

Why nation's home owner's rates are rising

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CHICAGO — Growing losses and expenses from an increase in mold claims, weather-related losses, and a significant reduction in investment income have contributed to rising rates for many homeowners' insurers, according to the National Association of Independent Insurers (NAII).

"These factors will continue to affect the market in the near term," said Don Griffin, NAII assistant vice president of business and personal lines, during a recent presentation to real estate professionals concerned about homeowners insurance pricing, affordability and availability. "But in those states where companies have the ability to compete on price and product, market forces will keep costs as low as possible and help insurance become more available and affordable in the coming months.

"The impact from the growing mold hysteria, stock market collapse, increasing industry losses, and major players pulling out of certain homeowners' markets will continue to affect the overall homeowners' insurance marketplace. However, be assured that the industry is responding to these challenges. A competitive homeowners' market still exists."

In 2001, the property/casualty insurance industry suffered its first industry net loss in history-- reaching a \$7.9 billion deficit. Losses and expenses exceeded premiums for years, but the industry was able to recoup through investment earnings.

"Insurers have not been able to make the type of return on investments necessary to counteract increasing losses that are a result of an exorbitant increase in various types of claims," Griffin said.

As a result, the industry is using new tool to underwrite insurance, reviewing current claims to determine cost drivers, and revising policy language, Griffin said.

During the real-estate industry gathering in Chicago, sponsored by the Freddie Mac's Real Estate Advisory Group, Griffin outlined the major contributors that are causing a rise in premiums:

- Home construction and home repair costs has sharply risen during the past several years. According to the U.S. Department of Labor, Bureau of Labor Statistics, the cost of household item repair rose 17.3 percent between 1998-2000. In addition, new home growth increased by 36.13 percent from 1995-2001, as well as the values of the homes, which equates to additional and higher levels of homeowners' insurance required to protect them. In 2001, sales of existing homes were highest since 1970, thanks to interest-rates that are at an all-time low that lured home buyers. Another contributing factors is that more people are migrating toward catastrophe-prone areas.

- The emergence of mold claims, which were virtually unheard of just a few years ago, cost homeowners insurers more than \$1 billion in 2001, five times the cost in 2000. In the industry-infamous case of Ballard vs. Farmers, the case brought a \$32 million judgment against an insurer, sparking media attention and generating unnecessary public hysteria. The problem is particularly acute in Texas, where policyholders can expect to pay an average of \$444 extra for their homeowners' policy per year because of the substantial flurry of mold claims. Now broader coverage is being required, as a result. Mandating that insurers cover all mold claims dramatically increases costs. To properly rate for the loss exposure, insurance premiums have to rise significantly. The result

would be that all consumers will have to pay considerably more, while only a handful would reap any benefit.

- Troublesome market changes, which include a slump in investments, re-insurers abandoning certain markets, and increasing claim frequency and severity are heavily impacting the price and availability of property insurance.

Also, State Farm, the nation's largest homeowners' insurer with a 21.9 percent market share, has decided it will not write new business in 17 states, and limit new business in six additional states. These conditions are leading insurers to place emphasis on re-underwriting existing business and non-renewing marginal business. p