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Testimony of Assistant Attorney General Glenn Kaplan
Homeowners' Insurance Legislation
Joint Committee on Financial Services
Tuesday, September 13, 2011

Thank you Chairman Petruccelli, Chairman Costello and members of the Committee. I am Assistant Attorney General Glenn Kaplan, Chief of the Attorney General's Office's Insurance and Financial Services Division. I am testifying today on behalf of Attorney General Martha Coakley to address a series of legislative proposals before this committee, most notably the committee's efforts on homeowner insurance reform. The Attorney General has been a strong advocate on these issues, and this Office is very encouraged by several of the proposals before us today.

We believe many of the proposals in these bills will alleviate several of the problems we have seen in market. As you know, homeowner insurance prices have increased significantly over the last ten years, most notably in coastal areas. Consumers have been dropped from coverage, or have received less coverage than desired. Insurance must be priced properly, and consumers must be assured they will have coverage in the event Massachusetts faces further disasters, such as Irene and the tornados seen this year.

Currently, homeowner insurance prices are too high. One of the primary reasons homeowners insurance prices have increased so much is the use of hurricane models in insurance rates.[1] These models are intended to estimate the damage insurers will pay in the event a hurricane hits Massachusetts. One of the two principal models used by the insurers in rating, the RMS model, which typically produces the highest insurance rates, was rejected by the Commissioner of Insurance for use in the Massachusetts Fair Plan proceeding. Despite this rejection, this model is commonly used in the voluntary market. The other model, the AIR model, consistently yields predictions considerably higher than Massachusetts historical experience.

While the risk posed by hurricanes is real in Massachusetts, and insurers need to have the resources to pay the claims that arise from such events, companies should not be permitted to use natural disasters, such as Irene (which, of course, was not a hurricane in Massachusetts), as an excuse to raise rates to unsupportable levels. Modeled hurricane loss provisions have increased

[1] Hurricane models are used to estimate hurricane losses. These models enter into the determination of homeowner rates in two ways: (i) directly, based on model output of estimated hurricane losses and (ii) through reinsurance costs where reinsurers employ these models to compute estimated hurricane losses that are included in reinsurance premiums. These reinsurance premiums are charged to Massachusetts homeowner insurers who in turn pass along these costs to Massachusetts policyholders.

recent statewide voluntary homeowners rates for certain large writers by as much as 40%. When reinsurance based on modeled losses is factored in, the upper end of the range rises to 60%.

Many insurers rely on the fact that a commission in Florida reviews and approves the use of hurricane models in insurance rates. However, this approval is based on storm and building data in Florida, not Massachusetts. As you are aware, New England storms, building structures, and geography differ from those in Florida, and the approval process at the Florida Commission does not include a review of model use in other geographical areas. Massachusetts insurers have also used models that the Florida commission has rejected to predict risk in this state. A number of insurers and reinsurers employ what are known as "near-term" models, which has the effect of greatly increasing hurricane loss estimates in insurance rates. A recent five year review of the models determined that these models' predictions are well above insurer experience.[2]

The hurricane models that account for a large portion of homeowners insurance rates in Massachusetts should be subject to review and public scrutiny. Providing the Attorney General with the ability to trigger a hearing at the Division of Insurance for voluntary market carriers, as outlined in Senate Bill 311 and House Bill 2044, would ensure appropriate disclosure and review of the hurricane models.

Several of the issues addressed in the bills before you were also raised in 2007 when the Legislature convened the Special Commission on Homeowner Insurance. These concerns are even more relevant today. Several of the Commission's recommendations are contained in these bills, including better consumer education, expanding the FAIR Plan board to include greater consumer representation, and redesigning the residual market credits system to encourage more insurance companies to provide policies for coastal territories. Each of these provisions will help improve the current homeowners' insurance market.

The Attorney General's Office receives numerous complaints each year on homeowners insurance. A common complaint is from homeowners whose policies are cancelled for unexplained reasons, or based on the filing of a claim. Senate Bill 308 provides important consumer protections on this matter. We further recommend that dropping consumers from coverage based on the filing of a limited number of claims be prohibited.

These bills contain several other provisions that warrant close attention. Representatives from our Office would be happy to meet with you to discuss these issues or on other strategies to improve the homeowners' insurance market. As you know, the Attorney General represents consumers in insurance rate matters. We are happy to serve as a resource for the Legislature as you evaluate these issues.

Thank you for the opportunity to testify today. I am happy to take any questions from the Committee.

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[2] This report was issued by Karen Clark & Company, in January 2011.