TESTIMONY
PROVIDED BY THE
OFFICE OF THE LIEUTENANT GOVERNOR
DIVISION OF BANKING, INSURANCE AND FINANCIAL REGULATION
BEFORE THE
THIRTY-FIFTH LEGISLATURE OF THE VIRGIN ISLANDS
COMMITTEE ON HOUSING, TRANSPORTATION & TELECOMMUNICATIONS
Monday, September 30, 2024

Good day, Committee Chairman Honorable Marvin A. Blyden and Honorable Members of the Thirty-Fifth Legislature of the Virgin Islands Committee on Housing, Transportation & Telecommunications, other Senators present today, as well as the viewing and listening audience. I am Attorney Glendina P. Matthew, Director of the Division of Banking, Insurance and Financial Regulation (thereinafter “Division”) within the Office of the Lieutenant Governor. The Acting Assistant Director and Chief of Securities Registration Magdalene Burke today accompany me.

I most respectfully appear before you today in response to your invitation to provide an update on the status of the property insurance market, as well as any recommendations to mitigate the situation, as we continue to examine issues of affordable housing and homeownership.

In 2019, the insurance industry experienced a hard market across most lines of insurance business. The last hard market that affected the insurance industry was in years 2001 to 2004. For persons not familiar with the term “hard market”, a hard market typically occurs in response to major external events such as natural disasters that increase the insurers’ risk exposure and reduce their reserve. During a hard market certain corrective actions are put in place by insurers to increase their reserves to account for potential future payout of policyholder’s claims arising from an event; thereby decreasing the probability of an insurer’s insolvency.

Unfortunately, the property and casualty insurance industry is cyclical, the market goes up and down. The cyclical nature of the insurance industry is characterized by periods of soft market conditions, in which premium rates are stable or falling and insurance is readily available, and by periods of hard market conditions, where rates rise, coverage may be more difficult to find and insurers' reserve increase. Increased solvency margins, increased reinsurance costs, less competition, poor investment returns, inflation, the economy, inconsistent underwriting profits and, most importantly, increase in frequency and severity of claims resulting in catastrophic losses all contribute to a hard market. Natural catastrophes such as hurricanes, floods, wildfires and earthquakes have all led to increased losses and decreased reserves by insurers and reinsurers. Climate change and global warming continue to have a significant impact on our weather, particularly as it relates to the frequency and intensity of catastrophic events.

National Oceanic and Atmospheric Administration (NOAA) National Centers for Environmental Information (NCEI) reported U.S. billion-dollar weather and climate disasters for a nine-year period from 1980 - 2024. Years 1980-1989 reported the least billion-dollar losses totalling 218.9 billion. However, in contrast, the period of 2010 - 2019, reported the largest billion-dollar losses totalling $993.4 billion. To put things in perspective, Hurricane Irma, which devastated the U.S. Virgin Islands and Florida, and caused severe storm surge damage in other states total costs was $64 billion. Hurricane Maria which also devastated the U.S. Virgin Islands 12 days after Hurricane Irma and devastated Puerto Rico and other states had a total cost of $115.2 billion. These two events cost the insurance industry $179 billion. Most recently, in late June, Hurricane Beryl became the earliest forming Category 5 hurricane on record, and it is estimated to cost six billion.

As a result of catastrophic events such as Hurricanes Irma and Maria and other weather-related activities, reinsurers have been declining or limiting the amount and types of risks they will undertake, which in turn has limited insurer's ability to write new and renewal coverage. Do note, the issue of lack of capacity is not only detrimental to consumers but also insurers writing in the Virgin Islands due to insurers dependency on reinsurance coverage. Like consumers, insurers also purchase insurance treaties from reinsurers to cover their risk, which becomes more expensive and limited during a hard market. The Virgin Islands because of the insolvencies suffered after Hurricane Marilyn also implemented a 30% Probable Maximum Loss requirement, which mandates that all admitted property and casualty insurers maintain reinsurance on at least 30% of coverage written in the Territory in the event of a catastrophe to pay claims. This is consumer protection measure put in place to reduce insolvencies during a catastrophic event. However, at a time when capacity is limited, and the costs of reinsurance is increasing for many insurers maintaining reinsurance at a certain level may be a challenge.

Like other states and territories, we too felt the pressures of the hard market, particularly in the homeowner's market. In late 2021 and early 2022, we began experiencing premiums increase, unavailability and limitation on insurance coverage. The instability of the insurance market globally became more apparent and a major concern since the Virgin Islands has a small property and casualty insurance market (98 licensed Property and Casualty insurers. Initially, we witnessed the insurance crisis unfold in bigger markets like the state of Florida first and then California. In both states, major property and casualty writers exited the state's insurance market, become insolvent or choose not to renew policies. To prevent a crisis in the Virgin Islands, the Division considered measures that would help stabilize the Virgin Islands insurance market and maintain homeowner's coverage in the Territory.

In year 2022, the Division began receiving rate increase requests up to 20% from licensed property and casualty insurers, whose reinsurers mandated that rate increases be requested from regulators to increase the amount of reserve on-hand to pay claims. To stabilize the local insurance market and maintain insurance capacity in the Territory, the Commissioner of Insurance approved partial rate increases between 5 and 10% in accordance with 22V.I.C. § 53a, which allows for the approval of rate increases if the Commissioner 'determines that there is actuarial basis for rate increase, and it is supported by actual and credible loss and expense statistics." Do note, these increases were granted at a time when insurers and reinsurers were pulling out of insurance markets to maintain capacity in the local market. Based on increases granted, insurers were able to maintain their capacity and policyholders were able to renew their policies with the exceptions of wooden structures in some cases.

To alert the public of the changes in the insurance market, the Lieutenant Governor/ Commissioner of Insurance Tregenza A. Roach, Esq. issued Bulletin No. 2023-02 and subsequently a Press Release, which addressed the issue of "availability and increased cost of windstorm insurance coverage for homes in the United States Virgin Islands." Included in the Bulletin was alternatives for anyone having difficulty securing homeowners' insurance due to limited capacity in the admitted market, you should seek coverage through a licensed surplus lines broker in the surplus lines market. Surplus lines insurance protects against financial risk that an admitted insurance company will not accept or is unavailable in the admitted market.

Where are we now? The local insurance industry is still in a delicate position as we are now in the peak of the hurricane season and NOAA has predicted an above-normal season. Nevertheless, we have seen optimism, some strengthening and stabilization of the insurance market. In a recent article for Fitch Wire, it was reported, "Fich ratings has revised its global reinsurance sector outlook to "neutral" from "improving" as the pricing cycle has most likely passed its peak." Meaning, as regulators, we should be seeing a softening of the market and reduction in rate requests. We currently have one property and casualty rate increase request before the Commissioner of Insurance. In our annual Hurricane Preparedness meetings with the Virgin Islands top property and casualty insurers licensed in the Territory, we heard a great deal of optimism from industry leaders, as a few insurers indicated their company had received additional capacity to write new business in their new Reinsurance Agreement. Thus, absence a catastrophe impacting the Territory, new homeowners in the Territory with standard construction should be able to obtain insurance coverage. Homeowners seeking new coverage for wooden structures may still be limited as many insurers have restrictions in their Reinsurance Agreement. Overall, based on what we are hearing in the insurance industry including the reduction in interest rates by the Federal Reserve, the market should continue to soften, which will result in rates flattening or decreasing and insurance coverage becoming readily available. Do remember despite industry predictions the weather conditions will play a major part on what happens next.

Chairman Blyden, Members of the Thirty-Fifth Legislature of the Virgin Islands Committee on Housing, Transportation and Telecommunications, other Senators present today, and the listening and viewing audience, I would like to thank you for convening this hearing on this important topic and allowing the Office of the Lieutenant Governor to appear before you to provide an update on the status of the property insurance market. I must also express my continued appreciation to the Division's hardworking Staff who again will be seeking reaccreditation for another five-year period with the National Association of Insurance Commissioners in the next two weeks. The staff continue to carry out our dual purpose of regulating the insurance industry and protecting the Virgin Islands' consumer's interest. This concludes the Division's testimony. We are prepared to respond to your questions.