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AUTO - HOME - BUSINESS INSURANCE

HOUSE STUDY COMMISSION ON CLIMATE CHANGE IMPACTS & SOLUTIONS
2/12/2025 MEETING

Any discussion about the climate change impacts on insurance will center on the cost increases and the availability problems for people living in coastal communities. At the Chairwoman's request I will be describing the three main market places and the types of insurance companies for homeowners insurance. I will be referring to the two different types of flood insurance available and the differences between them. I will also be pointing out some silver linings we have in Rhode Island.

To facilitate the discussion I going to define some insurance terms.

The concept of **coastal community problems** is often misunderstood. The higher wind risk for people living near the coast adversely effects many more people than any increased flood exposure for those that live closer to the water. Most standard insurance companies won't accept new customers or they charge much more for people who live live within 3 miles from the coast. The wind coming off the water does much more damage to homes near the coast compared to homes in Johnston or Woonsocket after a wind storm has traveled over land for several miles.

Reinsurance is part of our homeowners premiums. This is a financial tool used by most insurance companies to spread their risk. The direct insurance company will pay a portion of the premiums to the reinsurer. If there's a catastrophic event like a hurricane the reinsurer will pay a percentage of the claims. This spreads the risk and preserves the financial integrity of the direct insurer. It also spreads the cost so that events elsewhere in the country or the world do increase the premiums we pay locally.

TYPES OF HOME INSURANCE

Standard home insurance is sold by insurance companies who's names you're familiar with. These insurers must go through a rigorous licensing process at the DBR. Their rules, rates, policy forms and claim handling procedures are regulated by the DBR. Policyholders are protected by an "insolvency fund" which works like FDIC insurance, if an insurer becomes insolvent before paying a claim that already occurred. The fund is financed by assessments on the other licensed insurers and has a $500,000 per policy limit to pay claims that occurred but weren't paid prior to the insurer's insolvency.

FAIR Plans After the urban riots across the country in the 1960s, insurance companies refused to sell insurance in the inner cities. States passed laws requiring insurance companies to jointly operated in a type of pooling arraignment to provide a "market of last resort. These arrangements were referred to as FAIR Plans (Fair Access to Insurance Requirements). In Rhode Island we have the Rhode Island Joint Reinsurance Association. The premiums are usually 35% - 50% higher than the standard market. Premiums from policyholders pay the claims and expenses. No government funding is involved. Rules and procedures must be approved by the DBR.

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Surplus Lines insurance is sold by insurance companies that will accept risks that standard insurance companies won't accept. These insurers usually charge higher premiums than standard insurers and often attach major coverage exclusions not found in standard policies. These insurers must be approved by the DBR to operate here legally, they must follow Rhode Island laws, however they are not licensed or regulated by the DBR. There is no insolvency fund protection for policyholders.

TYPES OF FLOOD INSURANCE

The National Flood Insurance Program is financed by the federal government. FEMA hires about 50 different insurance companies to issue policies and adjust claims. The claims are ultimately paid from the United States Treasury. Despite greatly increased premiums the program is 36 billion dollars in the hole since 2005. Policyholders are ultimately protected by the full faith of the United Sates Government.

Private flood insurance has become more available in recent years, in some locations. The rates are sometimes considerably less than FEMA backed policies. These are surplus lines insurance companies. There is no state regulation of unfair insurance practices. A consumer's only remedy for unresolved disputes is usually the civil court system. There is no insolvency fund in the event that a consumer has an unpaid claim and the insurer enters receivership. These surplus lines policies are recognizable because they will have a separate fee for state tax.

PREMIUM INCREASES

In my 45 years as an insurance agent the homeowners insurance market is the worst I've ever seen it. Even with the largest price increases I've ever seen many insurers that normally write homeowners polices are not eager to write many new policies. It's well known that home insurance prices have gone up across the country about 20% a year for multiple years. A good portion of the increase is because of the effects of climate change, especially for us here in the Ocean State. The other significant reason for premium increases is greatly increased claim costs to repair damaged houses. In addition houses need be insured for much greater amounts than they were five year's ago. Automatic dwelling limit increases are built into home insurance renewals. Part of renewal premium increases is the greater amount of coverage on the dwelling compared to the expiring policy. These higher dwelling limits protect homeowners in the event of a total loss, but naturally they increase the premium.

During the last eight or ten years there's been an increased amount of severe local storms. Since 2018 Rhode Island has had six tornado strikes, before that it took 32 years for six tornado strikes. We've often had "micro-bursts" which are straight line winds that come down from 20,000 feet and wreak havoc in neighborhood size areas.

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AVAILABILITY RESTRICTIONS

Availability of reasonably priced home insurance has become a drastic problem for people that live in our coastal comminutes, especially for people that live within three miles of the coast. Many standard insurance companies won't accept new customers, even with much higher prices. In December Sen Whitehouse released statistics obtained from an insurance company trade group that indicated that between 2018 and 2023 there was a 562% increase in insurance policy non-renewals in Newport County, a 371 % increase in Washington County and a 315% increase in Bristol County.

We've had two insurance companies that recently stopped writing in Rhode Island and another that went into receivership. When insurance companies withdraw from the state and non-renew thousands of policies it can be difficult for consumers to find a reasonable replacement policy. During the last two years there are over 2,000 more people insured through the RI FAIR Plan. To be eligible for a replacement policy, standard insurance companies require that consumers qualify with rules based on the age of the roof, age of the heating system, date of the last electrical update, date of plumbing updates, any prior claims, breed of dog and many other questions. One wrong answer and you're rejected.

This month the Massachusetts FAIR Plan has made a major change in eligibility rules, approved by the state regulator, which will be harmful for consumers. The Massachusetts FAIR Plan board of directors, dominated by insurance companies, voted for a rule change that will allow the FAIR Plan to deny home insurance coverage to consumers that live in certain flood zones, unless they buy flood insurance. This makes no sense to me because having flood insurance does not reduce the risk of the FAIR Plan home insurance policies. Home insurance does not cover flood damage. I see this as a thinly veiled excuse for the Massachusetts FAIR Plan to shirk their duty as the market of last resort. This will mainly effect senior citizens who live in flood zones, have paid off their mortgage, and are no longer required to buy very expensive flood insurance. They will now be denied coverage in the FAIR Plan, or be forced to pay thousands of dollars for flood insurance or be forced into the unregulated surplus lines market. I believe the Massachusetts FAIR Plan has taken an unprecedented restrictive action. This worries me because the Massachusetts FAIR Plan is run by the same management team that runs the Rhode Island FAIR Plan.

Silver Linings and Suggestions

We do have some silver linings. Rhode Island has the best "**Weather-Related Losses" statute** in the country (27-76), Representative Kennedy was one of the architects. This statute prohibits insurance companies from requiring very large deductibles for wind losses, unless there is an direct hurricane strike in Rhode Island. It allows consumers to avoid huge hurricane damage deductibles if they take mitigation measures, such as storm shutters. It prevents insurance companies from raising premiums or non-renewing policies because of a claim caused by a catastrophic event and includes other consumer protections.

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The Department of Business Regulation, led by Director Dwyer does require insurance companies to justify any insurance premium rate increases, based on documented claim payments in the recent past. The Department has also used their authority to issue regulations that require insurance companies to submit to the Department non-renewal plans if the insurer intents on non-renewing large blocks of policies. I hope that the director will consider strengthening these rules in light of the increased amount of insurance company withdrawals in the state and around the country. A longer advance notice provision would allow consumers a better opportunity to clear all the hurdles to get a reasonable replacement policy.

I hope that the Rhode Island General Assembly will consider putting more public members and insurance agents on the board of directors the Rhode Island FAIR Plan to discourage them from taking similar restrictive actions as the Massachusetts FAIR Plan and to encourage the RI FAIR Plan to offer some optional coverages that are common in the standard market but not available in the RI FAIR Plan.

Consumers should check their policies. Thousands of Rhode Islanders have a 5% hurricane damage deductibles on their policies and aren't aware of it. On a $500,000 house that would be a $25,000 hurricane wind damage deductible. Consumers should consider the cost of taking the mitigation measures needed to avoid the large hurricane deductible.

Consumers can shop around for better home insurance premiums or policies that don't have huge hurricane deductibles. Besides the big named insurers there are about a dozen regional insurance companies, we call them New England Mutuals. These insurers specialize in home insurance, most of them are over 100 years old and they often have the best prices. These are names you probably haven't heard of but they have good financial ratings and consumers are protected by the Insurance Guarantee Fund. My home is insured with one of them. Don't be afraid to un-bundle, it often ends with a total net lower premium, I'm unbundled. I've also increased my regular home insurance deductible to $2,500 which saved me $200 on the annual premium. I don't want to put small claims in anyway.

With flood insurance there's not many alternatives as far as premiums. While there are 50 different insurance companies that issue and service flood insurance for FEMA backed policies, the prices are all the same, based on FEMA flood zone maps. There is "private" flood insurance but as I mentioned these are surplus lines policies, there is no guarantee fund, no US Government back stop and virtually no regulation of insurance claim handling practices. I don't need flood insurance but if I did I wouldn't switch for a 10% or 15% savings. If the saving were more than 20% I would check the financial rating of the insurer with the AM Best financial rating service and if the insurer had a superior rating I would make my decision knowing there is risk if the insurer becomes insolvent before my claim was paid.

In closing I'll say it's the worst I've ever seen it, but I feel blessed I'm not an insurance agent in Florida, Louisiana, Texas, or California.

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