BACH TALK: Consumers need help (with shrinking property insurance affordability and availability)

Americans today in hurricane, flood and wildfire prone regions (particularly in areas where there have been recent disasters) are paying much higher premiums and having a very hard time finding affordable property insurance options. This is a national phenomenon that United Policyholders has been helping consumers contend with since insurers began to use new technologies to set prices and choose customers and adapt their operations in anticipation of the impact of climate change on their profitability.

Through our WRAP initiative and Roadmap to Preparedness programming, publications and engagements, UP has been hosting shopping help webinars and advocating with public officials to help home and business owners, realtors, lenders and builders deal with scarce options and home, condo and business insurance premiums that are doubling and tripling.

Although State Farm's Memorial Day Weekend 2023 announcement that it is hitting pause on selling new property insurance policies was specific to California, it drew attention from media outlets nationwide. The announcement drew attention to the fact that many other brand name insurers are taking a similar approach, and property owners in many regions are having a very hard time finding and affording home and condo insurance.

What is causing brand name insurers to hit pause on new sales, nip and tuck coverage and jack up prices? A combination of high reinsurance prices, rating and underwriting models based on complex algorithms, risk scoring tools, drone surveillance, data mining, inflation and deregulation and climate change. A complex set of problems.

The property insurance marketplace has long fluctuated between a "hard" (seller's market) and "soft" (buyer's market), but the current hard market plaguing many regions does not feel temporary or likely to swing back any time soon. We need some new solutions.

What solutions are being proposed?

Insurers want less government oversight of their rates and underwriting practices. They want the freedom to use Catastrophe (CAT) models to set rates, risk scoring models to sort existing and new customers and freedom to pass reinsurance costs along to their customers. Insurers want (and are getting) more freedom to raise deductibles and limit and exclude specific perils to protect their profitability in the face of increased risk associated with climate change. In general insurers are offering only modest discounts for mitigation measures and taking a "wait and see" approach to rewarding risk reduction.

Consumers want continued access to affordable, decent quality coverage so they can protect their assets (have a financial safety net) and comply with mandatory insurance purchase requirements. When we've invested time and money into mitigation measures, we want their insurance rates to go down to reflect the decreased risk. Consumers want government oversight of insurance rates, sales and claim practices and they don't want to be exploited.

United Policyholders and our consumer advocate partners want state and federal regulators to uphold essential protection standards and protect policyholders from being overcharged. We oppose allowing insurers to pass along reinsurance costs to policyholders. Reinsurance rates are not regulated and frequently fluctuate. We also oppose allowing insurers to have unlimited use of predictive CAT models to set rates. Unlike rating tools that are based on historical facts and actual weather and claim events, CAT models are developed by for-profit companies to sell to for-profit insurers. They apply forward-looking algorithms to project future losses. Their advocates are persuasive, but they have a track record of decreasing availability and affordability. See, e.g.
https://www.npr.org/2023/06/01/1179573166/fema-lawsuit-flood-insurance-rate-hikes, see also http://rogerpielkejr.blogspot.com/2012/01/cat-model-mayhem.html, and Home-Insurance-Facts-v-Myths (2).

Most consumers understand and accept that climate change and inflation means insurance is going to cost more – but ***how much more???*** That is the question. The answer is…only to the extent that's reasonable and fair.

The financial security that insurance policies provide is critical to business and property owners and to the fabric of our economy and our society. Insurance contracts are different from other commercial contracts because insurance is more a necessity than a matter of choice. Because we have to pay for insurance if we want to drive, run a business or own a home, we're captive customers. Unlike a product we can put back on the shelf if the price tag is too high, we have limited choices when it comes to property insurance. We have to buy it. That means free market competition alone can't protect us. ***That's why every state needs an oversight agency, regulations and laws as checks and balances to keep insurers from overcharging or engaging in unfair sales and claim practices.*** Rates can't be excessive, and policy language and claim processes should meet consumers' reasonable expectations.

Proponents of CAT models claim they make it easier for insurers to give mitigation discounts. Yet when the National Flood Program implemented Risk 2.0 (a CAT model) in 2022, reports came rolling into the Coalition for Sustainable Flood Insurance, (of which UP is a member) that implementation of the model was causing mitigation credits to disappear.

As with most complex problems, this one requires a multi-pronged solution:

- The Federal Insurance Office should proceed without further delay to gather data across the country to get an accurate picture of property insurance availability and affordability and risk migration into state-supported insurers of last resort and lightly regulated surplus/non-admitted/Excess & Surplus carriers.
- California should develop a public high dollar catastrophic coverage layer facility that would make a limited amount of reinsurance capacity available to the CEA and the CA Fair Plan. As "take all comers" that provide a service to California taxpayers, it doesn't make sense that both entities have to pay retail prices for reinsurance capacity.
- Congress should begin drafting a national disaster insurance model to provide a basic amount of essential dwelling, building code upgrade and temporary living expense coverage in anticipation of insurers' continuing diminished appetite for insuring properties in disaster-prone regions.
- The NAIC should support FIO's data collection efforts and continue helping its members understand and limit the use of Catastrophe models in the rate-setting process. We commend the NAIC on establishing the Catastrophe Modeling Center of Excellence.
- State insurance regulators need the resources and authority to review and disapprove excessive

rates. Yet the Louisiana legislature just went in the opposite direction. Voters voices will be increasingly loud on this point.

- California should continue disallowing reinsurance rates from being passed along to consumers, and must strictly limit the use of CAT models in rating plans to avoid further rate shock and market segmentation.