THE BOND BUYER

Louisiana heads to bond market to pay insolvent insurers' claims

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For the first time in almost 30 years, the Louisiana Insurance Guaranty Association is coming to market with a municipal bond deal.

Senior manager Wells Fargo Securities is set to price the Louisiana Local Government Environmental Facilities and Community Development Authority's $458 million of tax-exempt Series 2022B insurance assessment revenue bonds for LIGA on Nov. 16.

"Because of a unique confluence of events, LIGA is accessing the muni market for the first time since 1993 so that we can ensure that Louisiana insurance policy holders can get their claims paid in a timely fashion," John Wells, LIGA's executive director, told The Bond Buyer.

Damage from Hurricane Ida in New Orleans in September 2021. After four hurricanes in two years and 11 insurer insolvencies, the Louisiana Insurance Guaranty Association is turning to the bond market. **Bloomberg News**

Crews & Associates is co-managing underwriter on the deal with LaFleur & Laborde as bond counsel. Butler Snow and Boles Shafto are co-counsel to the underwriters while Joseph A. Delafield is the authority's counsel.

Proceeds from the sale will pay for covered claims of insolvent insurance companies and fund a reserve fund.

"It is rare for state insurance guaranty associations to access the bond market," Jim Perry, a managing director at Wells Fargo, told The Bond Buyer. "LIGA's offering is an example of how the municipal bond market can help address unique challenges and serve an essential public purpose."

In August, the Louisiana Bond Commission approved the request for up to $600 million of insurance assessment revenue bonds for LIGA.

On Aug. 31, the authority issued $142 million of Series 2022A insurance assessment revenue notes for LIGA. The securities were privately placed with five financial institutions. The notes were issued to provide timely payment of covered insurance claims.

"The state of Louisiana's recognition of the essentiality of LIGA is reflected by the powers the Commissioner of Insurance has to ensure assessments are paid and that the state allows an offset against insurance companies' tax liability for paid assessments, so as to make them more affordable," Perry said.

LIGA was created in 1970 to respond to the essential public purpose of covering unpaid insurance claims caused by insurer insolvency.

LIGA is not an insurance company, like Citizens Property Insurance Corp. in Florida; instead it was created to pay the claims of insurance companies when they are deemed insolvent. Every state has a guaranty mechanism in place to pay covered claims arising from the insolvency of insurers licensed in their state, according to the National Association of Insurance Commissioners.

It has been likened to the Federal Deposit Insurance Corp., but for insurance companies and policy holders rather than banks and depositors.

The Louisiana deal is rated A1 by Moody's Investors Service and AA-minus by Kroll Bond Rating Agency. Both assign stable outlooks.

Kroll noted the essential nature of LIGA's purpose, which makes property and casualty insurance available and affordable in Louisiana.

It cited as credit positives a generally favorable assessment base growth seen over the past 20 years; sound projected debt service coverage levels and limited known capital pressures; and LIGA's unique ability to assess auto insurance policy lines, in contrast with guaranty programs in other states.

"LIGA has a broad and growing assessment base from which it can generate revenues to repay the bonds," Perry said. "More than 50% of LIGA's assessment base is auto insurance companies and the majority of the assessments are paid by large, rated insurance companies."

Kroll did note as credit challenges state's elevated exposure to hurricane and tropical storm damage because of its Gulf Coast location and low elevations, and the recent uptick in insurer insolvencies subject to assessment that necessitated the bond issuance to supply capital.

The deal will help policy holders get claims paid in a timely fashion, says John Wells, the Louisiana Insurance Guaranty Association's executive director.

In Louisiana, every insurance company that operates in the state is subject to assessment of up to 1% of its net direct written premiums, though the state legislature has the authority to increase the 1% cap.

At the top of the list, by volume, of insurance carriers subject to the Louisiana assessment are highly rated industry giants State Farm, Geico, Progressive and Allstate, according to an online investor presentation about the deal.

After four hurricanes hit Louisiana in 2020 and 2021, claims expenses increased as insurers faced a high volume of claims, exacerbated by supply chain troubles and other inflationary pressures on claims payouts, the presentation said.

In 2021, 11 member insurers became insolvent at a cost of $1.17 billion, of which $1.15 billion came from the eight insolvent homeowners' insurers, the presentation said.

As of Sept. 30, LIGA had $876 million of additional covered claims liability arising from member insolvencies. It plans to pay those claims from the new bond issue, the private placement earlier this year, and other assessment revenue and estate recovery and investment income, according to the investor presentation. Next week's deal will let LIGA continue to pay claims in a timely fashion and spread the cost out over several years.

Moody's said its rating "reflects the broad and moderately growing assessment base that supports debt service, ample debt service coverage and a strong legal and governance structure."

It noted that LIGA's assessment base is mostly made up of auto and homeowner policies, which creates a very stable base through economic cycles and offsets "the somewhat narrow 1.25 times debt service coverage rate covenant and additional bonds test."

The legal structure is also strengthened by the gross pledge of revenues and assets received by LIGA, Moody's said, as well as by a closed loop of funds where pledged revenues are in trust until bonds mature, with excess funds only eligible to be used for payment of claims or repaying debt early after principal and interest payments have been made.

"The stable outlook reflects the expectation that LIGA's assessment base will continue to moderately grow over the next several years given increasing premium pricing on auto and homeowners policies, which offsets below average population growth in Louisiana," Moody's said.

Before assessing members in 2021 after the recent spate of insolvencies, LIGA last levied assessments in 2002-2004, according to the preliminary official statement, and prior to that assessed members from 1988 to 1998 after the failure of undercapitalized Louisiana auto insurers and to support bonds issued in 1988 and 1993 as a result, the POS said.

Moody's noted that LIGA's governance considerations are enhanced by the state, which can increase the maximum assessment levy if needed, and also offers a tax offset to insurers for assessments paid, "in essence funding the assessments to cover insurer insolvencies itself."

Additionally, a statutorily set per-claim liability cap "somewhat mitigates the association's exposure to large claims resulting from severe storms," Moody's said.

"These strengths are tempered by the weak demographic trends in Louisiana, economic growth that tends to trail the nation, and Louisiana's significant environmental risks related to severe hurricanes and flooding that are associated with the latest run up in insurer insolvencies and resulting claims that must be paid by LIGA," Moody's said.

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