

# Post Catastrophe Insurer Insolvencies

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## Presentation Overview

- ▶ Joplin Tornado Catastrophe
- ▶ Actions Steps Taken
- ▶ Financial Lessons Learned
- ▶ Overall Lessons Learned
- ▶ Resources Available to Financial Regulators

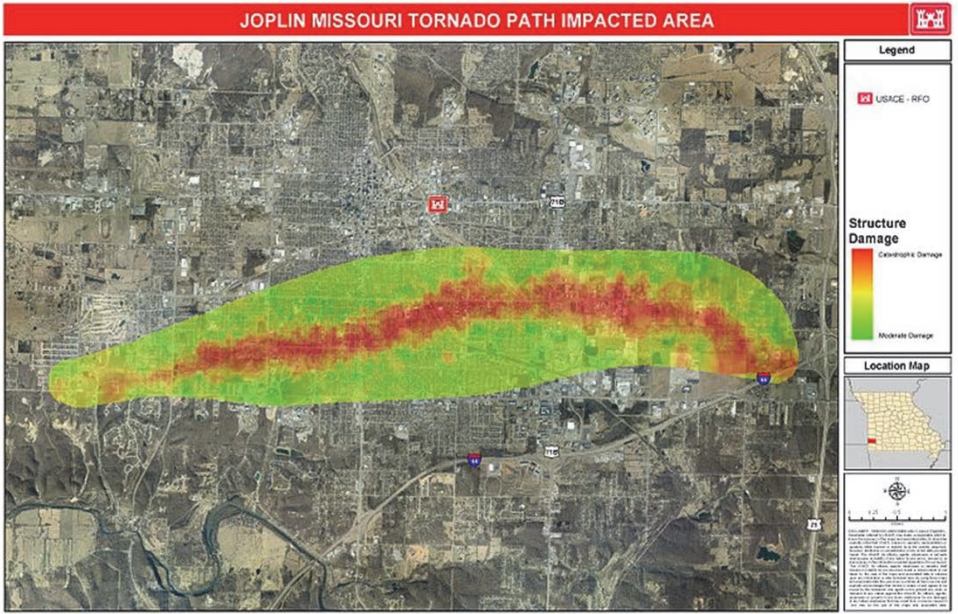
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# Joplin Tornado

- ▶ **Date:** May 22, 2011
- ▶ **Time:** 5:34 – 6:12 pm [CDT](#)
- ▶ **Rating:** [EF5](#) tornado
- ▶ **Damages:** \$2.8 billion (2011 USD)
- ▶ **Casualties:** 160 (+1 indirect)<sup>[1][2][3]</sup>
- ▶ **Area affected:** [Joplin, Missouri](#) (part of a larger outbreak)



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# Jasper County, Missouri



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# Barton County, Missouri



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## Initial Action Steps Taken

- ▶ Immediately began assessing the extent of catastrophe
- ▶ Used ZIP code data base to identify concentration of policyholders
- ▶ Identified possible impacted companies – “380 Mutuals”
- ▶ Contacted “380 Mutuals” and asked how storm had impacted them.
- ▶ Scheduled meeting with most impacted – Barton Mutual

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## Barton County Mutual Market Share

- ▶ Barton Mutual Group:
  - ▶ Barton Mutual Insurance Co.
  - ▶ Gateway Mutual Insurance Co.
  - ▶ Cape Mutual Insurance Co.
- ▶ 41,000 policyholders with homeowners and fire policies
- ▶ \$29 Million Written Premium in 2010
- ▶ \$48 Million in claims from May 22, 2011 Joplin tornado

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## Chapter 380 companies

- ▶ Missouri allows "380 Mutuals" - Relevant aspects:
  - ▶ Small "Farm " mutual insurance companies
  - ▶ Tend to write in primary and surrounding counties
  - ▶ Less statutory financial oversight
  - ▶ Annual vs. quarterly reporting
  - ▶ Subject to their own guarantee fund

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## Action Steps Taken

- ▶ Immediately met with company management
- ▶ Assessed extent of financial loss to troubled companies
- ▶ Required monthly reporting after catastrophe storm
- ▶ Monitored cash flow of company in jeopardy on a daily basis

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## Action Steps Taken (cont..)

- ▶ Contacted Guarantee Association as soon as problems were identified
- ▶ Contacted reinsurers early in the process and called for cash
- ▶ Used "creative thinking" to develop a rehabilitation plan.
- ▶ Sought out interested investors/buyers

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## Placed in Receivership 12-01-2011

A Barton County judge has approved a proposal to allow Missouri Farm Bureau to assume operations of three insolvent insurance companies. Operated by the Barton County Mutual Group, the three small companies became insolvent after paying claims from the May 22nd Joplin tornado.

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## The Judge's Order

The judge approved a proposal by the Missouri Department of Insurance, which:

- ▶ Allowed the three companies to merge into one company managed by Farm Bureau;
- ▶ Allowed Farm Bureau to invest approximately \$18 million in surplus notes to restore the company's surplus to a positive level, with the notes being backed by the Missouri Property and Casualty Insurance Guaranty Association;
- ▶ Allowed the new company the financial capacity to ensure all policyholder claims are paid and policyholder coverage to continue; and
- ▶ Required the new company to buy an amount of reinsurance deemed adequate by the department to meet future claims obligations.

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## Financial Lessons Learned

- ▶ Too large a market share in a small market area without adequate reinsurance could lead to insolvency.
- ▶ Placing reinsurance business with a company within the same group is dangerous.
- ▶ Surplus to premium written ratio was not adequate for the concentration of property values insured.
- ▶ Enterprise risk management was not evident
  - High concentration of insured properties in Barton and Jasper counties
  - Disaster modeling used by Barton assumed only 500 year and 1,000 year storms. This assumption proved to be incorrect.

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## Regulatory Changes for Chapter 380 Companies

- ▶ Adequate reinsurance now required
  - ▶ Annual aggregate treaty reinsurance must be in place
  - ▶ Must trigger when a company loses 20% of its surplus
- ▶ Oversight of Chapter 380 companies restructured
- ▶ 380 companies now file electronic statements

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## Overall Lessons Learned

- ▶ Be proactive and contact companies once a "CAT" occurs
- ▶ Don't forget about county or other small mutual insurance companies
- ▶ Utilize NAIC resources (data and staff)
- ▶ Involve your Guaranty Association early on
- ▶ Proactively communicate with other regulators
- ▶ Policyholders matter the most

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## Resources Available to Regulators

- ▶ NAIC Catastrophe Assistance
- ▶ NAIC Database
- ▶ Financial Analysis Working Group
- ▶ Hazardous Financial Condition Authority
- ▶ Risk Based Capital System
- ▶ NAIC Troubled Company Handbook
- ▶ Form F and ORSA

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## Questions?

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# Contact Information

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