[Storms push insurance rates sky-high](https://uphelp.org/storms-push-insurance-rates-sky-high/)

http://www.startribune.com/local/175089161.html

Insurers say they're tired of rolling the dice with Mother Nature and losing, but critics say rate increases have gone too far.

Homeowners insurance premiums are soaring in Minnesota, and consumers can expect more rate shocks ahead as insurance companies wager that a run of worse-than-usual weather will continue.

Increases that average 10 to 12 percent this year come on the heels of rate hikes averaging 7 percent last year and 8 percent in 2010, according to a Star Tribune analysis of company filings. That has added $200 to $300 a year to the average policy.

Insurers say they're grappling with a shift in the state's weather patterns, an eruption of tornadoes, straight-line winds and hailstorms that have lashed Minnesota since 1998. Minnesota ranked in the top three states for insured catastrophe losses in 2007 and 2008 alongside disaster magnets such as Texas, Louisiana and California.

"In all of my years in the business I have never seen increases like this," said Roberta Gibbons, an independent agent at St. Louis Park-based Dyste Williams. "But then again, I've never seen storm claims like we've had in Minnesota."

Skeptics aren't convinced that weather trends justify the size of the increases, particularly since many companies are also whittling away at how much they'll cover. It's debatable whether Minnesota's storm pattern has permanently shifted, the skeptics point out. And after all, insurance is about taking risks and bad years are part of the equation.

There is also less public scrutiny of the rates in Minnesota than in some other states. Unlike Texas and California, where homeowners insurance rate-making is nearly a contact sport, there are no consumer groups in Minnesota focused on it. The state Commerce Department has the power to call public hearings on large proposed increases, but last did so in 2002. Of the 25 largest hikes companies put through since 2010, Commerce reduced only one.

Amy Bach, a lawyer heading United Policyholders, an insurance consumer advocacy group in San Francisco, said rate shock is such a political issue in the Gulf Coast states it has given rise to candidates running for office just on an insurance reform platform. “You guys are waking up,” she said.

“I can assure you that the rate increases people are experiencing are way higher than they should be,” Bach said. “There are not sufficient safeguards. They have a captive audience.”

Not just wind and rain

Insurers say bad weather is just one of several factors driving up rates. Rising material costs that make claims more expensive and lower returns on company investments due to ultra-low interest rates are also at work.

But losses from storms around the country have been at record levels since 2008, said Bob Hartwig, an economist with the Insurance Information Institute, a New York-based industry association.

Through August, companies raised premiums on various homeowners insurance products in Minnesota more than 90 times, according to the Star Tribune’s review. They’re on pace to outstrip 2011 when there were about 100 increases.

Increases this year range from less than 1 percent to 163 percent in one extreme case focused on optional water backup coverage, but they average 10 percent to 12 percent. The rate change a carrier reports to Commerce is itself an average; individual customers see smaller or larger increases.

For instance, Travelers Home & Marine Insurance Co. put through a rate hike averaging 25 percent in April. But David Braun, 56, of Edina, said his Travelers policy jumped 43 percent on top of previous increases. The managing principal for a national life insurance brokerage agency, Braun said he once worked for Travelers. He understands rate-making. Still, the homeowners hikes have him scratching his head.

“So you have three years of consecutive losses,” Braun said. “So why does it go up 10 percent one year, 22 percent the next year and 41 percent the next year? That doesn't make any sense. I question why they didn't do a better job based on the information that they had … that we would get slammed like we got slammed."

Travelers declined repeated requests to make someone available for an interview. In a brief statement, a spokesman said it adjusted rates mainly because of the weather over several years and the rising cost of construction materials.

Carriers are also restricting coverage — covering the actual cash value for a roof as opposed to the new replacement cost, for instance, or raising deductibles for wind and hail. Local agents report an increase in policyholders being denied coverage or dropped due to losses. Some companies are ratcheting up the price to cover roofs more than 15 years old.

Some carriers might refuse to write a new policy at all for someone with weather-related losses in the last few years, and those old losses could haunt you at your next home.

The Auto Club Insurance Association not only hiked its premiums 20 percent but declared that as of July 1, to get a new policy a homeowner can't have any claims in the past fve years.

An Auto Club spokeswoman said the move was forced by "unprecedented losses in recent years" and the stricter guidelines are temporary. Company research shows that "homeowners with recent prior losses had much higher insurance claim costs in subsequent years," said Gail Weinholzer.

Minnesota law prohibits carriers from dropping customers for multiple weather claims, but carriers have been actively working to change that, arguing that they need to manage their risk.

The clampdown on coverage has clearly stirred discontent. Consumers filed 669 homeowners insurance complaints with Commerce last year, 262 of them about denials of coverage, compared to a total 391 complaints in 2007.

Edina homeowner Keith Carlson says he tries to shop around, but every time he switches the new premium getshiked too. He figures he has changed companies four times in recent years trying to lower his costs, but the policy on his 1960s-era house has grown by $1,000 anyway.

"I haven't filed a claim in 35 years," Carlson said. "I'm kind of a fix-it guy so if I have a water problem I just fix it."

In an interview, Commerce Commissioner Mike Rothman defended the hikes, saying the weather issues are real and the market remains competitive. Insurance companies made money on homeowners insurance in Minnesota in 2009, but since then have collectively lost more than $400 million, according to Commerce estimates.

The average five-year loss ratio for homeowners insurance in Minnesota is 98 percent. That means they paid out 98 cents for every $1 they collected in premiums.

The loss ratio for Travelers' homeowners line in Minnesota, for instance, was 111 percent last year, meaning it paid out $1.11 for every $1.00 in premiums. The industry considers a loss ratio of 60 percent break-even after allowing for administrative and other costs.

Excessive increases?

Robert Hunter, a former Texas insurance commissioner with the Consumer Federation of America, reviewed Minnesota's recent record. Some rate relief was probably necessary, he said, but the 2012 double-digit increases are "questionable."

As he sees it, the average loss ratio on homeowners insurance in Minnesota spiked in 2008 but then dropped and stabilized around 75 percent. The individual ratios for efficient insurers are probably below that, he said, and those companies probably profited just fine. Hunter estimated they may only have required increases around the rate of inflation plus 2 to 5 percent more for profit.

Commerce has the authority to intervene on rates it deems excessive. The agency's analysts do an initial review of rate changes. Changes above 25 percent or with unusual features are sent to an actuary to determine whether they're justified. Commerce has the option of holding a public hearing on those, but rarely does.

Of the 25 largest hikes since 2010, increases ranging from 20 to 43 percent, Commerce reduced just one. Four of the 25 didn't have any actuarial review at all because they were filed on an expedited basis, including a 43 percent hike by Jacksonville, Fla.-based Fidelity National Property & Casualty Ins. Co.

That hike, effective last December, was Fidelity's second hike in 2011 for a combined increase of 56.5 percent in seven months, an inspector noted in the filing, adding: "We may receive complaints in Enforcement on this."

The agency said Fidelity's five-year loss ratio is 103 percent, and it hasn't received any complaints on the hikes.

Rothman said he expects the rate-making reviews to be rigorous enough to ensure rates are not excessive, but he stopped short of saying the system is meeting those expectations. In response to the Star Tribune's questions, he ordered a full review of the largest double-digit hikes and others. The review is ongoing.

He also immediately took several steps to bolster the state's rate review process. Companies will now be required to list their three-year average loss ratio in each rate filing. All rate changes that are 10 percent or above, where the company has an average loss ratio of 75 percent or less, will be sent to an actuary for a full review. The agency will also publish an annual homeowners insurance report including information on premiums, loss ratios and claims.

Rothman noted that he himself switched companies recently after his premium jumped. He shopped around, he said: "I want to encourage consumers to do that."

TOP INSURERS

Here's a look at the recent rate hikes by key insurers in Minnesota, including the top two:

State Farm, which commands 26 percent of the state's homeowners market, and American Family, which commands 13 percent. Figures show average hike and the number of policyholders affected.

Avg. Number

Year hike affected

State Farm Fire & Casualty Co.
2012 5.2% 429,971

2011 4.7% 424,067
2010 11.5% 419,928

American Family Mutual Ins. Co.
2012 10.5% 234,773
2011 5.8% 239,726
2010 15% 265,348

Travelers Home & Marine Ins. Co. homeowners/high value)
2012 25.4% 44,764
2011 14.1% 38,870
2010 6.14% 34,969

Source: State Department of Commerce