



Monitoring and addressing the extent to which US homes are under/uninsured: A national imperative

NAIC 2019 Summer Meeting
Property and Casualty Insurance (C) Committee
Monday Aug. 5th, NYC
America's Hall II - 4th Level

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Majority of US homes are underinsured:

- Insured value chronically too low to cover reconstruction costs in the event of a total loss
- Excluded perils and perils subject to high deductibles = majority of homes not protected for flooding and eq
- Substantial negative impact on local, state and Fed gov't and disaster-impacted communities

A brief history

- Co-insurance clauses are supposed to prevent underinsurance but they aren't
- If it weren't for mortgage requirements to buy home and flood insurance, there would be FAR more uninsured US homes. Take up rates where non-mandatory are low. Banks not interested in mandating EQ or flood ins. In lower risk areas
- All-risk policies are increasingly less common, named-peril policies the reverse
- RCV has replaced ACV as the norm, but excluded perils (incl building code compliance) depreciation and deductibles thwart the goal of there being affordable policies that restore assets

A brief history, cont'd

- Insurer ads and agents induce consumer reliance that the policy will restore the home to pre-loss condition but policy conditions and chronic inadequate limits render that reliance misplaced.
- Solutions attempted to date include **disclosures, accurate estimating requirements, mandated minimum and extended coverages**
- Solution not tried yet: Insurer legally accountable for insuring dwelling to value unless property owner expressly declines

Homes' replacement cost chronically undervalued

What we know

More than half of US homes are insured below their replacement value

Disclosures, Regs haven't solved

Causes include:

- Sales promises at odds w/ actual limits
- Cost considerations for consumers
- Blind (misplaced) trust re: adequacy
- Agents/insurers not held accountable
- Post-disaster demand surge

What we don't know

- Is this fixable?
- Is full coverage available for all/most?
- Is full coverage affordable for all/most?
- Can “full” coverage mean the same thing to all people?
- Are ERC endorsements to blame?

Co-insurance clauses have not prevented homes from being underinsured

Co-insurance is a property insurance provision that ***penalizes*** the insured's loss recovery if the limit of insurance purchased is not at least equal to a specified percentage (commonly 80 percent)

For example: If a building valued at \$250,000 is insured with a policy containing an 80% coinsurance clause, the policyholder is supposed to purchase at least \$200,000 in coverage.

If the policyholder purchased less than \$200,000, there can be a penalty

UP Roadmap to Recovery surveys

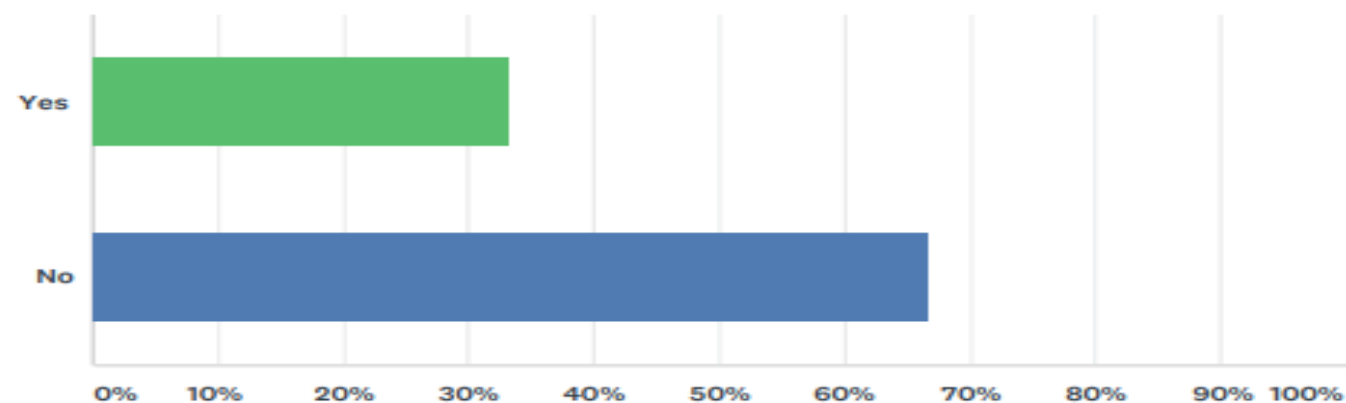
- 6, 12, 24 months
- Outreach to all impacted households, all are invited to participate
- Survey results can be viewed at

<https://www.uphelp.org/data-collection-surveys>

Roadmap to Recovery Survey

Q10 Do you have enough insurance to cover the cost of repairing, replacing or rebuilding your home?

Answered: 687 Skipped: 119



ANSWER CHOICES	RESPONSES	
Yes	33.33%	229
No	66.67%	458
TOTAL		687

50-66% has been the consistent figure of homes destroyed in wildfires that report being underinsured

Were you underinsured?															
	Total*	What is the name of your insurance company?													
		AAA	Allied	Allstate	AMICA	Century National	Encompass	Farmers	Fidelity	Firemans Fund	The Hartford	Liberty Mutual	Lloyds of London	Mercury	Reside Mutu
	174	13	6	20	2	1	3	18	4	1	3	8	2	3	
Yes	114	4	6	18	1	1	2	14	4	1	1	3	1	2	
	65.50%	30.80%	100.00%	90.00%	50.00%	100.00%	66.70%	77.80%	100.00%	100.00%	33.30%	37.50%	50.00%	66.70%	5
No	60	9	0	2	1	0	1	4	0	0	2	5	1	1	
	34.50%	69.20%	0.00%	10.00%	50.00%	0.00%	33.30%	22.20%	0.00%	0.00%	66.70%	62.50%	50.00%	33.30%	5

How is underinsurance manifest?

- Policy limits are below the cost to rebuild
- ERC endorsements and inflation adjustment formulae not sufficient to cover rebuilding/demand surge pricing
- Protection gaps due to:
 - Policies that pay only ACV on roofs over 10 yrs old
 - High deductibles
 - Unexpected exclusions/limitations
 - Mold, water damage
 - Building code compliance

From the consumers POV:

- Insurer ads and agents induce consumer reliance that the policy will restore the home to pre-loss condition but policy conditions and chronic inadequate limits render that reliance misplaced.



Attempted Solutions:

- Solutions attempted to date include:
 - Disclosures
 - Public Education
 - Fannie Mae/Freddie Mac mandatory flood ins. In high risk areas
 - Regulations requiring accurate estimating at point of sale (e.g. CA Ins. Code 10103.4)
 - Mandated minimum and extended coverages (CA, CO Ins. Codes)

3 out of 5 US homes are underinsured

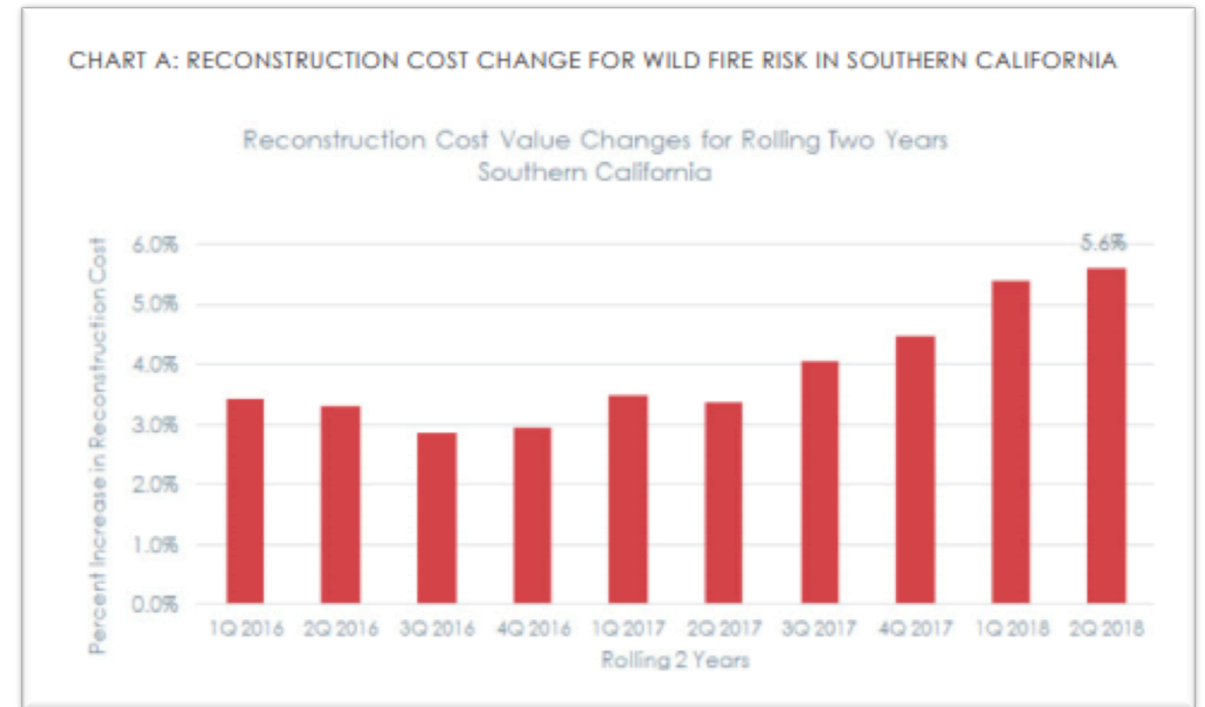
Corelogic Stats:

- 3 out of 5 homes are underinsured

<https://www.insurance.com/home-and-renters-insurance/coverage/how-to-calculate-home-replacement-cost-value>

UP Stats:

- 2/3 of disaster victims are underinsured



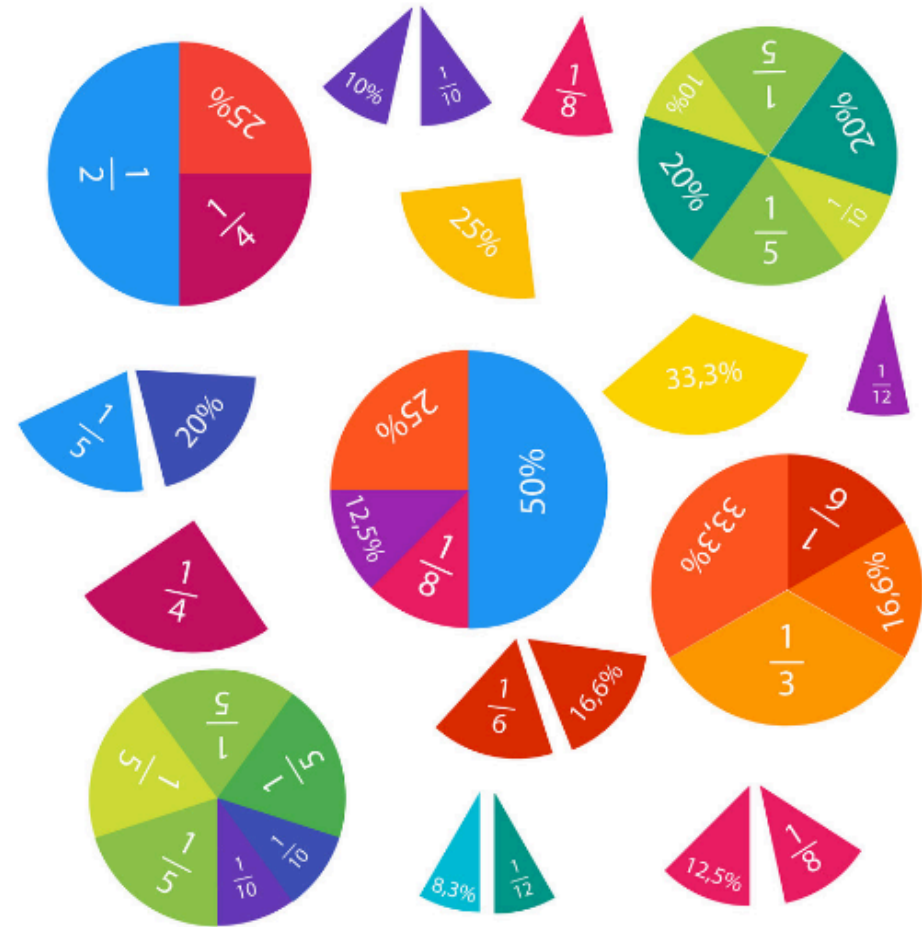
2019 Insurance Coverage Adequacy Report
www.corelogic.com



"And, for what we don't cover, there's insurance insurance."

Higher Deductibles contributing to increase in uninsured losses

- Deductibles trending higher
(Percentage Deductibles)
- Excluded perils and perils subject to high deductibles = majority of homes not protected for flooding and earthquake damage



Deductibles are trending higher

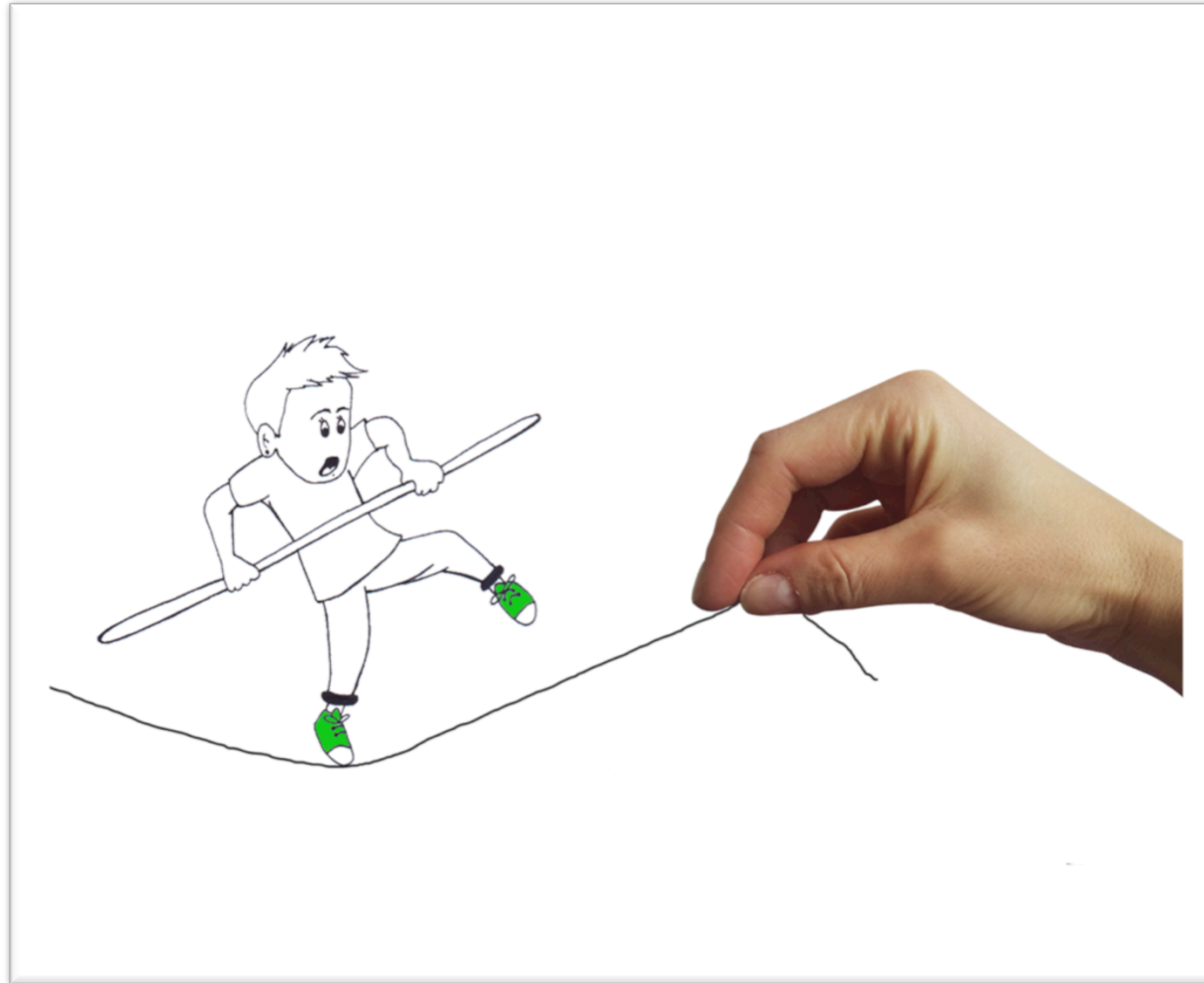
What we know

- Higher deductibles cause underinsurance by shifting risk back to property owners, taxpayers/gov't and charitable resources
- Insurers/reinsurers use higher deductibles to limit exposure
- High deductibles deter non-mandatory buying
- Lowering deductibles has helped the CEA sell more EQ policies
- High deductibles lead to AOB and UPPA

What we don't know

- Should deductibles be waived on total and CAT losses? (no fault)
- Should insurers be required explain deductible math in writing pre-sale?
- To what extent is this trend deterring the purchase of insurance and putting heavier burdens on FEMA, local state gov't and taxpayers?

How to balance affordability and availability objectives
with cost and coverage realities and insurer profit objectives



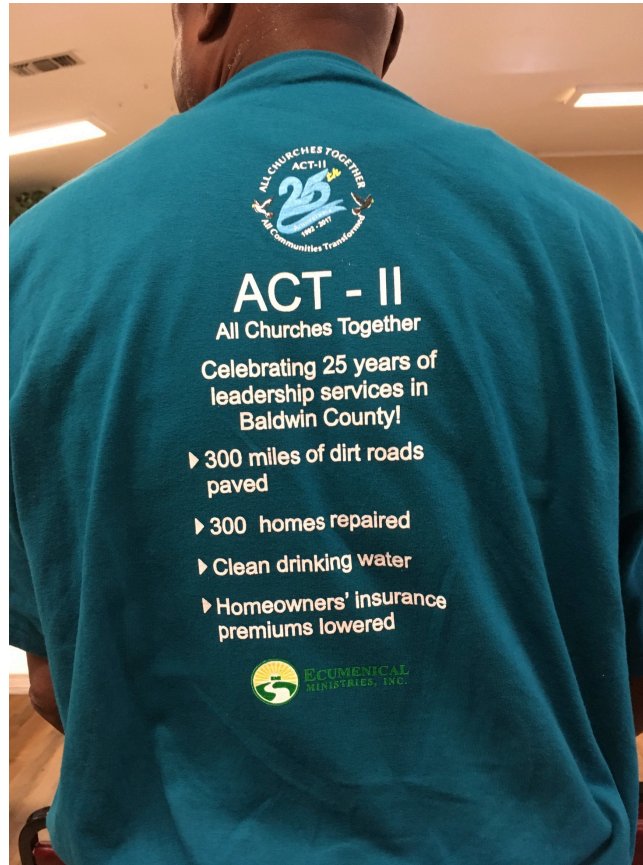
And yet, sharp increases in home insurance costs in coastal and WUI regions is a serious problem

What we know

- A “clarity law” seems to have helped home ins. affordability in Alabama
- Surplus lines insurers are picking up more and more risks. This has pros and cons.
- Realtors and community/grass roots groups are fighting escalating home and flood premiums

What we don't know

- How to avoid jeopardizing home ownership for people who live where they've been living (who didn't “come to the risk”)
- Is a financial assistance program for people who can't afford insurance viable?



Maintaining home insurance quality, affordability availability and affordability is a national imperative

We can't:

- Control the weather
- Put the modeling genie back in the bottle
- Force for-profit companies to insure risks that will jeopardize their solvency
- Force property owners to make improvements they can't afford to make

We must:

- Prevent panic-based mass non-renewals and reject excessive rate increases
- Reject policy forms with overly broad exclusions
- Restore consumers' trust in the value of property ins
- Facilitate home hardening and risk reduction:
 - Incentivize
 - Reward
 - Structure financial assistance

Food for thought:

- Are full insurance and affordable home insurance mutually exclusive?
- How will state legislation (e.g. FL's AOB reform, CA's min. 36 mos ALE, mandatory ERC and limited renewal guarantees) impact affordability and availability of home insurance in the face of climate change, modeling, drones, data mining and increased consumer mistrust of insurers?
- How close do Citizens, CFP, CEA and NFP options come to a model of providing essential protection affordably?

More food...

- Parametric products (better than nothing albeit not enough)?
- Difference in conditions/Wrap around (\$ and complication)
- Insurers cite regulatory obstacles – consumer advocates don't see them.
- Legislatively requiring minimum home insurance coverage (Standard NY Fire Policy) protects the insurance system and still allows for competition on enhancements.

Can we fix this?

- Can insurers voluntarily innovate to simplify policies and claim practices to better meet consumers' expectations, restore public confidence and reduce gov't engagement in the business of insurance? (less depreciation math, fewer exclusions, faster total loss settlements)
- Will insurers' voluntarily engage in supporting and rewarding mitigation/risk reduction investments *in place of* high deductibles?

Reference:

- **Underinsurance in Mature Economies: Reasons and Remedies.** The Geneva Ass'n June, 2019
- **The Protection Gap in Property Insurance: An Introduction**
Jay M. Feinman, Distinguished Professor of Law, Rutgers Law School; Co-Director, Rutgers Center for Risk and Responsibility.
feinman@law.rutgers.edu
- **Minding the Protection Gap: Resolving Unintended, Pervasive, Profound Homeowner Underinsurance,**
[*Connecticut Insurance Law Journal*, vol. 25, pp. 34-111, 2018](#)

Questions? Comments?

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For More Information:

- Visit UP's website and search for more buying tips, claim tips, articles and helpful info at:

www.uphelp.org

