



R.L. "Bret" ALLAIN II

State Senator
21st District

Parishes of
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Lafourche
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SENATE STATE OF LOUISIANA

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SENATE COMMITTEES:

Agriculture, Vice Chairman
Select Committee on Coastal Restoration
and Flood Control, Vice Chairman
Finance
Natural Resources
Health and Welfare
Joint Legislative Committee
on the Budget

October 10, 2012

The Honorable James D. Caldwell
Attorney General
State of Louisiana
P.O. Box 94005
Baton Rouge, LA 70804

Dear Attorney General Caldwell:

On June 7, 2012, your office received a letter from the Louisiana Department of Insurance ("LDI") requesting a legal opinion with regard to R.S. 22:2303, the statute that governs the setting of rates by Louisiana Citizens Property Insurance Corporation ("Citizens").

Recently, Citizens announced increases for wind and hail rates in coastal parishes that I represent. The magnitude of these rate increases threatens to cripple many of my constituents financially. For example, consider the 170% wind and hail rate increase for St. Mary Parish. The result of this drastic increase is forcing many of my constituents to choose between keeping their homes or voluntary foreclosure. Even worse is the impact on elderly homeowners who are now forced to choose between food and medication or paying for the wind and hail coverage on their homes.

When I sought an explanation for the unprecedented rate increase, I was informed that the Citizens Board changed the methodology used to calculate the rates. Reasons for the change were not offered.

It is my understanding that current law mandates that for wind and hail policies Citizens rates exceed by at least ten percent the higher of: (a) the actuarially justified rate or (b) the highest rates charged among assessable insurers that have a minimum of two percent of the total direct written premium in each respective parish for that line of business in the preceding year. To my knowledge, there is no line of business for wind and hail coverage in St. Mary

Parish south of Highway 90 which leaves only the application of the actuarially justified rate. It is unconscionable that a 170% rate increase could be justified in any respect.

Citizens changed the methodology in 2012 from that previously approved by LDI and applied since the creation of Citizens. There is no true market in coastal parishes for wind and hail coverage for Citizens to use as a gauge in determining what the non-competitive rate should be. Citizens used non-similar insurance policies written in different parts of the parishes to extrapolate what it thought the rate should be. It is my strong belief that this practice is beyond the authority granted to Citizens by law. The rates that these coastal parishes have been handed are far above what are actuarially sound in an area that has no true market. The legislative intent in creating Citizens was twofold: a) that the Corporation could not compete with existing markets and b) that the state not lose money in the Corporation by requiring that it be actuarially sound while providing insurance to people who could not otherwise get coverage. The intent was not to create new markets with such high rates resulting in the people in coastal regions paying more for insurance than they would in a truly competitive market. For these reasons and for the hardships that these new rates have created, I believe that the recent rate setting actions by Citizens are in violation of La R.S. 22:2303 (C) which states, in part, that "rates shall not be inadequate or unfairly discriminatory."

I trust you will give careful consideration to this matter. Please do not hesitate to contact me should you need additional information.

Kind Regards,

A handwritten signature in black ink, appearing to read "Bret Allain". The signature is fluid and cursive, with a large initial "B" and a long, sweeping tail.

R.L. "Bret" Allain, II
State Senator
District 21