RHODE ISLAND INSURANCE DIVISION

Property Insurance

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Heightened climate risks and insurance premiums

- Insurers have become even more focused on charging the correct premium for each risk.
  - The usage of by-peril rating and catastrophe modeling has become prevalent.
  - By-peril rating is a process by which an insurer develops separate rating values for individual or groups of perils (fire, wind, water damage, hurricane, hail, etc.) and assigns these values to each individual property based on specific characteristics and modelling.
  - The focus of this is to pinpoint risks of each property and charge premium accordingly.
- In response to weather events, insurers have introduced some endorsements such as roof damage limitation on homes with older roofs, and cosmetic only damage exclusions.
- Use of newer technology to identify additional risks – drones to note foliage overhang or roof conditions.
- DBR has been reviewing zip code level data from 2018-2022 looking for things such as increases of cancellations, reduction of carriers writing, limitations on policy types or policy limits in certain zip codes.
  - We are not seeing wholesale pullouts that some other states have seen.
  - At this point, most insureds have been able to find another carrier.
  - The FAIR Plan has seen some uptick but not as severe as some other states.

Tools or models used by insurers

- Insurers uses data from many sources, such as NOAA (weather data), FEMA (impacts and damages from events), ISO (prior loss info), to model and predict future losses.
  - Much of this data is gathered by third-party modelers (who are not insurers) and used to develop models that can then be used across the industry.
  - The reliability of these models can vary with the quality and volume of data used to construct them, as well as the assumptions that are employed to create the calculations.
- DBR requires that any model used by an insurer complies with our rating statutes, is relevant, appropriate for our state, and makes sense.
  - However, there are always some uncertainties when trying to predict the future.
- Insurers around the world are using cutting edge technology and vendors to help identify climate risks.
- Insurers are also using new and interesting risk analysis techniques.

Reinsurance

- Reinsurance plays a key role in protecting solvency and managing risk by allowing insurers to spread their risk, which in turn allows them to increase capacity and write more and often riskier policies.
  - This includes an insurer's ability to write properties in higher risk geographic areas, like coastal, hail, or even wildfire zones.
  - Several of the insurers who are willing to take on coastal risk in Rhode Island are heavily reliant on reinsurance.
- Reinsurers will, however, have requirements that are imposed on the primary insurer such as limitations on the concentration of risk in certain areas.
  - Might effect the insurers willing to write individual properties.
  - Consumers often hear that the reinsurer is driving a nonrenewal or premium decision without realizing insurance would not exist without the reinsurer

Exclusions and coverage gaps

- Rhode Island does not allow wind or wildfire exclusions on property coverage.
- Flood exclusions have been in place for decades
  - NFIP was statutorily created in 1968 in response to insurers realizing that they could not predict floods, and as such, couldn’t appropriately price for flood risk.
  - Consumers tend to focus on whether flood coverage is required for a mortgage, not whether they are covered for the risk.
  - Private flood market is growing slowly in RI but most of the flood coverage, particularly for homeowners’, is still purchased through the NFIP.
  - Uptake for flood coverage in RI is in the 3% - 4% range, which is about the national average.
- RI Fair Plan is the insurer of last resort
  - Rhode Islanders can always get coverage, but the Fair Plan policies are more expensive and cover less than the traditional insurance market, so it should be a last-resort.
  - We are seeing some increase in Fair Plan policies but still less than 5%

Housing market and economic development

- The rising cost of insurance has multiple causes
  - Climate change - increase in severity and frequency of storms
  - Increased replacement and repair costs
  - Increasingly large liability judgements
- Increasing cost is forcing a change in how those purchasing properties need to think about insurance
  - In the past it was just a small, inconsequential expense that did not warrant much of a consideration in expense calculations.
  - Now it must be factored in as an expense that will likely continue to grow over the years of ownership.
  - Consumers should start to consider the flood risk and the wind risk in the property they are purchasing.
  - Consumers should talk to their insurer to understand the cost of the new property before signing the purchase and sale.
- CRMC and URI incredibly powerful tool in StormTools
  - Not only does it project 1, 3, 5 and 10 year storms, and 25, 50, 100 and 200 year floods, it also can help anticipate flood maps for various levels of sea level rising (1, 2 and up to 7 feet of sea level rise)

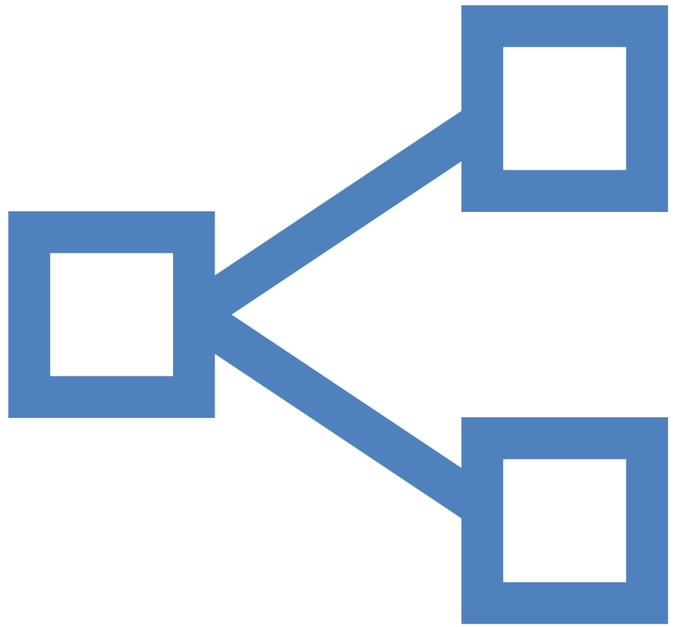
    https://stormtools-mainpage-crc-uri.hub.arcgis.com



Potential economic consequences of insurance issues

- Fortunately, in Rhode Island we still have a competitive property insurance market.
  - Rhode Island has 22 licensed insurers that each write more than 1% of the market
  - For individual properties that are unable to secure coverage in the voluntary market we have the FAIR plan and surplus lines market.
    - FAIR Plan policies can be more expensive but do provide the required coverage.
    - Surplus lines policies are not covered by the Guarantee Association in the event of an insolvency
- Increased insurance costs can make it more difficult for homebuyers to qualify for financing.
- Rental properties - higher insurance costs could force an increase in rents impacting the affordability of the rental units.
- Higher premiums could artificially hold down home prices for communities where insurance is harder to obtain.
  - This has anecdotally been noted in Florida in recent years but could exist elsewhere.

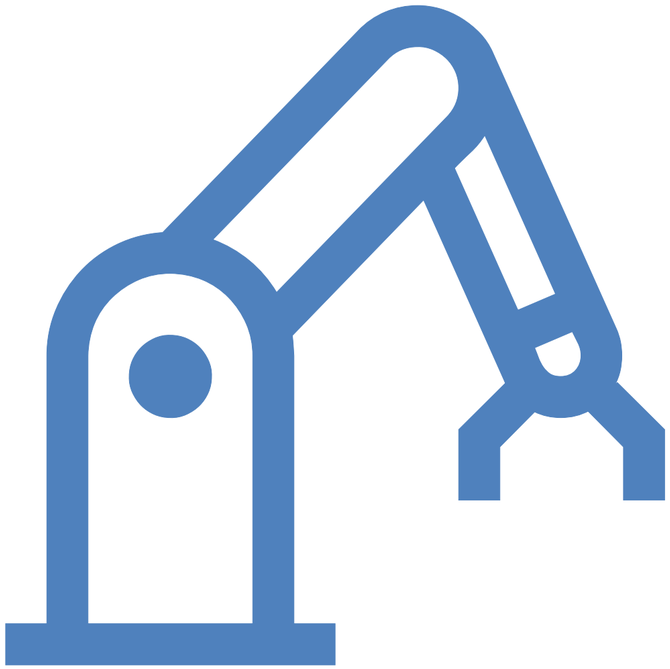
Government-Insurer Partnerships



- DBR regularly meets with other states and jurisdictions to share ideas and evaluate the success of government-insurer partnerships.
  - Focus on disaster resilience both from an individual property owner and community basis
  - Examples include hurricane resistant roofing, storm shutters, fire-resistant roofs and siding, clearing of vegetation for fire mitigation.
  - Alabama model where regulators, industry, and the legislature set up a successful program that has helped install 50,000 Fortified roofs.
  - Louisiana, Oklahoma, Kansas, Kentucky, Minnesotta and others have also adopted similar laws, and several New England states should be considering such laws this year.
  - Collaboration between states and insurers creates an infrastructure around which consumers become resilient, and insurers collaborate by adjusting rating to reflect actuarially justified discounts.
- As insurers have started using more complex models, we have pooled resources with other states to jointly review complex rating models to save resources and to produce better reviews.

Regulatory changes or public investments to strengthen insurance markets

- The insurance market in Rhode Island is currently stable, however the funding of programs to assist both communities and individuals in making their properties more resilient to weather related risks would make those properties more appealing to insurers and help to improve the market.
- Rhode Island is not currently seeing an availability of insurance issue, but we are seeing issues with affordability of insurance. Insurance costs are going up, along with everything else in the marketplace.
- Housing costs appreciated greatly, in part because of limited inventory, costs to build, and heightened demand.
- As replacement costs for insurers paying claims went up premiums increased.
- DBR has actuaries review rates before insurers can use them on homeowners policies to assure that premiums are in line with costs.



Innovations and new products

- Discussion at the national and international level about parametric insurance, but DBR has not yet had any products filed for approval in RI.
- There are insurers who offer endorsements to cover the increased cost of rebuilding with “green” products for both homeowners and commercial properties.
- There is also an increasing frequency of insurers offering products like water leak detection systems, alarms systems, and other risk reducing home add-ons to policyholders at reduced or no cost.
- We are seeing funds from the green bank to help the state and municipalities with resiliency efforts, and we’re seeing lots of research in the academic space and the applied engineering areas (IBHS for homeowners’ insurance and Rhode Island’s own FM Global on the commercial side)
- A lot of funds and thought are flowing into the space through Insurtechs, and we do anticipate that some of the disruptors will be able to move our knowledge and data forward.
- Some risk managers are starting to layer parametric insurance in with their risk portfolios, which is a nice innovation to help fund certain cleanups or responses to disasters.
    - A parametric product to help homeowners with hurricane deductibles would be a nice addition but no insurer is offering this currently.

Impact of climate change on Rhode Island's insurance market

- Although we cannot predict the future, with proper mitigation efforts by communities and property owners and DBR working to achieve a balance between consumer protection and allowing insurers to collect sufficient premium to be able to pay claims, RI should continue to have a competitive, robust insurance market.
- Unfortunately, this also means the expectation is that property insurance premiums will continue to rise, which will force us to change the way we think about the insurance for that property.
- Much like people will price out the cost of insurance before they purchase an auto, we will need to consider the cost of property insurance as a significant portion of the cost of owning or renting a property.

Questions?