United Policyholders
Empowering the Insured

Coastal homeowners stagger under insurance costs

Star Telegram

GULF SHORES, Ala. — When Stan Virden moved into his 2,400-square-foot house overlooking a rock-lined canal in 1996, he paid less than $1,000 a year for homeowners insurance.
Now, as he seeks to move to Atlanta to be near family, Virden says potential buyers for the house are being scared off by the annual premium, which has skyrocketed to $5,000.
“We feel like we’re prisoners here now because the market is so screwed up because of this,” the 80-year-old retired Navy captain said.
From Cape Cod to the southern tip of Texas, rates for homeowner coverage have risen sharply since 2003, pinching homeowners financially, forcing them to take greater risk by accepting higher deductibles and sparking outrage as insurance companies report profits higher in many coastal states than inland.
Nationwide, the cost of homeowners insurance rose 36 percent from 2003 to 2010 – almost double the rate of inflation. Of the 15 states where rates increased by the largest percentages in that time, 14 border the Gulf of Mexico or the Atlantic Ocean, according to an analysis of National Association of Insurance Commissioners figures by The Associated Press. All those states saw rates go up at least 44 percent. Rates in Florida rose 91 percent, most in the nation, while rates in Rhode Island went up 62 percent.
Insurers say the increases are necessary to offset the risk they take in insuring millions of homeowners in harm’s way, but their increasingly angry customers question how they calculate rates and whether state officials in charge of balancing public and corporate interest are being too favorable toward the companies.
“It’s hard to see how the insurance companies can justify the kind of premiums we have to pay down here,” Virden said.
Rate increases have leveled off in recent years, and some homeowners have even found cheaper policies. But it’s clear prices aren’t going back to where they were before the spike following the expensive hurricane seasons of 2004 and 2005.

Overall, coastal homeowners in 18 states along the Gulf and Atlantic pay about $4 billion more than inland residents for insurance against hurricane winds, according to AP calculations using comparisons of coastal and inland rates in states where they're available.
The Atlantic hurricane season officially starts Saturday and runs through Nov. 30. Forecasters project 13 to 20 named storms.
Worsening the situation: premiums for the federally run National Flood Insurance Program – whose policies many coastal homeowners also must buy – are scheduled to shoot up Oct. 1. A homeowners policy typically covers wind, but not flood damage.
With the U.S. housing market in a slow revival, it may be too early to say what the skyrocketing insurance rates could do. Some real estate agents in coastal areas say there are warning signs.
Starke Irvine, an agent in Daphne, Ala., said the cost of insurance is driving down the market value of homes there. Homebuyers have only so much to pay toward a mortgage, insurance and taxes.
Some critics also say insurers are inflating the insured value of houses, saying they would cost more to rebuild, thus raising the total bill each year without raising rates.
"We've had insurers applying a 10 percent to 12 percent inflation factor every year to dwelling value," said Willo Kelly, who lobbies for real estate agents and homebuilders on North Carolina's Outer Banks. "Every increase that company applies to dwelling value is an increase in the premium, an increase in the deductible and an increase in the agent's commission."
A study by consulting group Towers Watson showed the cost of the goods and services insurers typically buy to pay a homeowners claim has actually declined from 2009 to 2012. That reflects falling building costs, said Towers Watson risk consultant Jeremy Pecora.
It's still unclear how the $19 billion in privately insured damages caused by Superstorm Sandy in October 2012 will hit policyholders. In the Northeast, insurers started seeking higher rates after Tropical Storm Irene in 2011 and continue to seek increases of up to 10 percent.
Industry advocates say the increases were inevitable. "Insurance rates in hurricane areas were too low for too long," said libertarian-leaning Eli Lehrer of the Washington, D.C.-based R Street Institute.
Robert Hartwig, president of the industry-backed Insurance Information Institute in New York, said insurers may have sold policies cheaply to attract customers to more profitable auto and life insurance, and regulators may have been unfairly holding prices down in some states.
And, he said, claims from severe weather have gone up. The Insurance Research Council found hurricanes and other weather catastrophes caused 39 percent of nationwide homeowners insurance claims payments from 2004-2011, compared with 25 percent from 1997-2003.
"You have to first accept the fact you live in harm's way," Hartwig said.

About 16 million households are in coastal counties along the Gulf and Atlantic.

Company profit margins for all kinds of property and casualty insurance from 2003-2010 match historic averages, according to the Insurance Service Office, which compiles data. Homeowners insurance is generally less profitable than the category as a whole.

Despite particularly heavy losses in Louisiana and Mississippi – mostly from hurricanes Katrina, Rita and Gustav – their average return in the 18 states was 7.4 percent, higher than the nationwide average for homeowners insurance.

A more important driver of rates than past losses is what insurers expect to lose in the future.

In the 21 years since Hurricane Andrew slammed Florida, insurers, reinsurers and credit rating agencies have come to rely on computer models that generate an array of hypothetical storms and try to predict the extent of possible property damage.

The models' worst-case scenarios are big factors in driving rates. Companies have to build up enough reserves or buy enough backup coverage, called reinsurance, to avoid going broke after a severe storm. If loss projections look too great, companies may dump coastal policies to cut risk.

In some states, regulators have been critical of modeling to determine rates.

Even if regulators block their use, policyholders may still pay for their predictions indirectly. Reinsurers use models to set their prices, and credit rating agencies may downgrade an insurer's rating if they don't like what model results show.

"It appears to be a cycle where it drives insurance companies to purchase even more reinsurance," said Wayne Goodwin, a Democrat who is North Carolina's elected insurance commissioner.

One way to fight against higher rates is to shop widely for better prices. Sometimes, though, lower prices mean higher risks to a homeowner.

Virden said his premium fell by about $400 when he found a new policy that offered less coverage. But he said it helped only marginally. "That increase to $5,000 a year really put the kibosh on our standard of living."

Virden is a member of the Homeowners' Hurricane Insurance Initiative, a group seeking lower rates and more justification for pricing. The group has been trying to unite similar citizen-led efforts in Florida, South Carolina, North Carolina, Massachusetts and elsewhere.

In south Florida, Nancy Loft-Powers is paying $7,300 a year to insure a 1,700-square-foot house in Deerfield Beach, Fla.

"They're just jacking me and jacking me and jacking me," she said. "Really, it's horrific."

Loft-Powers, who works as a nutrition consultant, said she bought additional houses in her neighborhood in 2000 and 2001 as investments. She said she lost the houses in short sales because the insurance

payments became too high.
“I had to sell them off,” Loft-Powers said.
Complaints also focus on state regulators.
“We do not believe our Division of Insurance is doing the job that they should be doing in protecting the consumer from the greed of the industry,” said Paula Aschettino, an Eastham, Mass., resident who founded Citizens for Homeowners Insurance Reform. “If they are not denying these increases, they are part of the problem.”
Goodwin, the North Carolina’s insurance commissioner, said there’s more to regulation than capping rate increases.
“State insurance regulators have a dual role. One is to protect the consumer from excessive rates and inadequate insurance and to have insurance available,” Goodwin said. “At the same time, state insurance regulators must balance with those duties the responsibility for companies to have an opportunity for profit and be solvent.”
One way companies are managing profits is by shifting risk to policyholders with exceptions to coverage and higher deductibles.
Deductibles now can reach 5 percent of insured value when a hurricane hits, raising questions about whether some homeowners will be able to afford repairs.
Alabama’s Virden, for example, would have to pay for the first $18,500 of damage before his insurance kicks in.
Amy Bach, executive director of United Policyholders, a California-based advocacy group that works with consumers on claims after disasters, said higher deductibles weaken the value of insurance, especially when premiums don’t go down.
“They’ve carved so many things out in recent years,” Bach said of the industry. “Why aren’t we seeing offsets for that?
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