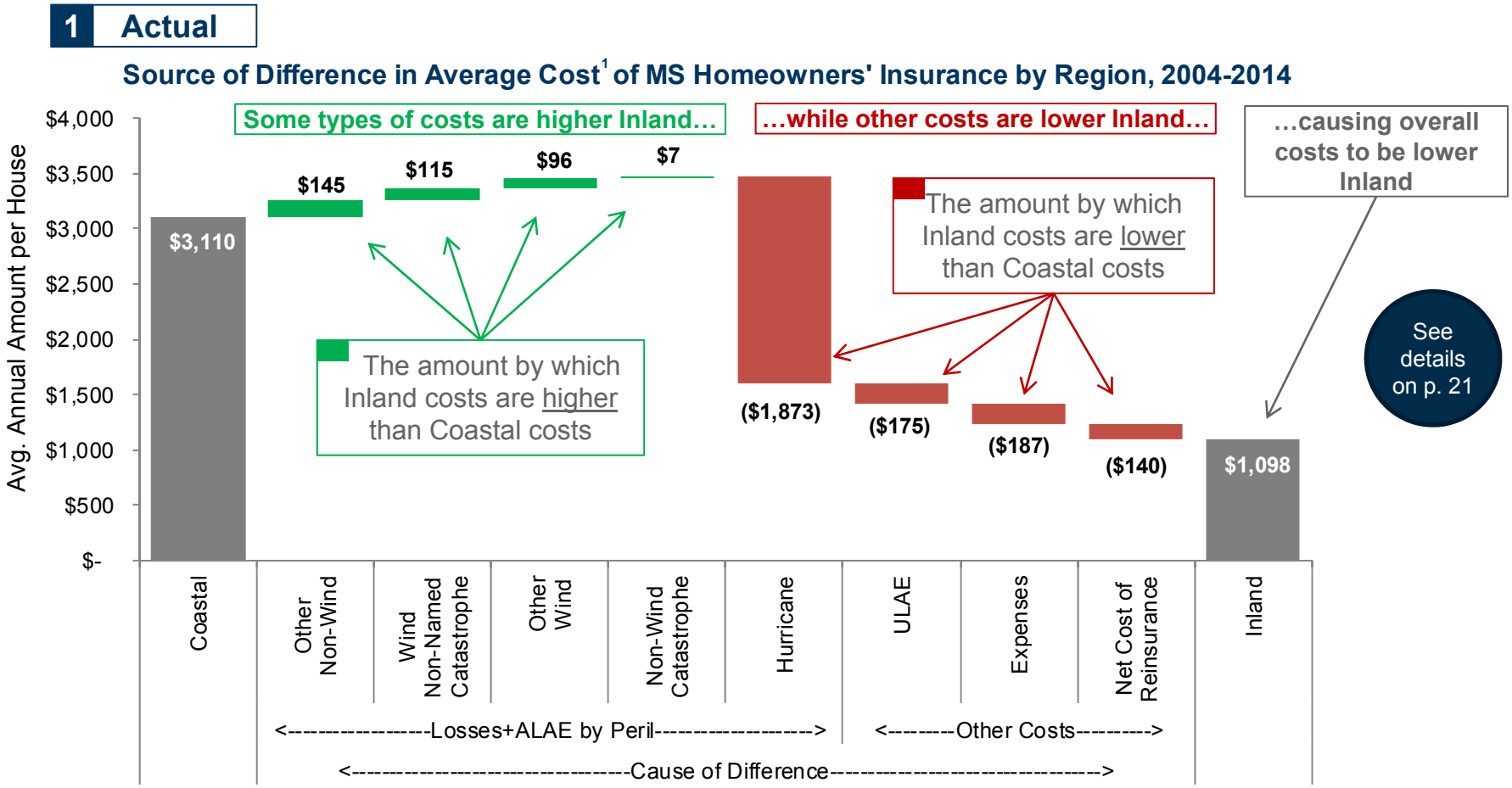
Coastal costs are higher than Inland costs



Source: Data submitted to the Department by Participating Insurers in response to the Data Call, and A&M analysis

1. *Figures represent the aggregate Combined Costs over the 11 years covered by the Data Call, divided by the aggregate Adjusted Earned House Years during the same period. Certain components of "Modeled" Combined Costs are adjusted to reflect trends over the past 11 years, and to replace actual wind catastrophe losses and ALAE with the Modeled amounts. Unallocated costs are estimated both in the "Actual" and "Modeled" approaches from publicly-available sources, including annual statement page 14 ("State Pages") and the Insurance Expense Exhibit of the Participating Insurers.*
2. *Note these **results are averages that include renters (HO4) and condominium (HO6) insurance policies**, whose losses are substantially lower than those for policies that cover structural damage to the property as well as to contents.*

1 Hurricane losses and ALAE are the primary reason for the difference in the **Actual cost** by region from 2004 through 2014



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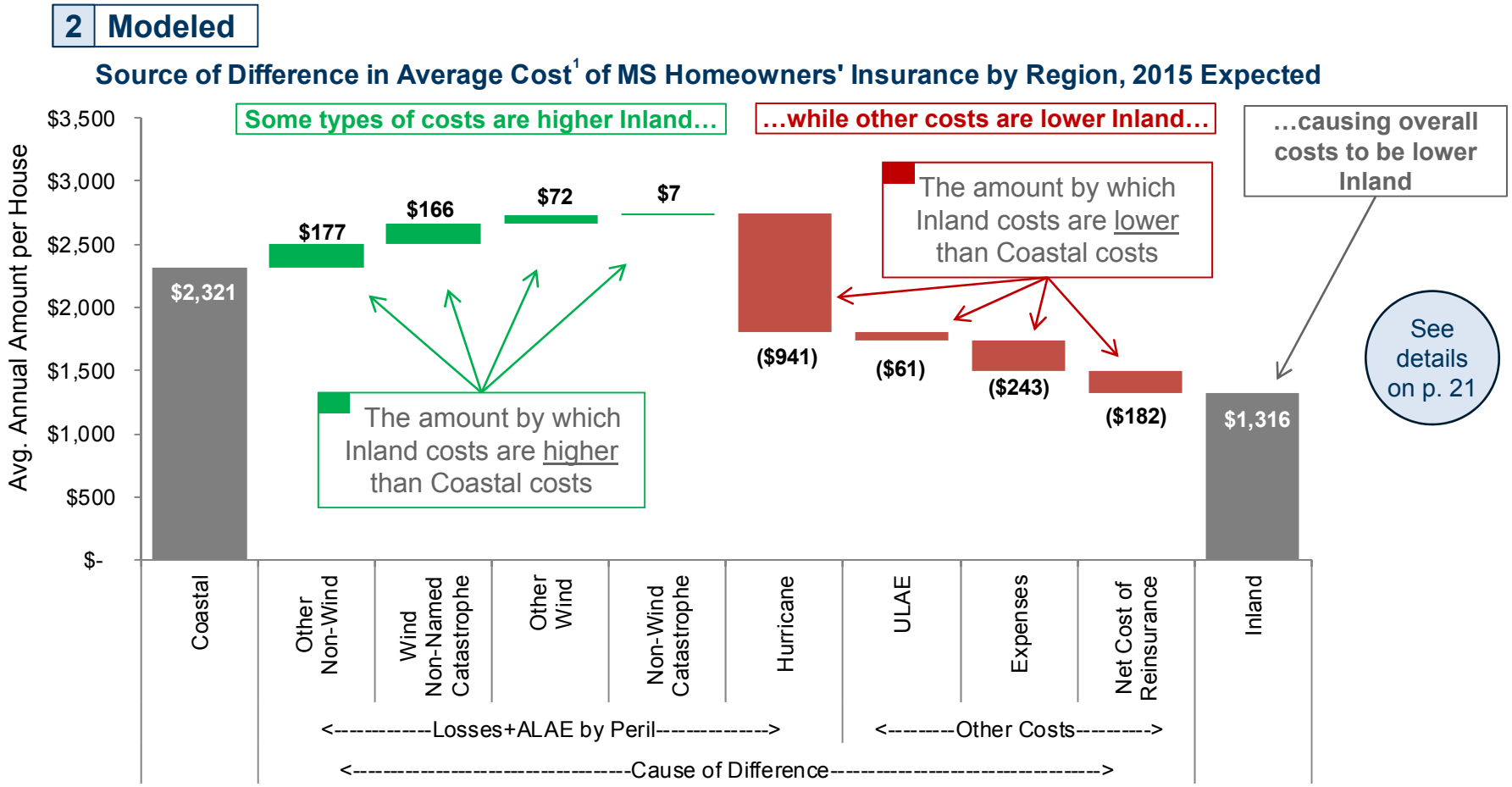
2 Hurricane losses and ALAE are the primary reason for the difference in the **Modeled cost** by region in 2015



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As compared to the Coastal region, lower hurricane losses and ALAE in the Inland region more than offset higher costs from other perils

See p. 19 for a graphical illustration of the Difference in Actual costs

See p. 20 for a graphical illustration of the Difference in Modeled costs

	1 Actual (2004-2014)			2 Modeled (2015 Expected)		
	Amount per EHY			Amount per EHY		
	Coastal	Difference	Inland	Coastal	Difference	Inland
Premiums	$1,585	($703)	$882	$2,069	($703)	$1,155
Loss + ALAE by Peril						
Other Non-Wind	201	145	346	256	177	433
Wind Non-Named Catastrophe	3	115	117	94	72	166
Other Wind	18	96	115	19	166	184
Non-Wind Catastrophe	1	7	8	1	7	9
Hurricane	2,034	(1,873)	162	1,021	(941)	81
Total Losses + ALAE	2,258	(1,510)	748	1,391	(519)	872
ULAE	261	(175)	85	159	(61)	99
Other Expenses	439	(187)	252	570	(243)	328
Net Reinsurance Load	153	(140)	13	199	(182)	17
Combined Costs	$3,110	($2,011)	$1,098	$2,321	($1,005)	$1,316

Higher Inland

Much lower Inland

Lower Inland

Source: Data submitted to the Department by Participating Insurers in response to the Data Call, and A&M analysis

1. *"Actual" figures represent the aggregate Combined Costs over the 11 years covered by the Data Call, divided by the aggregate Adjusted Earned House Years during the same period. Unallocated costs are estimated from publicly-available sources, including annual statement page 14 ("State Pages") and the Insurance Expense Exhibit of the Participating Insurers.*
2. *"Modeled" Combined Costs are adjusted to reflect trends over the past 11 years, and to replace actual wind catastrophe losses and ALAE with the Modeled amounts.*
3. *Note these **results are averages that include renters (HO4) and condominium (HO6) insurance policies**, whose losses are substantially lower than those for policies that cover structural damage to the property as well as to contents.*
4. *Unallocated costs are estimated both in the "Actual" and "Modeled" approaches section of this report. **Note these results are averages that include renters insurance policies, whose losses are substantially lower than those for policies that cover structural damage to the property as well as to contents.***

Analysis of premiums vs. costs shows that, relative to costs, Modeled (i.e. expected 2015) premiums are comparable in the Coastal and Inland regions

Coastal premiums are higher than Inland premiums

In both regions, premiums are lower than costs

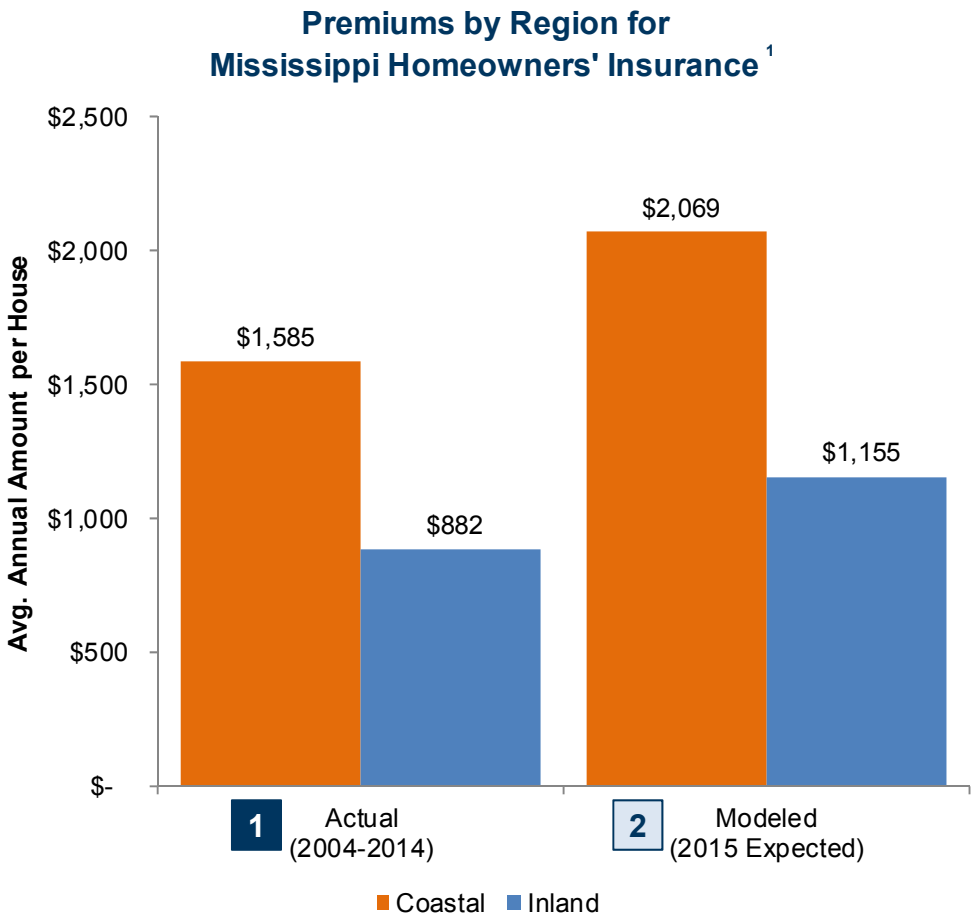
Combined Ratio can be used to compare relative premium adequacy across regions

The expected (i.e. Modeled) combined ratios indicate that premium adequacy is comparable across the Coastal and Inland regions

The components of the calculated combined ratios, and their differences by region, vary somewhat by approach

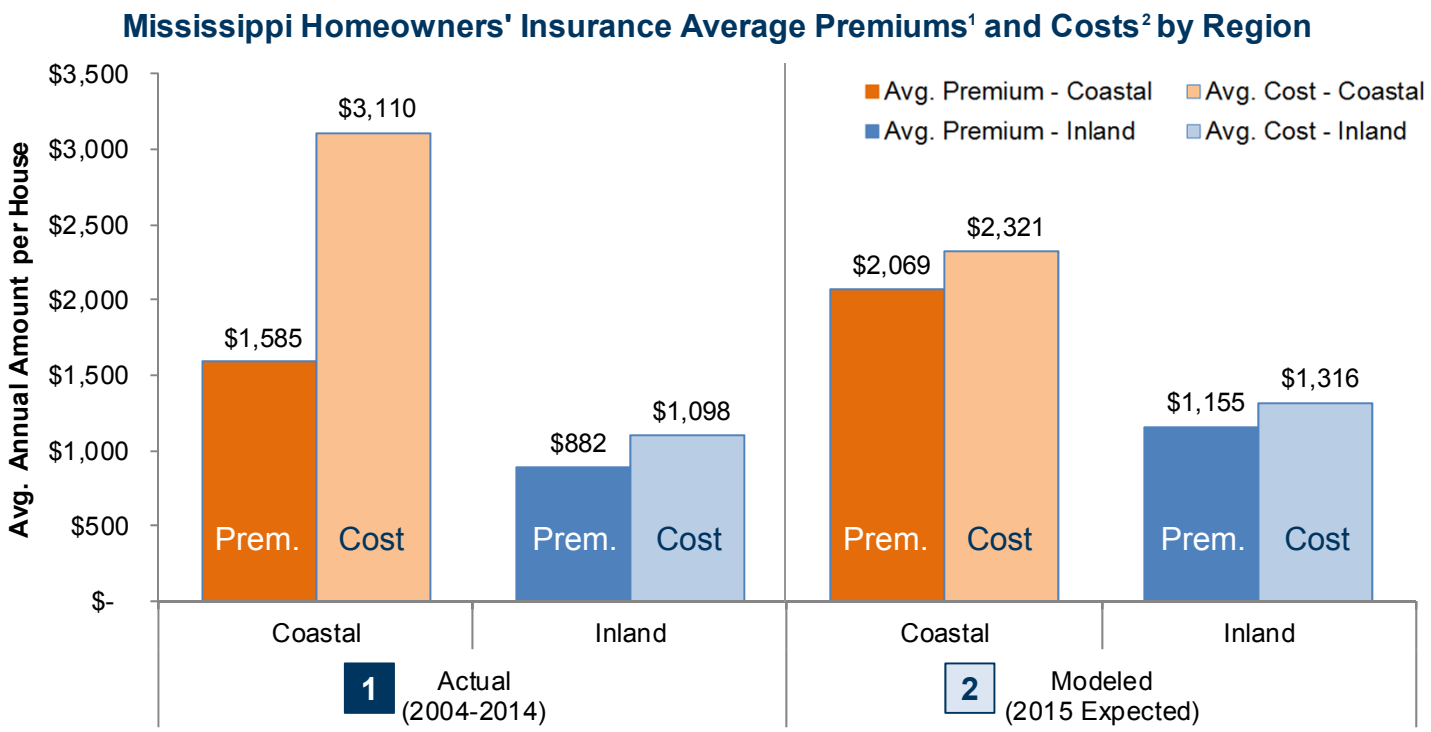
Insurers' return on net worth in the Mississippi homeowners' insurance market has been comparatively unattractive over the last 25 years

Coastal premiums are higher than Inland premiums



Source: Data submitted to the Department by Participating Insurers in response to the Data Call, and A&M analysis
1. Figures represent the aggregate Direct Earned Premium ("DEP") over the 11 years covered by the Data Call, divided by the aggregate Adjusted Earned House Years during the same period. "Modeled" DEP is adjusted to reflect trends in premiums over the past 11 years. Note these ***results are averages that include renters (HO4) and condominium (HO6) insurance policies****, whose premiums are substantially lower than those for policies that cover structural damage to the property as well as to contents.*

In both regions, premiums are lower than costs



Source: Data submitted to the Department by Participating Insurers in response to the Data Call, and A&M analysis:

1. *Avg. Premium represents the aggregate Direct Earned Premium ("DEP") over the 11 years covered by the Data Call, divided by the aggregate Adjusted Earned House Years during the same period. "Modeled" DEP is adjusted to reflect trends over the past 11 years as further described in the section of this report.*
2. *Avg. Cost represents the aggregate Combined Costs over the 11 years covered by the Data Call, divided by the aggregate Adjusted Earned House Years during the same period. Certain components of "Modeled" Combined Costs are adjusted to reflect trends over the past 11 years as further described in the section of this report, and to replace actual wind catastrophe losses and ALAE with the Modeled amounts.*
3. *Unallocated costs are estimated both in the "Actual" and "Modeled" approaches.* ***The above results are averages that include renters (HO4) and condominium (HO6) insurance policies, whose premiums are substantially lower than those for policies that cover structural damage to the property as well as to contents.***

Combined Ratio can be used to compare relative premium adequacy across regions

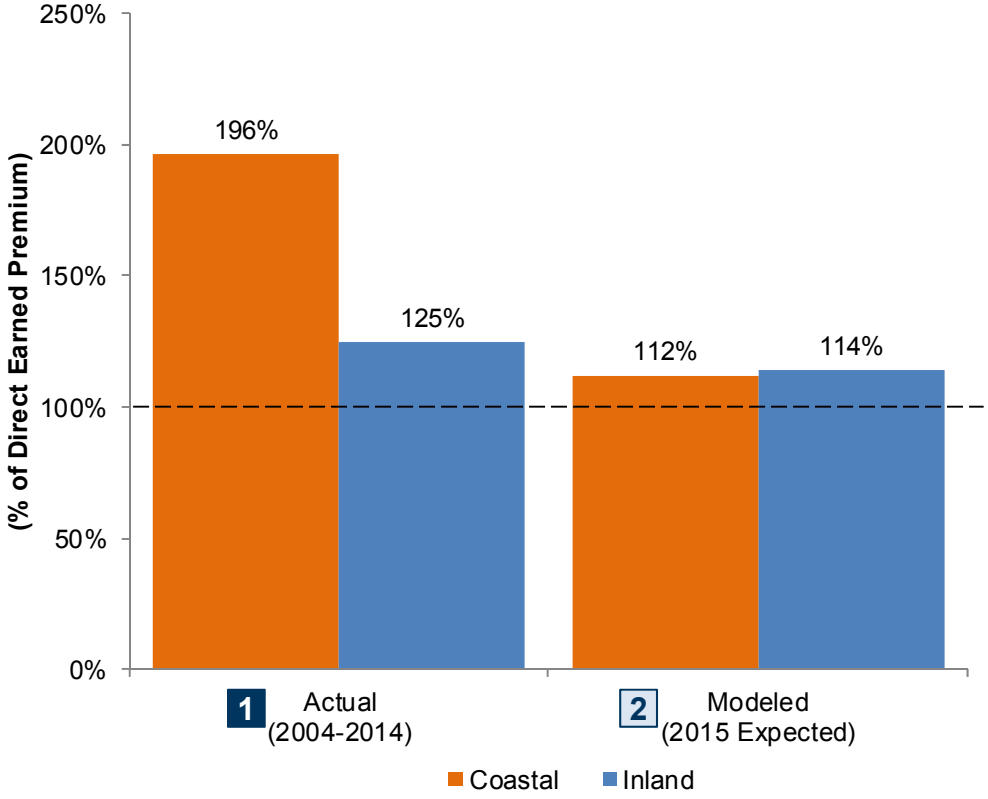
Combined Ratio is a measure of all costs per dollar of premium

A Combined Ratio greater than 100% indicates costs are in excess of premiums

Components of Combined Ratio		
Category	**Description**	**Cost Components**
Loss + ALAE Ratio	**Losses and ALAE per dollar of Direct Earned Premium is known as the Loss + ALAE Ratio**	**Losses and ALAE**
		Hurricanes and Named Storms
		Other Wind Catastrophes
		Non-Wind Catastrophes
		Other Wind
		Other Non-Wind
Expense Ratio	**Operating expenses that cannot be assigned to a specific claim, per dollar of Direct Earned Premium**	**Expenses**
		LAE-Adjusting and Other
		Commissions and Brokerage
		Taxes, Licenses and Fees
		Other Acquisition
		General
Net Reinsurance Load	**Net payments to the reinsurer per dollar of Direct Earned Premium**	**Net Cost of Reinsurance**

The expected (i.e. Modeled) combined ratios indicate that premium adequacy is comparable across the Coastal and Inland regions

Mississippi Homeowners' Insurance Combined Ratio by Approach and Region



Key Observations

- The results vary based on the approach (i.e. Actual vs. Modeled) used to develop the combined ratio
- Under both approaches and in both regions, the combined ratio is greater than 100%, which indicates that insurance companies' incurred costs are more than premiums earned
- Actual combined ratios indicate premiums have been less adequate (as compared to actual costs) in the Coastal region than Inland over the past 11 years
- The Modeled combined ratios show that expected premium adequacy (i.e. as compared to expected costs) is very similar across regions

The components of the calculated combined ratios, and their differences by region, vary somewhat by approach

As a percentage of DEP, **Higher Hurricane Loss + ALAE on the Coast** more than offset lower Losses + ALAE from all other perils

	1 Actual (2004-2014)			2 Modeled (2015 Expected)		
	Percentage of Premium			Percentage of Premium		
	Coastal	Inland	Difference	Coastal	Inland	Difference
Premiums	**100.0%**	**100.0%**	**0.0%**	**100.0%**	**100.0%**	**0.0%**
Loss + ALAE by Peril						
Hurricane	128.4%	18.3%	110.0%	49.4%	7.0%	42.4%
Wind Non-Named Catastrophe	0.2%	13.3%	-13.1%	4.5%	14.3%	-9.8%
Other Wind	1.2%	13.0%	-11.8%	0.9%	16.0%	-15.1%
Non-Wind Catastrophe	0.1%	0.9%	-0.8%	0.1%	0.7%	-0.7%
Other Non-Wind	12.7%	39.3%	-26.6%	12.4%	37.5%	-25.1%
Total Loss + ALAE Ratio	**142.5%**	**84.8%**	**57.7%**	**67.3%**	**75.5%**	**-8.2%**
ULAE Ratio	**16.4%**	**9.7%**	**6.8%**	**7.7%**	**8.6%**	**-0.9%**
Expense Ratio	**27.7%**	**28.5%**	**-0.9%**	**27.6%**	**28.4%**	**-0.8%**
Net Reinsurance Load	**9.6%**	**1.5%**	**8.1%**	**9.6%**	**1.5%**	**8.1%**
Combined Ratio	**196.2%**	**124.5%**	**71.7%**	**112.2%**	**113.9%**	**-1.7%**

Though not allocated to specific claims, ULAE costs increase when claims are higher. The higher costs in the Coastal than Inland region can be attributable to **higher total losses caused by Hurricane Katrina** in 2005.

The Net Reinsurance Load is higher on the Coast because (i) insurers cede a larger percentage of their exposure to hurricanes than other perils; and (ii) there is more hurricane exposure on the Coast than Inland

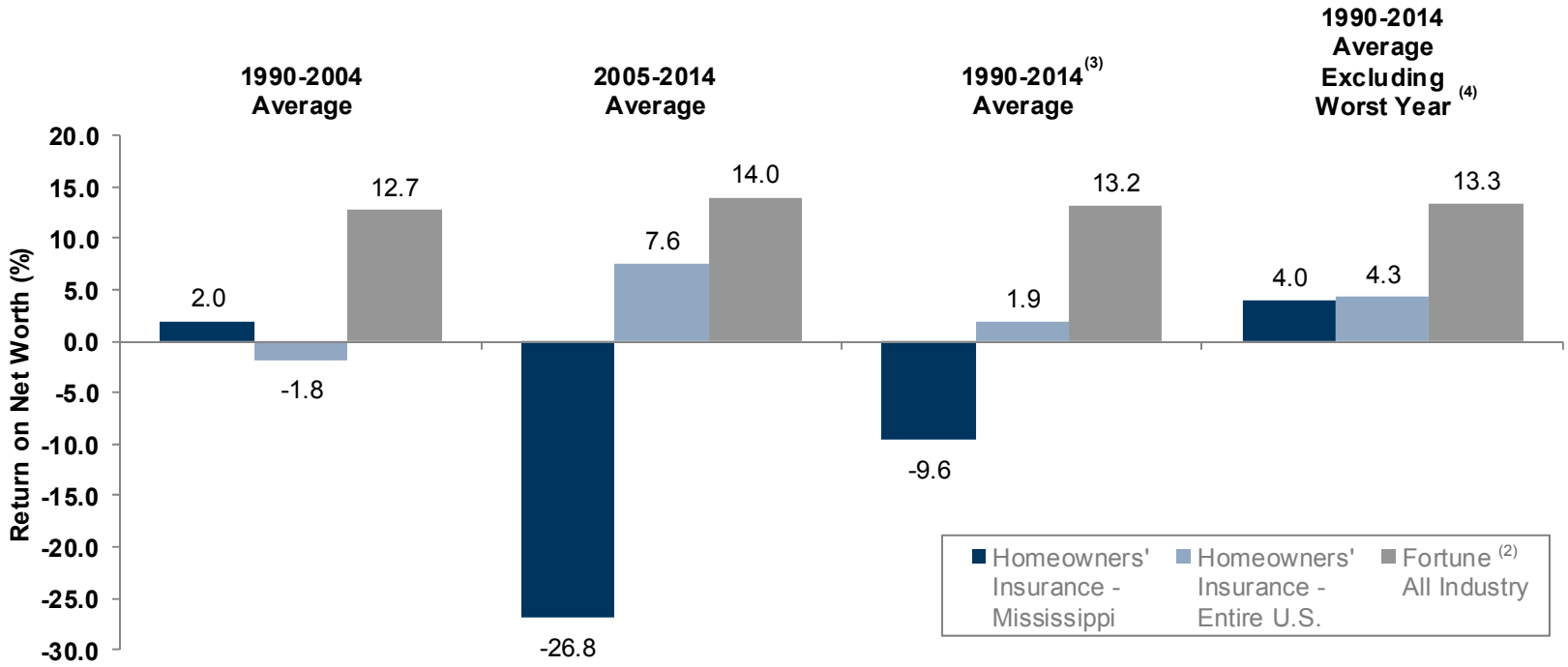
The Modeled Hurricane Loss + ALAE Ratio is lower than the Actual because projected hurricane losses are lower than the average of the last 11 years, and premiums are higher now than in the past

Insurers' return on net worth[1] in the Mississippi homeowners' insurance market has been comparatively unattractive over the last 25 years

The Mississippi homeowner insurance industry's returns on net worth over the past 10 years (-26.8%), and 25 years (-9.6%) are far lower than both the national homeowners' insurance industry and other industries

Even excluding the year of Hurricane Katrina (2005), the Mississippi homeowner insurance industry's returns are still far below the average returns of other industries.

Average Return on Net Worth(1) – Comparisons by Industry and Region



Sources: *Report on Profitability By Line By State, by the National Association of Insurance Commissioners, for the years 1996, 2003, 2013 and 2014*

1 *Return on Net Worth is calculated by the NAIC. It factors in Underwriting Profit, Investment Gain on Insurance Transactions, Income Taxes on Insurance Transactions, the ratio of Earned Premiums to Net Worth, Investment Gain on Net Worth and Tax on Investment Gain on Net Worth*

2 *This figure is provided by the NAIC and represents an approximation based on a simple average of Fortune's Industrial and Service sectors*

3 *Fortune All Industry figure is the average from 1990 through 2013*

4 *Average of 1990-2014 excluding the single worst year from each column: (i) for Mississippi Homeowners' Insurance, -335% in 2005 due to Hurricane Katrina; (ii) for Entire U.S. Homeowners' Insurance, -54% in 1992 due to Hurricane Andrew; and (iii) for Fortune All Industry, +10.1% in 1992.10*

Mapping the data illustrates regional risk concentrations and variability over time

Mapping the raw data by zip code for 11 years illustrates the higher ratios near the coast as well as the level of variation within narrower regions

- Actual Combined Ratio (p. 30)
- Actual Loss Ratio (p. 31)

The combined ratio varies significantly by year and zip code

- Actual Combined Ratio (p. 32)

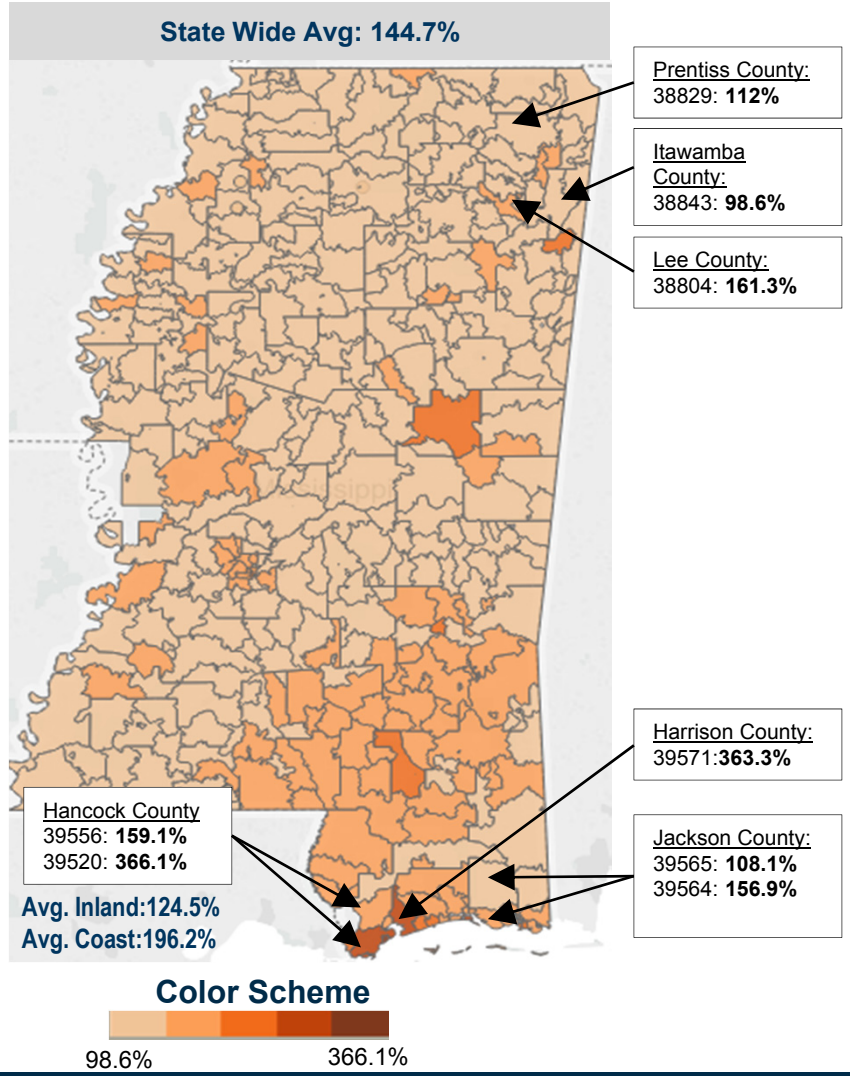
Mapping the Modeled data by zip code illustrates far less variation than Actual results because the models smooth out wind catastrophe losses

- Modeled Loss Ratio (p. 33)
- Modeled Combined Ratio (p. 33)

The actual combined ratios fluctuate materially by region and year due to catastrophes (especially Hurricane Katrina); the modeled ratios are far more stable (p. 34)

1 **Actual Combined Ratio:** Mapping the raw data by zip code for 11 years illustrates the higher ratios near the coast as well as the level of variation within narrower regions

1 Actual Combined Ratio by MS Zip Code, 2004-2014

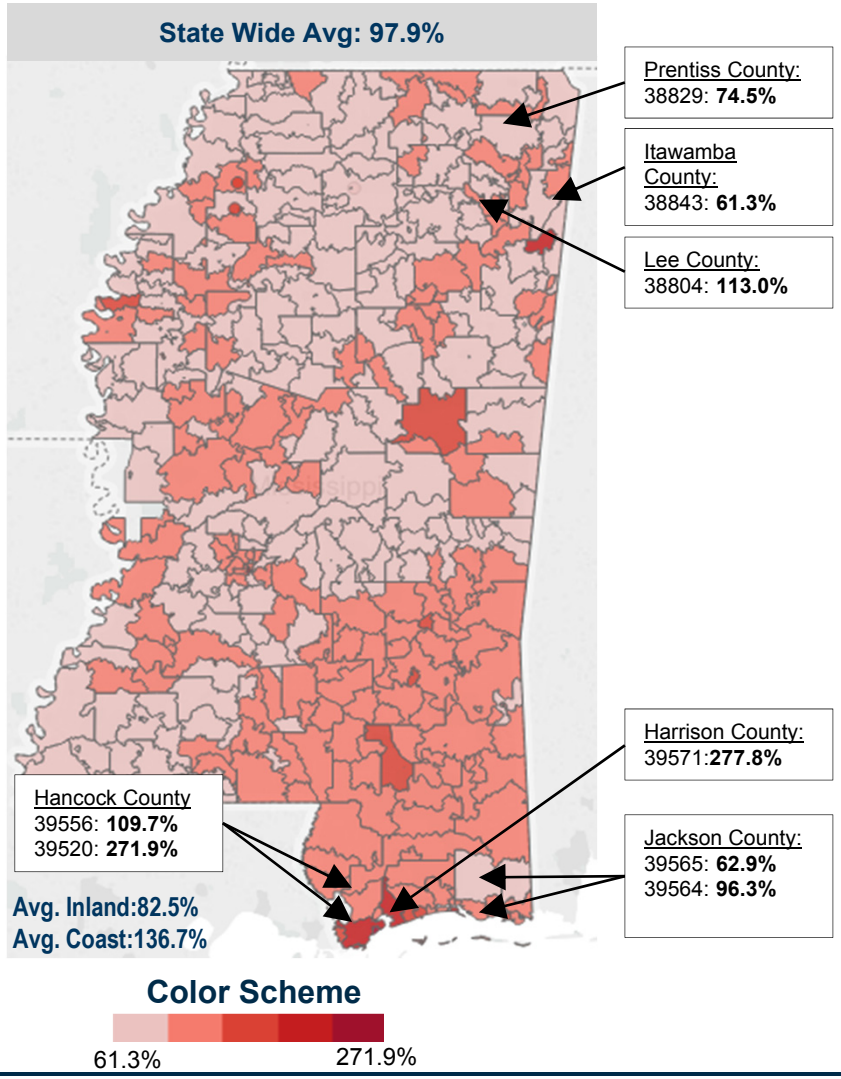


Key Observations:

- The actual combined ratios are much higher in the Coastal region than Inland
- A combined ratio of more than 100% means the insurers' premiums don't cover their costs
- In Mississippi, the majority of zip codes have had an average combined ratio greater than 100%

1 **Actual Loss Ratio:** Mapping the raw data by zip code for 11 years illustrates the higher ratios near the coast as well as the level of variation within narrower regions

1 Actual Loss Ratio by MS Zip Code, 2004-2014

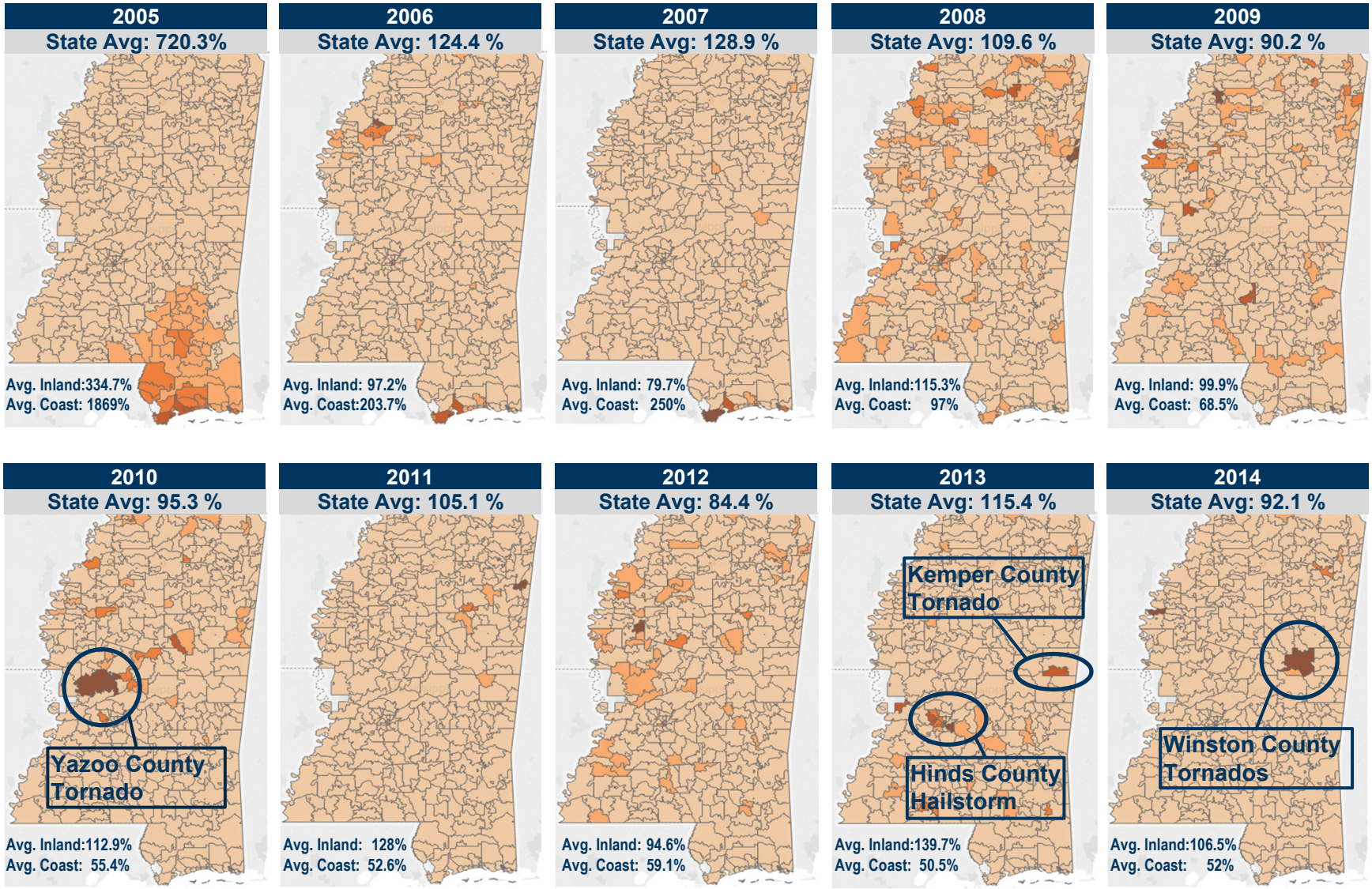


Key Observations:

- A loss ratio of more than 100% means the insurer's premiums don't cover its claims and allocated loss adjustment expenses
- In Mississippi, many zip codes have had an average loss ratio greater than 100% over the last 11 years
- A loss ratio greater than 100% means the insurers' premiums don't cover their losses and ALAE (i.e. before any other expenses or reinsurance costs)

1 Actual Combined Ratio: The combined ratio varies significantly by year and zip code*

1 Actual Combined Ratio by Mississippi Zip Code and Year, from 2005-2014

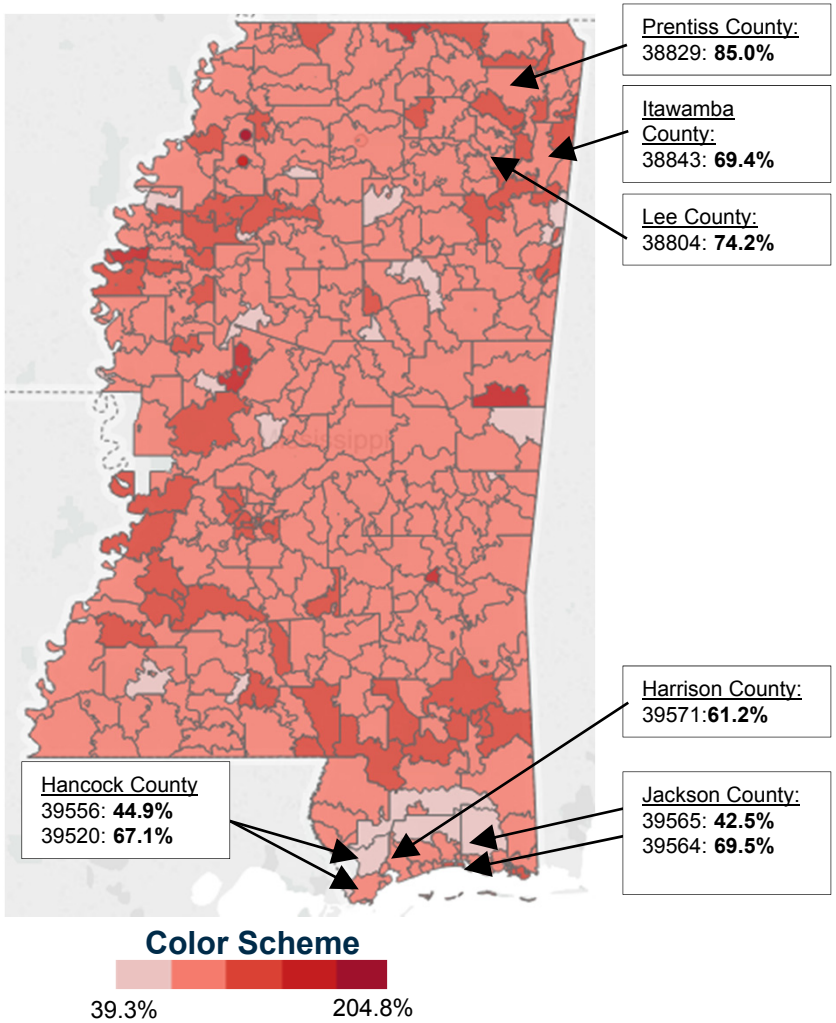


* *Note: The above maps are on a different scale for each year to highlight the differences in magnitude across various zip codes. In each map, darker colors denote higher combined ratios.*

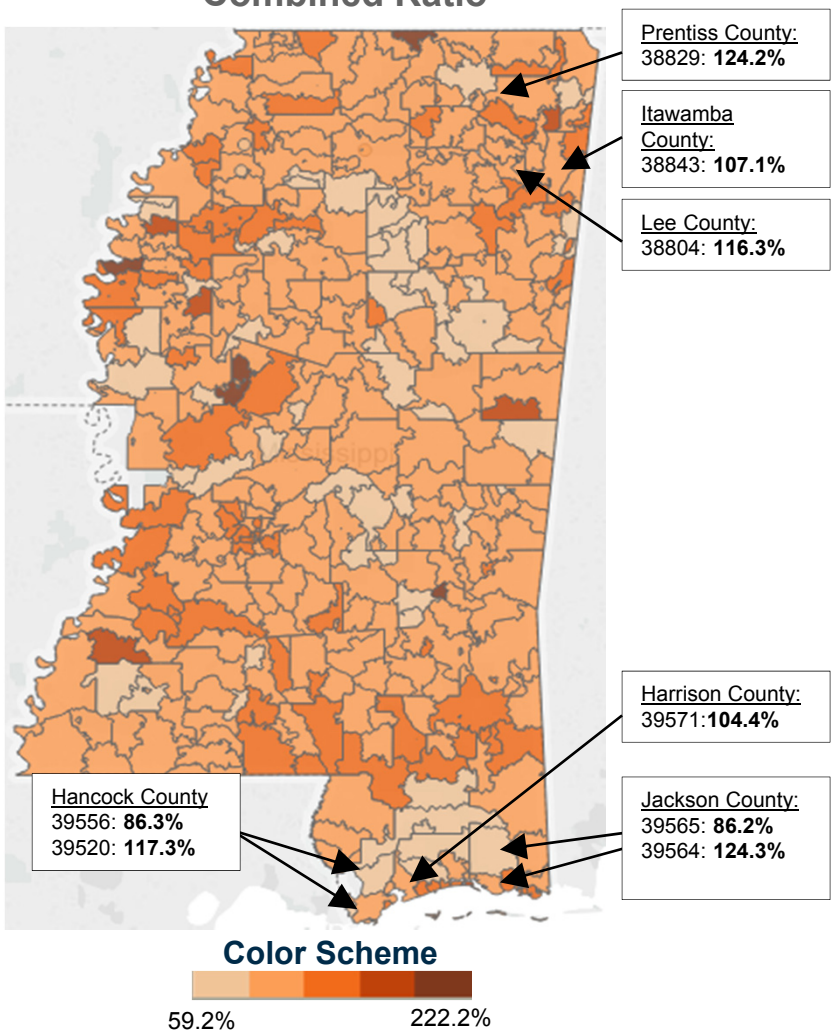
2 **Modeled Ratios:** Mapping the Modeled data by zip code illustrates far less variation than the Actual results because the models smooth out wind catastrophe losses

Modeled Loss and Combined Ratios by Mississippi Zip Code, 2015 Expected

Loss Ratio

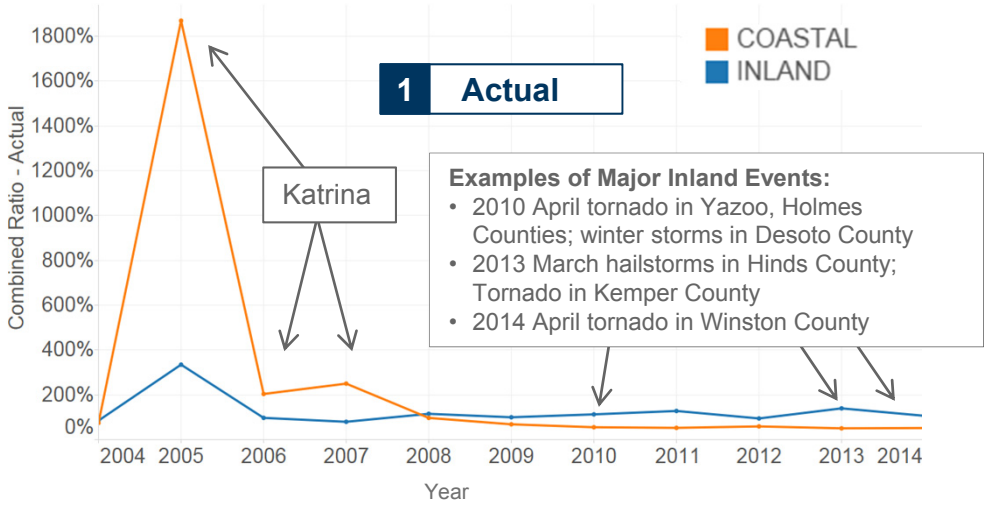


Combined Ratio

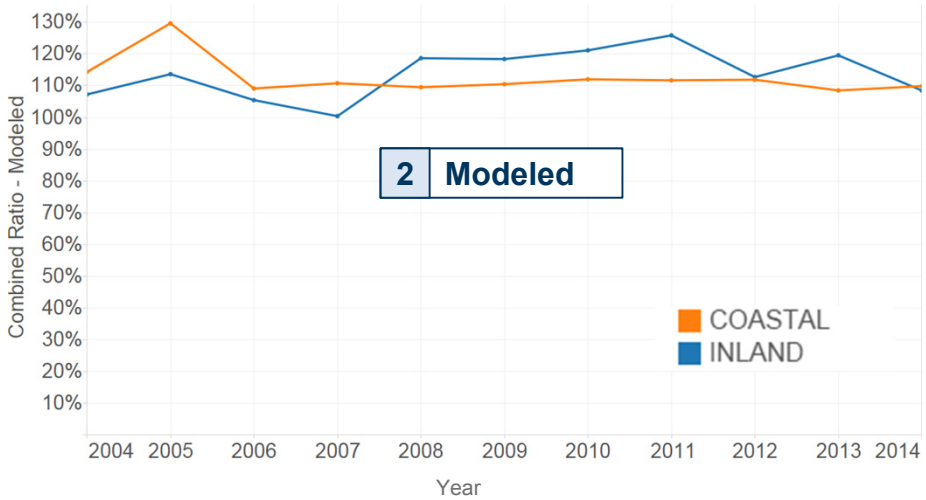


The actual combined ratios fluctuate materially by region and year due to catastrophes (especially Hurricane Katrina); the Modeled ratios are far more stable

Combined Ratio by Region, 2004-2014
Actual (Unadjusted) Results



Combined Ratio by Region, 2004-2014
Modeled Results



Key Observations:

- Hurricane Katrina, in 2005, dwarfed all other loss events over the last 11 years
- The impact of major events on Actual Inland combined ratio is barely visible when graphed on the same scale as Coastal combined ratio
- Coastal calendar year combined ratios remained elevated through 2007 due to adverse loss development from **Hurricane Katrina**, meaning that the initial estimates of losses that were reported in 2005 had to be revised upward over the subsequent two years.
- The Modeled results replace the actual losses from hurricanes and other catastrophe windstorms with projected losses
- As a result, the Modeled results are far more stable over time than the actual results
- In both Actual and Modeled results, combined ratios are more than 100%, which means insurers' premiums don't cover their costs

III. APPENDIX
GLOSSARY

Glossary: Several important acronyms, abbreviations and defined terms are used throughout this report

Term	Meaning
A&M	Alvarez and Marsal Insurance and Risk Advisory Services, LLC
Actuary	A business professional who uses mathematics and statistics to analyze financial consequences of risk
All Other Excl. Wind	Policy that does not cover the perils of Wind and Hail.
All Other Incl. Wind and Named Storm	Policy that covers the perils of Wind and Hail including Named Storms (including hurricanes), and also covers other perils
All Other Incl. Wind but Excl. Named Storm	Policy that covers the perils of Wind and Hail excluding Named Storms, and that also covers other perils
All Other Perils	Perils not included in Hurricane, Non-Named Wind, Other wind or Other Named Catastrophe categories
Allocated Loss Adjustment Expense	The cost of adjusting that is directly attributable to specific claims, and typically includes legal costs, investigatory expense, independent adjuster expenses, etc.
Carriers	An insurer / insurance company
Catastrophe Models	Computer-assisted calculations that estimate the losses that could be sustained due to a catastrophic event such as a hurricane or earthquake
Catastrophe	An event is typically designated a catastrophe by the industry when the Insurance Services Office ("ISO")claims are expected to reach a certain dollar threshold, currently set at $25 million
Ceding	Process of transferring risk to a reinsurer
Clarity Act	House Bill No. 739, passed by the Mississippi Legislature in 2015 that requires insurers authorized to transact homeowners business in the state to provide policy and premium information to the department of insurance
Coastal Region / Counties	George, Hancock, Harrison, Jackson, Pearl River and Stone Counties in the state of Mississippi
Combined Costs	Sum of costs associated with Losses, ALAE, Expenses and Net Cost of Reinsurance
Combined Ratio	Ratio of Combined Costs to Premium. Representative of how profitable an insurance company is

Glossary (continued): Several important acronyms, abbreviations and defined terms are used throughout this report

Term	Meaning
Commission and Brokerage Expense	Payments to agents and brokers for referring policyholders to the insurer, responding to their questions, etc.
Consultant	A business professional who provides unbiased advice based on thorough assessment of a problem or situation
Data Call	The Market Analysis Data Call which was initially issued by the Department to reflect changes necessitated by the passage of the Clarity Act by the Mississippi Legislature. The Data Call was comprised of two data sets: the "HO Policy Historical Data" portion, which included the data required by the Clarity Act as well as additional information such as losses and ALAE by peril; and the "Catastrophe Modeling Data" portion, which included information regarding Participating Insurers' reinsurance programs and catastrophe model results.
Earned House Year	A measure of the number of policies that takes into account the effective date and termination date of each policy
Exposure	The state of being subject to loss because of a hazard or contingency
Future Cost	An estimated amount of prospective future expenditures, a portion of which might be attributed to future earnings
General Expense	Other expenses, such as overhead associated with the insurer's home office (e.g., supplies, rent, building maintenance), salaries of certain employees (e.g., actuaries) and other miscellaneous costs
Hurricane Risk	Risk of losses that could amount from the possibility of occurrence of Hurricanes
Hurricane or Named Storm	Storm that has been officially named by the National Weather Service, National Oceanic Atmospheric Administration or other major meteorological authority.
Inland Region / Counties	All counties in Mississippi other than the Coastal Counties
Insurance Regulator	An individual (such as an insurance commissioner) or organization (such as an insurance department) that regulates and supervises the insurance industry in the United States
Investment	Investing money for profit
ISO	Insurance Services Office

Glossary (continued): Several important acronyms, abbreviations and defined terms are used throughout this report

Term	Meaning
LAE and adjusting Expense	The portion of adjusting expenses that cannot be attributed to a specific claim, such as claims department overhead, in-house claims adjuster's salaries, etc.
Loss	Cost incurred for claims
Loss Ratio	Ratio of losses as a percentage of Earned Premiums
Merlinos & Associates, Inc. ("Merlinos")	One of the largest independent property and casualty actuarial consulting firms in the United States. Merlinos provided support on to the Department on this engagement as a subcontractor to A&M.
Mississippi Insurance Department ("Department")	State agency charged with enforcing the insurance laws and regulations enumerated in Mississippi Code Ann. Section 83-1-1 et seq.
Modeled Data	Data that has been developed by A&M and Merlinos based on information submitted by Participating Insurers (i) in response to the Data Call, (ii) in their annual statements; and (iii) in a catastrophe modeling data call issued by the Department. For the "Named Storm" and "Non-Named Wind Catastrophe" perils, the Modeled Data includes results from hurricane and severe convective storm catastrophe models. For all other perils, the Modeled Data includes average historical results submitted in the Data Call, trended to 2015 to reflect changes in inflation and other factors.
NAIC	National Association of Insurance Commissioners
Net Cost of Reinsurance ("NCR")	The premium paid to the reinsurer ("gross cost of reinsurance") less expected recoveries from the reinsurer. Essentially, the net cost of reinsurance represents the reinsurer's long-term expense and profit needs.
Non-Named Wind Catastrophe	Any windstorm, winter storm, thunderstorm, hail storm, tornado or other wind-driven event that has a catastrophe number assigned by Insurance Services Office ("ISO") but that is not a Named Storm
Other Acquisition Expenses	Costs to acquire business other than commissions and brokerage expenses, such as advertising, direct mailings and salaries of non-commission sales employees
Other Non-Named Catastrophe	Any event other than a Named Storm or a Non-Named Wind Catastrophe (as defined above) that has a catastrophe number assigned by Insurance Services Office ("ISO").
Other Wind	Any windstorm or winter storm other than a Named Storm or Non-Named Wind Catastrophe

Glossary (continued): Several important acronyms, abbreviations and defined terms are used throughout this report

Term	Meaning
Participating Insurer	An insurance company that writes homeowners' insurance policies in the state of Mississippi and that has responded to the Data Call
Peril	A specific type of risk that an insurance policy may (or may not) cover – e.g. hurricanes
Policy Limits	The maximum amount an insurance carrier will pay for a particular claim based on the coverage type
Premiums	Payments to an insurance company for an insurance policy
Profit	Financial gain that is defined as the difference between revenue and cost
Property and Casualty	Insurance that protects against property losses to your business, home or car and/or against legal liability that may result from injury or damage to the property of others
Ratemaking	Also called insurance pricing, Ratemaking is the determination of rates charged by insurance companies
Taxes, Licenses and Fees	Premium and other tax, assessments and fees payable by the insurer to the state (excludes federal income tax)
Trend / Trend Lines	A line indicating the general course or tendency of something – i.e. how it tends to change over time
Unallocated Loss Adjustment Expense ("ALAE")	All costs associated with the claim settlement function that are not directly assignable to specific claims
Underwriting	The process of assessing risk associated with an insurance policy and charging appropriate premium to cover that risk
Wind Only Excl. Named Storm	An insurance policy that covers the peril of Wind and Hail excluding Named Storms, but does not cover any other perils
Wind Only Incl. Named Storm	Policy that covers the perils of Wind and Hail including Named Storms, but does not cover any other perils

III. APPENDIX

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ALVAREZ & MARSAL

Doug Greer
Senior Director
Alvarez & Marsal Insurance and Risk Advisory Services, LLC
600 Madison Avenue, 8th Floor
New York, NY 10022

Peter Scourtis, FCAS, MAAA
Principal & Consulting Actuary
Merlinos & Associates, Inc.
3274 Medlock Bridge Road
Peachtree Corners, GA 30092

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