*Welcome to LLA Reports, a podcast produced by the Louisiana Legislative Auditor’s office. This podcast is intended to be an oral representation of the written report it highlights and is primarily for the use of the Louisiana Legislature.*

This is Chris Magee. I’m the data analytics manager for LLA’s Performance Audit Services.

This episode of LLA Reports focuses on our new report titled “Financial Condition of the Residential Property Insurance Market.”

This report had two purposes. The first was to provide information on the residual effects when residential property insurance companies become financially insolvent or voluntarily leave the market.

The second was to evaluate the Louisiana Department of Insurance’s activities to monitor the financial condition of these insurance companies.

Overall, 11 insurance companies became financially insolvent between July 2021 and September 2022, six of them because they did not have adequate reinsurance for Hurricane Ida.

Other insurance companies left the residential property market or are not writing new policies because of the impact of the 2020 and 2021 hurricanes, the perceived risk or exposure to potential losses in Louisiana, and/or the inability to obtain reinsurance.

We found that, as a result of the insolvencies, the cost of claims and premium refunds paid by the Louisiana Insurance Guaranty Association – or LIGA – rose from approximately $4.8 million dollars in 2020 to about $268.1 million dollars in the first eight months of 2022 because LIGA had to assume the claims of these companies.

LIGA also had to assess insurance companies and obtain approval to borrow money to cover the cost of the claims and premium refunds.

We found as well that the 11 insolvencies and the departure of other insurance companies increased the number of policies held by Louisiana’s insurer of last resort – the Louisiana Citizens Property Insurance Corporation – or Citizens.

According to Citizens, it may not have adequate reinsurance to pay claims if a major hurricane occurs because of issues in the reinsurance market and the increase in its policies. When Citizens does not have adequate funds to pay claims, insurance companies and Louisiana policyholders can be assessed.

Citizens stated that the total number of its policies rose from 35,670 totaling $6.7 billion dollars in insured value in January 2021 to 112,035 policies totaling $33.3 billion dollars in insured value in August 2022. That represents a 214.1 percent increase in policies and a 397 percent increase in total insured value.

We found, too, that the Louisiana Department of Insurance – or LDI – monitors the financial condition of insurance companies in accordance with state law and best practices.

During calendar years 2017 through 2021, LDI conducted 228 financial analyses and 13 examinations of the 13 Louisiana-domiciled homeowners insurance companies licensed at some point during the period.

The Legislature also has made changes to state law to improve the financial condition of insurance companies and to give insurance companies an incentive to provide residential property insurance in Louisiana.

In addition, LDI said that it has expanded its financial monitoring activities to include a more detailed, stand-alone actuarial review of the type of modeling used by insurance companies for reinsurance in response to the six companies that became financially insolvent because they lacked adequate reinsurance.

As a result of our audit, we developed one recommendation and one matter for legislative consideration.

We recommended LDI analyze the financially insolvent-insurance companies to understand what factors contributed to the insolvencies using information from its receiver, Citizens, and any other available source.

We also suggested the Legislature consider whether changes should be made to LIGA’s funding and payment mechanisms, such as lowering the maximum amount paid for claims, changing the recoupment method for insurance companies, or temporarily or permanently increasing the percentage LIGA can assess.

As part of its response, which is included in the report as Appendix A, LDI agreed with our recommendation.

*We hope you found this podcast informative, and that you’ll follow future episodes of LLA Reports.*

*This podcast was created as part of the audit report just discussed and is intended primarily for the use of the Louisiana Legislature. Both the full report and the podcast can be found on the LLA’s website at* [*www.lla.la.gov*](http://www.lla.la.gov)*.*

*Thank you for listening.*