

# Combatting post-disaster fraud but preserving coverage Amy Bach and Brent Walker

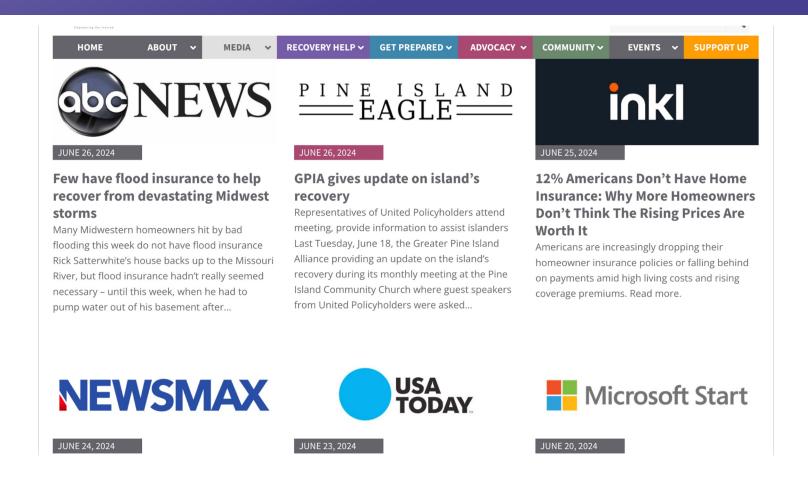
#### NAIC Summer Meeting - Chicago, Illinois





#### UP is a 33 year old 501(c)(3) national insurance consumer non-profit

Our website, (<u>www.uphelp.org</u>) staff, programs, volunteers and guidance help over 500,000 people each year



## The roof over your head

**Structural support** – The "backbone" of the house.

**Keeps out the elements** – Hail, high winds, tornadoes can cause broken/missing shingles, leaks, sagging spots and/or tear away portions or entire roofs. Exposure to outside elements can result in interior water damage, mold or mildew as water, snow, or ice seeps into the walls and structure. Untreated water issues can weaken the home's structural integrity, rust metal and corrode plumbing, ruin electrical systems, destroy ceilings and walls and cause health hazards.

**Provides insulation** – Keeps heat and AC in

**Impacts your property value –** The quality of a roof is a significant factor in assessing the value of real estate.

**The roof is a system** – Experts and some building codes traditionally require replacement if 25% or more damaged. Some local ordinances require tiles to match.

# Endorsements/limits/exclusions that fall below replacement value coverage

- ACV only on roofs based on age (15 years old, 11, years old, 6 years old...)
- Separate deductible applying to roof claims
- "Cosmetic" damage exclusions. Burden on homeowner to prove damage is significant/structural
- Roof charts that reduce coverage based on roofing material/type (composition, flat, tile, etc.) and/or age
- No coverage to replace undamaged shingles to match/restore a uniform and consistent appearance

### Insult to injury

#### "Limited Roof Surfaces Settlement Windstorm or Hail Losses" endorsement

We submit for your review and approval a form revision to our Property Program. We are introducing form H 03 64 06 22, Limited Roof Surfaces Settlement Windstorm or Hail Losses. This endorsement provides protection for roof surfaces from loss caused by windstorm or hail based on a pre-determined schedule using roof type and roof age. The insured **may** receive a reduced premium for electing this endorsement. This endorsement will be offered as on optional coverage to Homeowner policyholders with roofs aged less than 11 years. This endorsement will be mandatory for policies with roofs aged 11 years or more, except for roof type surfaces of Slate, Tile, Metal, and Shake/Wood. H 03 64 06 22, Limited Roof Surfaces Settlement Windstorm or Hail Losses was previously approved for use in the Nationwide Agribusiness Insurance Company under SERFF Filing Number NWPP-133205891.

## "lowa insurers cut roof coverage, leaving customers with big bills and jeopardizing mortgages" Des Moines Register, May, 2024

- Several insurance companies recently amended policies to pay only the depreciated cost of the roof, leaving policyholders \$10,000 + short on actual repair/replacement costs
- Insurers have increased deductibles
- Insurers have added cosmetic damage exclusions and are requiring customers to pay for lab tests to prove their roofs are in danger of failing
- Consumers are not aware of the changes, and many have to take out loans or live under faulty roofs until they can save enough money to cover replacement costs.
- The quiet change in industry practice may also impact the home lending market.
   Fannie Mae and Freddie Mac, the government-established companies that guarantee about 70% of U.S. mortgages, have policies that state they will not cover homes unless those properties are insured at replacement cost.

https://www.desmoinesregister.com/story/news/local/2024/05/31/iowa-insurers-cut-roof-coverage-customers-get-stuck-with-the-bill/73779335007/

# Insurers are creating a conflict for lenders and homeowners re: Fannie Mae's important rules

- Our longstanding requirements are in place to ensure that for any home loan we purchase, insurance policies are written to provide the funds necessary for the homeowner to rebuild or repair the home at the current cost of materials and labor. There are two important aspects to this. First, the coverage amount must be sufficient, taking into consideration the property's replacement cost value (RCV). Second, claims must be settled at replacement cost, subject to the policy coverage amount this is sometimes referred to as RCV coverage or as an RCV policy.
- We do not accept actual cash value (ACV) policies, which allow insurers to
  estimate the cost of depreciation factors, such as the age and wear and tear of the
  property, and deduct the total depreciation amount from the insurance claim
  payout.
- These long-established requirements not only help protect the safety and soundness of our companies, mortgage lenders and servicers, and U.S. taxpayers, but importantly, help protect homeowners themselves.

www.fanniemae.com/research-and-insights/perspectives/gses-protectinghomeowners-taxpayers-and-industry

# These coverage reductions have gone too far

Clifford Rossi, a University of Maryland business professor and former Freddie Mac risk management director, predicted property insurance problems like slimmed-down roof coverage will upend the home-lending market for the next decade.

Insurance officials say they must scale back coverage because of increased claims from storms in recent years.

But banks and Wall Street investors, who buy Fannie Mae and Freddie Mac's mortgage-backed securities and keep the country's home-lending system flowing, say they need to know properties will be intact if homeowners default.

# Insurers shouldn't jeopardize homes' structural integrity or penalize homeowners for fraud by some roofers

- Al should be helping insurers identify fraud
- State DOIs should consider rescinding approval for and disapproving policy forms that only insure roofs for ACV
- Insurers should be required to set forth deductibles at the point of sale and dec page as a specific dollar amount, not a percentage
- If ACV-only roof provisions remain in effect, a ph that accepts that option should get a premium discount

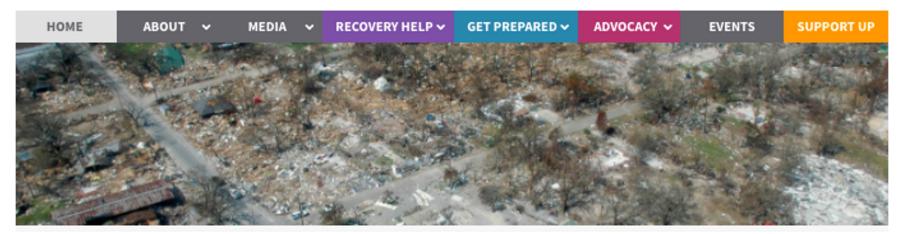
## Thank you!

# Committee members and meeting attendees for your time and attention

www.uphelp.org







#### We've got your back when insurance matters

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