Massachusetts Division of Insurance
Annual Home Insurance Report
For Calendar Year 2015

Acknowledgements

This report was prepared by the State Rating Bureau staff of the Massachusetts Division of Insurance ("Division"). Matthew M. Mancini, State Rating Bureau Director, Gerald B. Condon, State Rating Bureau Researcher, Caleb E. Huntington, State Rating Bureau Mathematician, Bashiru Abubakare, State Rating Bureau Actuary / Statistician, and Daniel M. D'Amico, State Rating Bureau Research Analyst, provided the analysis and prepared the report. The report is based primarily on responses from companies and statistical reporting organizations reflecting the experience of companies in the home insurance market. Unless otherwise noted in the report, references to "home insurance" include traditional homeowners insurance as well as condominium and rental insurance.

The Division makes all appropriate efforts to check the completeness and consistency of data reported by insurance companies and their statistical agents but does rely on the insurance companies for the accuracy of all reported information.

Annual Reports

The Division annually produces a home insurance report pursuant to M.G.L. c. 175, §§ 4A & 4B and has done so since 1996. For the current report, insurers and their statistical agents were required to provide aggregate 2013, 2014 and 2015 data sorted according to Massachusetts zip codes and Insurance Services Office, Inc. ("ISO") territories.

It is important to note that while some of the results in this report apply to all home insurance policies in the Commonwealth, other results apply to policies written by only the 25 largest Massachusetts home insurance companies, FAIR Plan and/or only to particular zip codes in the Commonwealth. These particular zip codes are identified as "designated" zip codes because they are the zip codes that the Commissioner of Insurance ("Commissioner") has specified to be included in the report due to historical skepticism regarding availability of coverage in these areas. The zip codes include both coastal areas and urban areas. This report provides specific scrutiny in response to such concerns. A list of the top 25 home insurance companies can be found under footnote 9. The full list of designated zip codes can be found in Exhibit 8A of the Statistical Supplement to this report.

Many of the statistical tables that were incorporated in previous versions of this report have been included in a separate Statistical Supplement. The Statistical Supplement can be found on the Division's web site at http://www.mass.gov/ocabr/insurance/home-insurance/report-on-homeowners-insurance/ and is available upon request.

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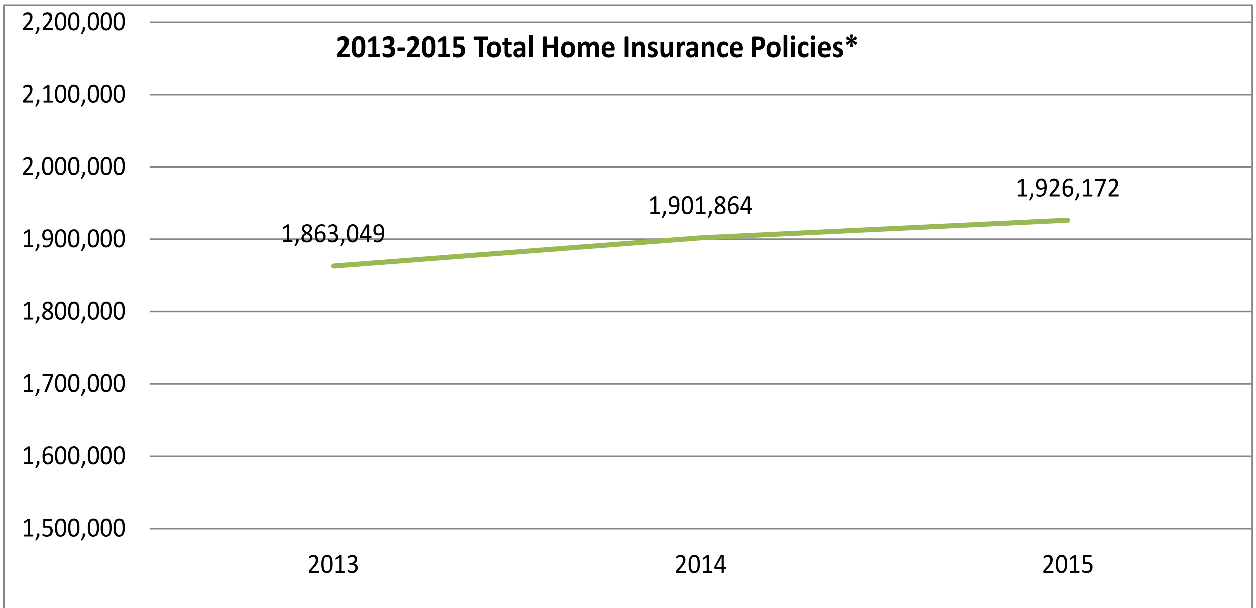
Executive Summary

Among the material presented in this report:

- The total number of home insurance policies increased by 24,308 or 1.3% between 2014 and 2015, after increasing by 2.1% between 2013 and 2014.



*Policies reflect reported house-years. A house-year is defined as one house insured for one year, and is calculated based on the term of the policy.

- Total enrollment in the FAIR Plan[1] decreased by 2,615 policies in 2015, with the FAIR Plan writing 11.4% of 2015 home insurance premium.

- For the Cape and Islands market, the FAIR Plan accounted for 41.3% of policies.

- There were six events that were classified as loss catastrophes[2] in 2015 which resulted in estimated property losses in Massachusetts of approximately $1.2 billion. The first five catastrophes, took place between January 26 and February 22, consisting of freezing ice, and high winds and resulted in estimated property losses in Massachusetts of over $1 billion. The other catastrophe occurred between August 2 and 4, and consisted of flooding, hail, tornadoes, and high winds and resulted in estimated property losses in Massachusetts of $184.6 million.

[1] The FAIR Plan is the residual market for homeowners insurance operated by the Massachusetts Property Insurance and Underwriting Association ("MPIUA").
[2] Massachusetts catastrophe code numbers are assigned to natural events by Property Claims Services, Inc. ("PCS"), a subsidiary of ISO, Inc. when insurable losses resulting from a natural event exceed $25 million and produce at least 2,000 claims. PCS has also provided Massachusetts catastrophe property loss estimates.

Composition of the Massachusetts Market

Home insurance covers non-commercial property for the risks of damage to structural and personal property as well as for the risk of personal liability claims. In 2015, insurance companies collected approximately $2.2 billion in written premium for home insurance policies in Massachusetts, making it the largest line of property and casualty coverage after private passenger motor vehicle insurance.

Although it may be fiscally prudent to protect one's assets from loss or damage, there are no laws that require property owners to purchase home insurance.[3] Figure 1 shows the total number of households covered under the three major types of home insurance (condominium, traditional homeowners and rental insurance) in the past three years as calculated by "written house-years," which is a measure equivalent to average number of homes insured.

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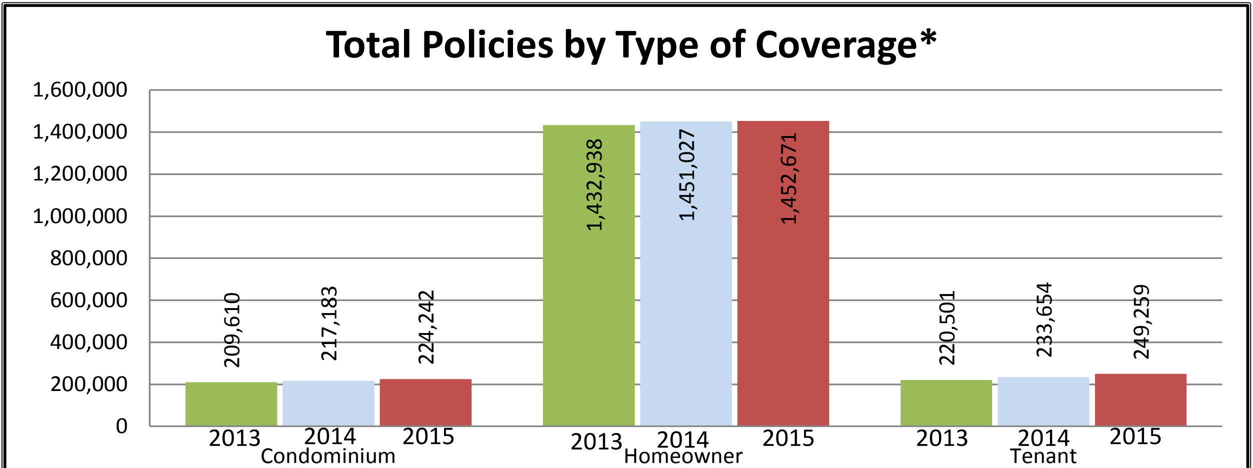

*Policies reflect reported house-years. A house-year is defined as one house insured for one year, and is calculated based on the term of the policy.

Figure 1

Companies Offering Coverage

Just as an individual may choose whether or not to secure insurance for his/her home, an insurance carrier has the legal right to decide whether to offer, cancel, terminate or renew insurance coverage,

[3] Even though home insurance is not required by law, most lenders will require that an owner have sufficient home insurance as a condition of a mortgage on the property. However, according to Chapter177 of the Acts of 2014, which became effective in November 2014, certain lenders are prohibited from requiring flood insurance coverage in an amount greater than the mortgage amount.

provided that the decision adheres to statutory nondiscrimination and disclosure requirements.[4] There are 72 licensed insurance companies offering home insurance in the Commonwealth.[5]

The FAIR Plan

If no licensed insurance company is willing to issue coverage for a specific home, the owner may apply to the Massachusetts Property Insurance and Underwriting Association ("MPIUA"), also known as the "FAIR Plan," which, by statute, is required to offer coverage to homes with a replacement cost of up to $1 million.[6] If an owner cannot obtain a policy from an insurance company and the home's value is beyond what the FAIR Plan will cover, an owner can seek coverage in the surplus lines market.[7]

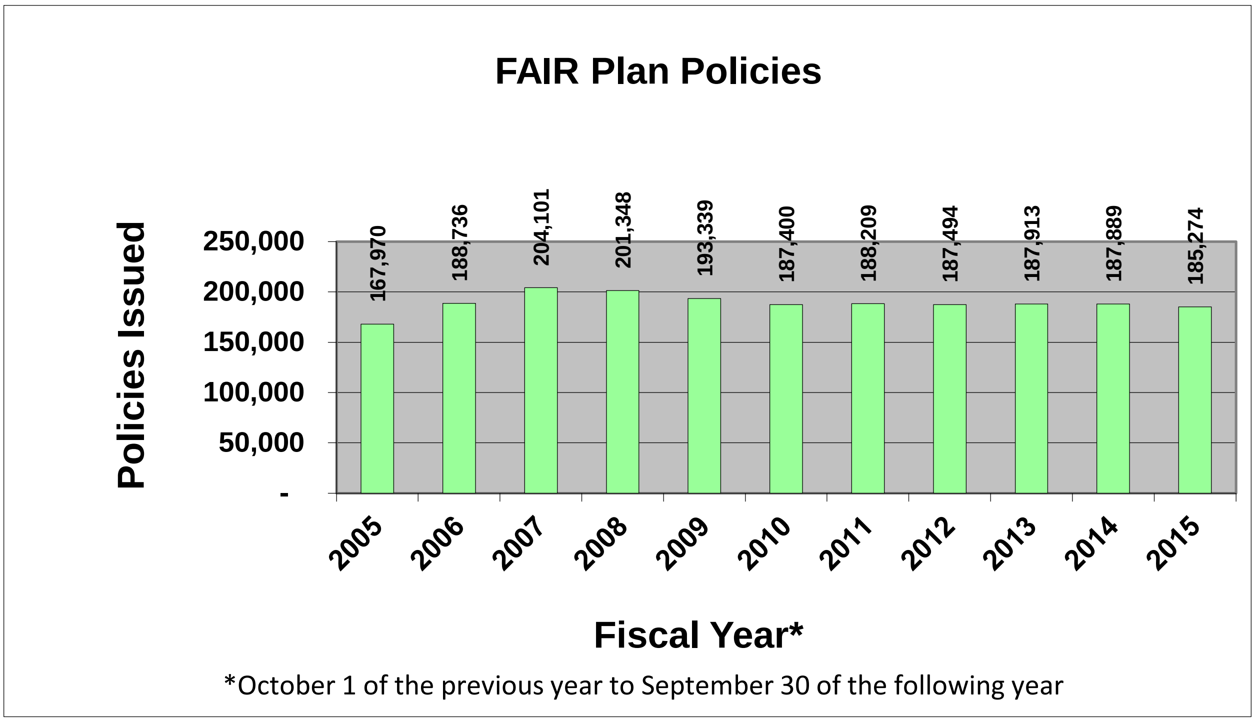

Figure 2

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4 See M.G.L. c. 175, §§ 4C and 99.

5 A list of companies offering homeowners insurance by region in Massachusetts is on the Division's website at http://www.mass.gov/ocabr/insurance/home-insurance/home-insurance-service-areas/. The companies are listed only if they have written ten or more HO-3 or similar type policies in a county between July 1, 2015 and December 31, 2015.

6 See M.G.L. c. 175C, §4(4a), which requires all home insurance companies licensed to and engaged in writing property insurance in the Commonwealth to be members of a joint underwriting association that shall provide basic property insurance to eligible applicants who are otherwise unable to obtain such coverage in the voluntary market.

7 Surplus lines companies are insurers which are not "licensed" or "admitted" in Massachusetts although they are "licensed" in another state (or country). Such insurers may issue coverage only through specially licensed surplus lines brokers. This document does not include statistical information on the surplus lines market.

The FAIR Plan's business, as reported by the FAIR Plan and which comprises owner, condominium and tenant policies, decreased by 2,615 policies issued between fiscal years 2014 and 2015.[8]

As noted in Figure 3 (below), the FAIR Plan accounted for 11.4% of written premium in 2015. Its market share peaked at 16.1% in 2007.[9]

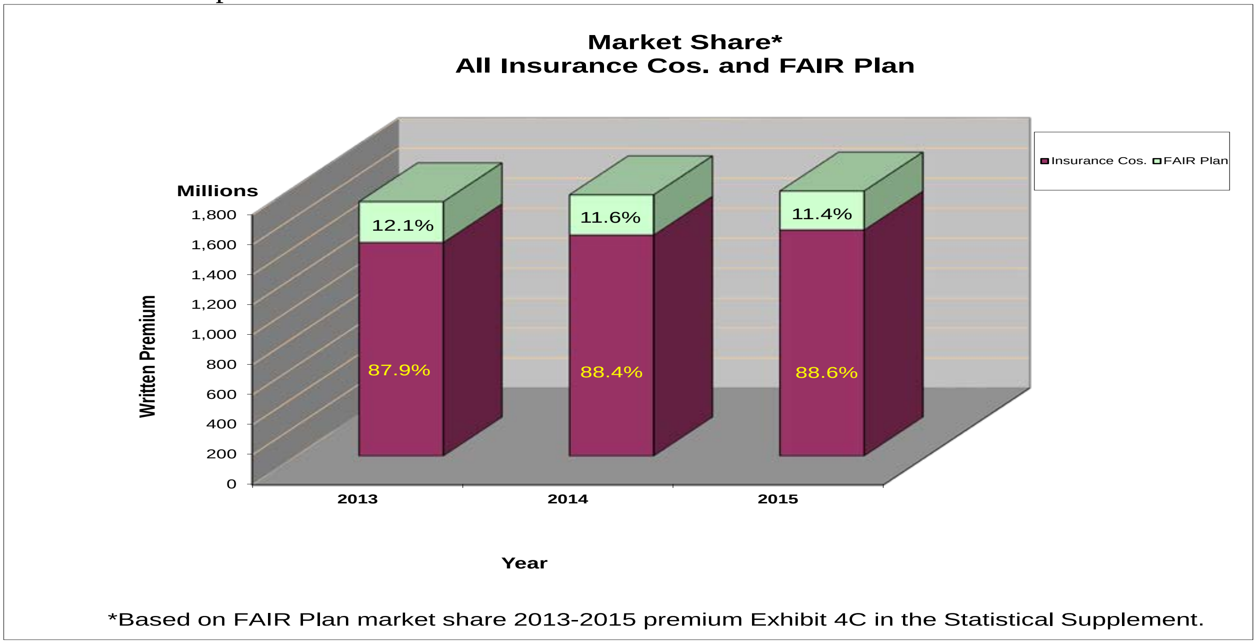


Figure 3

[8] The FAIR Plan's fiscal year is between October 1st of one year and September 30th of the following year.
[9] FAIR Plan market share is based upon FAIR Plan and total market written premium.

As noted in Figure 4, the FAIR Plan's market share, at 11.4% of total premium written, is slightly less than that of the market share of the largest commercial carrier, the Mapfre Insurance Group.

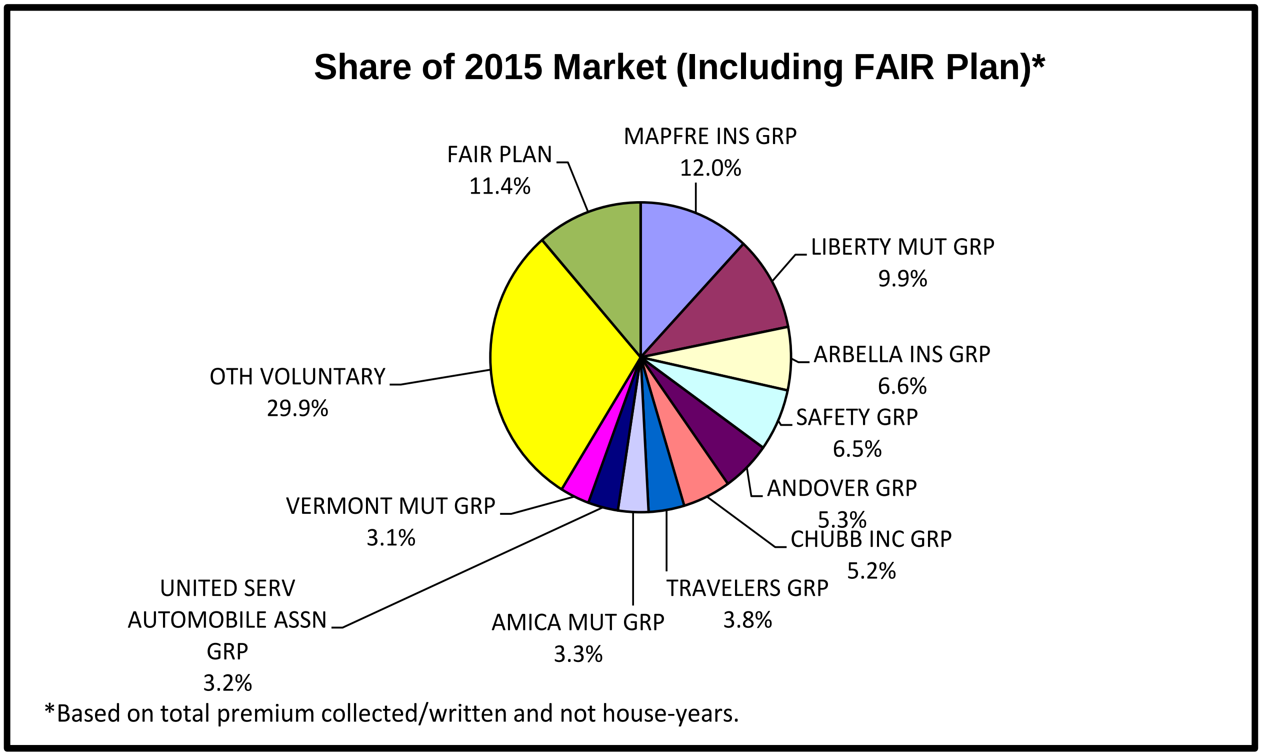


Figure 4

Relative Shares of the Private Insurance Market

When excluding the FAIR Plan, Figure 5 illustrates that the top 10 insurance companies account for 66.3% of coverage written by the private insurance companies in the market.

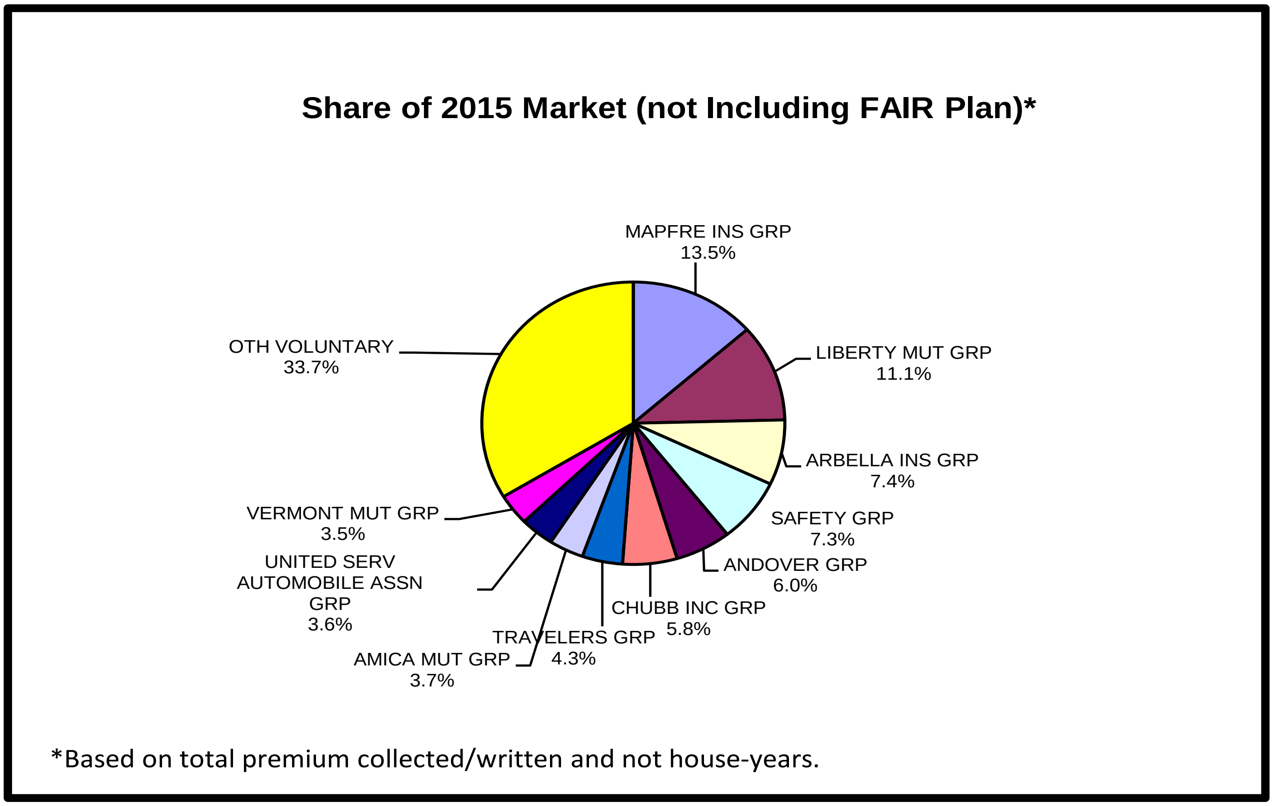


Figure 5

Unlike in other states, a preponderance of insurance companies that offer coverage in Massachusetts consist of local or regional companies. Among the top 10 home insurance companies in the market, only five – the Travelers Group, the Liberty Mutual Group, Chubb & Son Group, Inc., the Amica Mutual Group, and United Services Automobile Association Group – offer home insurance nationally. The remaining companies are regional companies offering coverage primarily in the Northeast.

The Mapfre Insurance Group, which is the parent company of Commerce Insurance Company, had the largest share of the 2015 voluntary (i.e., non-FAIR Plan) market with 13.5% of the home insurance premium written. Each of the next nine largest insurance groups had between 3.5% and 11.1% of the voluntary market. If the analysis is extended to the 25 insurance companies with the largest Massachusetts home insurance market share,[10] they are responsible for 91.6% of the non-

[10] The top 25 Massachusetts home insurers based upon overall direct written premiums for calendar year 2015 are:

FAIR-Plan insurance market. Each of the remaining 53 company groups accounts for less than 1.0% of the non-FAIR-Plan market.[11]

Changes in Coverage

As reflected in Figure 6, the number of total home policies written by insurance companies and the FAIR Plan increased between 2014 and 2015 by 24,308 or 1.3%.

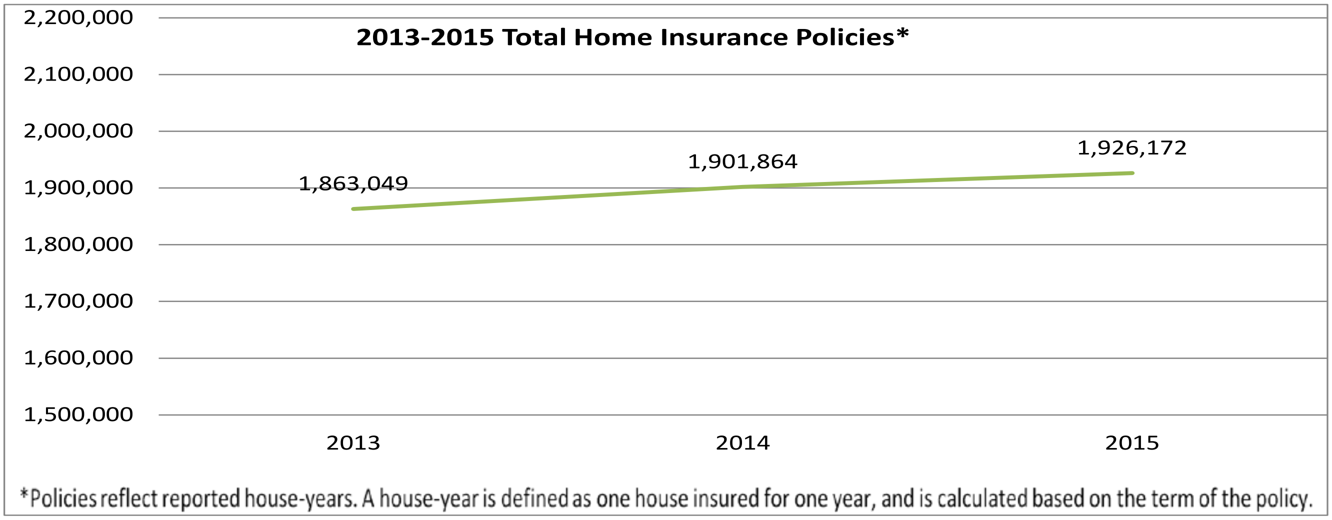


Figure 6

American Family Insurance Group	New London County Group
American International Insurance Group	Norfolk & Dedham Group
Amica Mutual Group	Plymouth Rock Insurance Group
Andover Group	Preferred Mutual Insurance Company
Arbella Insurance Group	Providence Group
Barnstable Group	Quincy Mutual Group
Chubb Inc. Group	Safety Group
Chubb Ltd Group (formerly Ace Ltd Group)	Travelers Group
(The) Hanover Insurance Group	Union Mutual Fire Insurance Group
Liberty Mutual Group	United Insurance Holding Group (formerly listed as United Property and Casualty Insurance Company)
Mapfre Insurance Group	United Services Automobile Association Group
Metropolitan Group	Vermont Mutual Group
NBIC Holdings Group	

[11] Based on the National Association of Insurance Commissioners' 2015 data on home insurance multiple peril direct written premium by company group. Company groups often have more than one licensed insurer writing home insurance.

Coverage by Geography

Comparing the state by county,[12] as in Figure 7, Middlesex County, which had the largest population,[13] also had the highest number of home insurance policies in force: 441,538. After Middlesex County, the next three largest counties for home insurance are Worcester (235,703), Essex (217,726) and Norfolk (211,624).

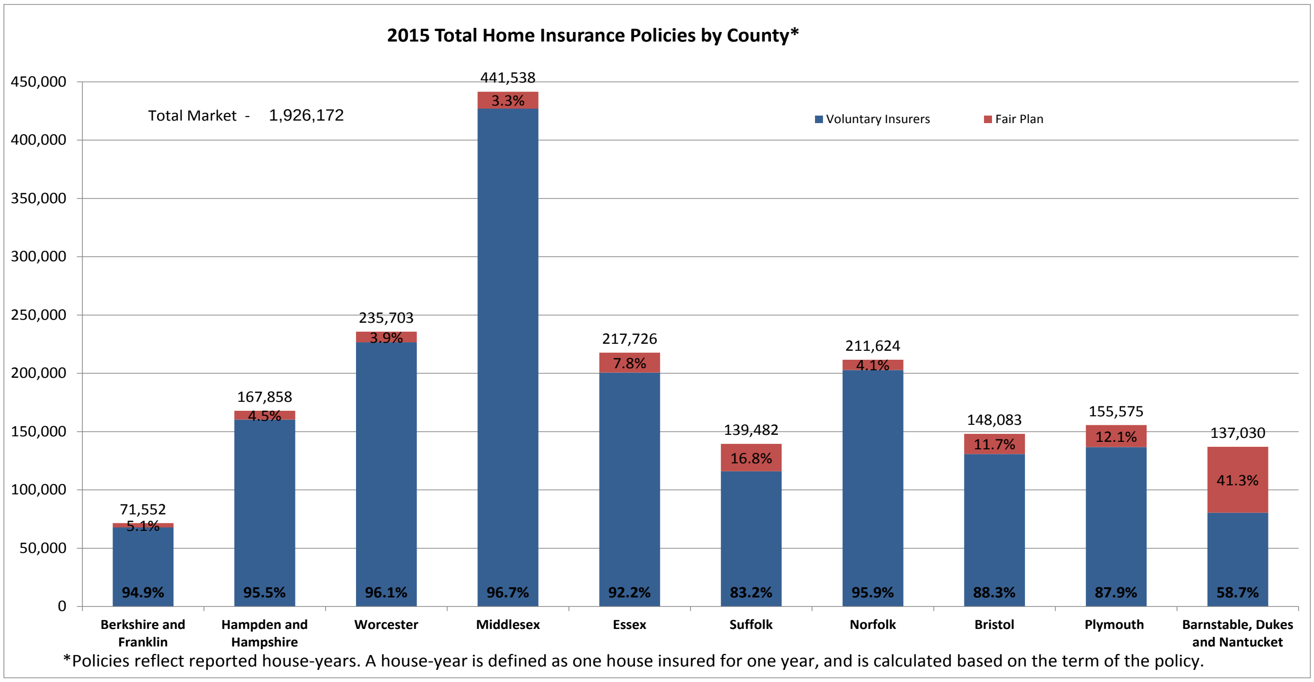


Figure 7

The proportion of FAIR Plan policies written by area varies greatly. While the FAIR Plan writes 41.3% of the home insurance for the Cape and Islands (comprising Barnstable, Dukes and Nantucket counties) and 16.8% of the home insurance in Suffolk County, it writes less than 13.0% of the policies in each of the other counties in the state (see Figure 7).

[12] For the purpose of reporting information by county, certain ISO statistical reporting territories were combined in the following ways:
Berkshire and Franklin Counties include ISO territory 50;
Hampden and Hampshire Counties include ISO territories 47, 48 and 49;
Worcester County includes ISO territories 45 and 46;
Middlesex County includes ISO territories 41, 42, 43 and 44;
Essex County includes ISO territories 38, 39 and 40;
Suffolk County (including the City of Boston) includes ISO territories 2, 3, 4, 5 and 11;
Norfolk County includes ISO territories 12, 30, and 31;
Bristol County includes ISO territories 32, 33 and 34;
Plymouth County includes ISO territories 35 and 36; and
Barnstable, Dukes and Nantucket Counties include ISO territory 37.
Detailed information for each territory is included in the Statistical Supplement to this report.

[13] Source: Annual Estimates of the Resident Population for Counties of Massachusetts: April 1, 2010 to July 1, 2015, Population Division, U.S. Census Bureau.

Also, between 2014 and 2015, the number of home insurance policies remained fairly consistent in most counties (see Figure 8).

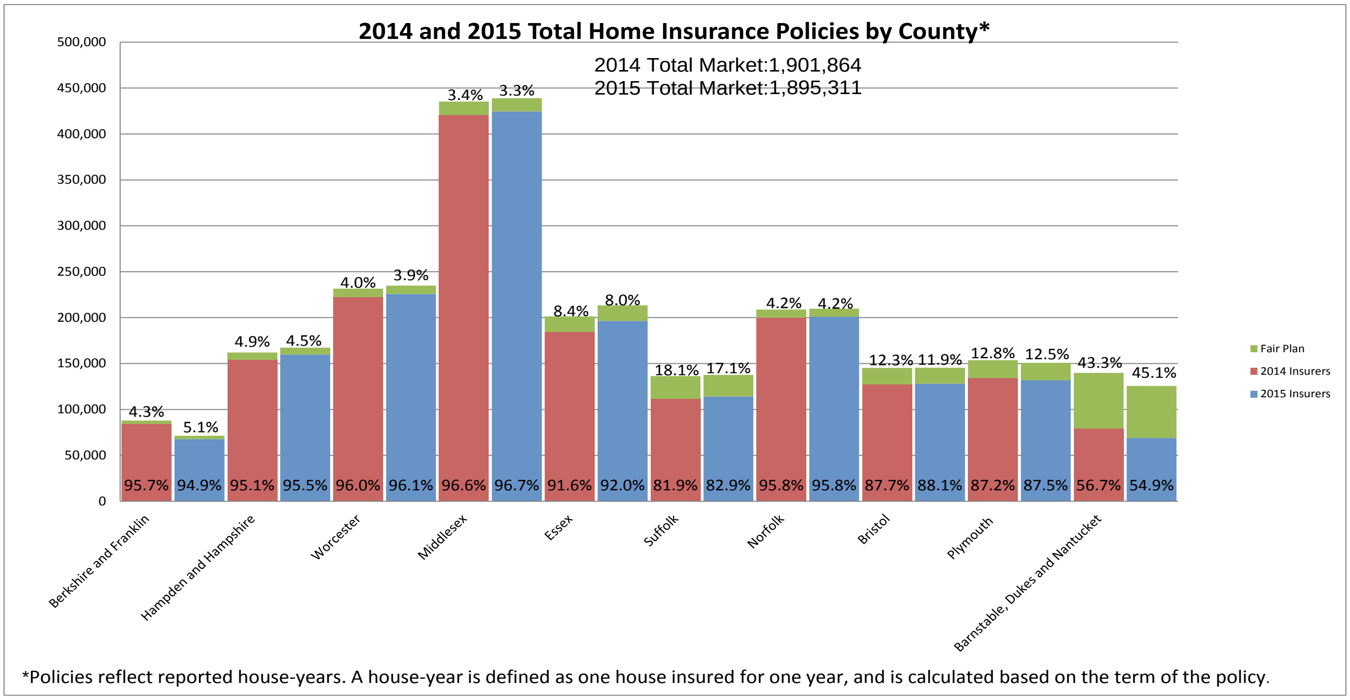


Figure 8

Impact of Private Passenger Automobile Insurance Reforms on Home Insurance

Many property and casualty insurance companies actively participate in insurance markets when they can offer a wide array of their products to customers. In personal lines insurance markets, many companies will only actively market home insurance when they are also marketing private passenger automobile coverage to applicants. During hearings held in the mid-2000s, certain large national companies indicated that they were not interested in expanding their home insurance coverage in Massachusetts because they believed they could not operate within the rules then in place for the private passenger automobile insurance market.

Prior to April 1, 2008, Massachusetts private passenger automobile insurance companies operated in a highly regulated market subject to “fix-and-establish” rules. After a series of steps taken by then Commissioner Nonnie S. Burnes in 2007, and following annual regulatory hearings in 2008, the rules affecting private passenger coverage were rewritten to permit managed competition. For the first time in over 30 years, insurance companies were permitted to offer their own coverage options and rates. Beginning on April 1, 2008, companies began to actively compete for business in the new Massachusetts market.

As of the printing of this report, 15 insurance companies have entered the Massachusetts’ private passenger automobile insurance market since the reform. Some of these offer home insurance or are affiliated with home insurance companies. It is expected that these and other companies will look to expand their writing of home insurance in order to increase the marketability of their private passenger coverage.

In addition to the arrival of new companies, many insurance companies that were already writing personal lines also have begun offering expanded multi-policy premium discounts to insureds who buy both home insurance[14] and automobile insurance coverage from the same company. In order to understand the effect that the changes to private passenger coverage may have had on the home insurance market, the top 25 home insurance companies were asked to report the level of home insurance premium credits provided in 2014 and 2015 for those policyholders who also had motor vehicle coverage with the same or an affiliated insurer.[15,16]
As illustrated in Figure 9, insurers reported that premium credits on home insurance coverage for those with a related auto insurance policy increased from $57.1 million in 2014 to $62.3 million in 2015.

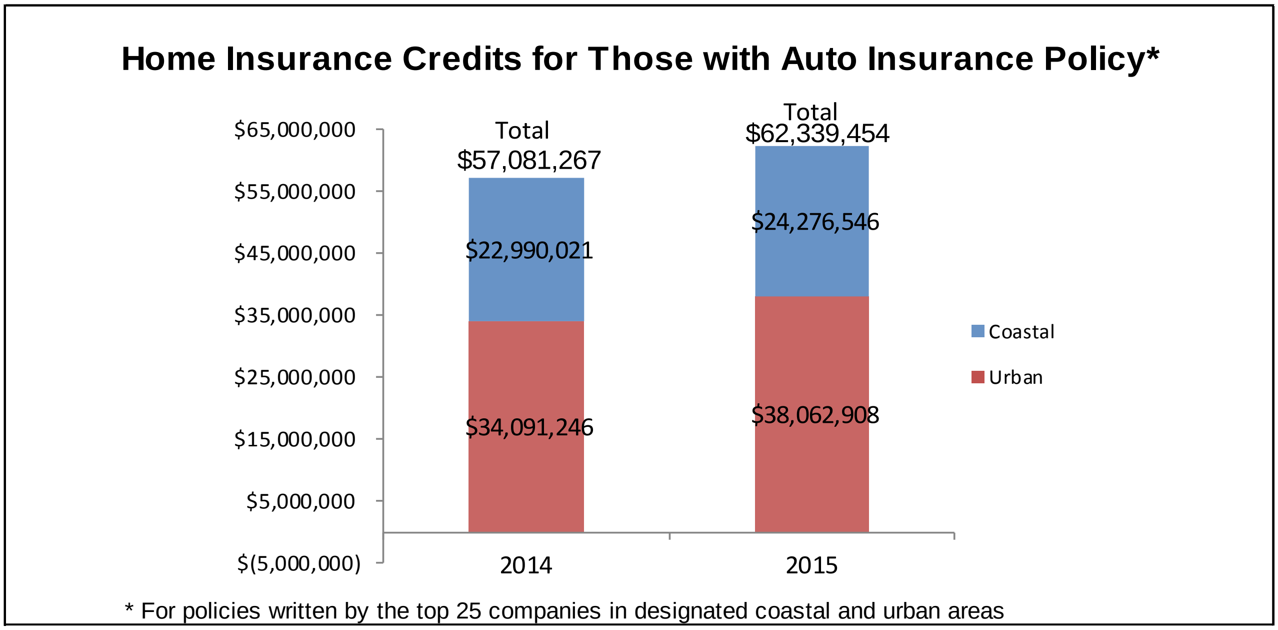


Figure 9[17]

When looking at the number of policies affected, as illustrated in Figure 10 (below), 3,059 more home insurance policies in urban areas obtained premium credits for related private passenger

[14] Home insurance in this case includes owner, condominium and tenant policies that combine liability insurance with one or more other types of insurance, such as property damage, personal property damage, medical payments, and additional living expense.
[15] The composition of the top 25 home insurance companies has changed between 2014 and 2015. In addition, a number of companies have corrected or updated their 2014 data as reported in the Division's calendar year 2014 report, and the corrected or updated data is reflected in this year's report.
[16] This report does not include the level of expanded premium discounts *that are provided on private passenger automobile policies* for those persons who also have home insurance with the same company. The Division is aware that many private passenger automobile companies did file such premium discounts with their private passenger automobile rate filings.
[17] For a complete listing of the zip codes, please refer to Exhibit 8A in the Statistical Supplement.

coverage in 2015 than in 2014. Overall, 2,716 more home insurance policies obtained premium credits in 2015 than in 2014 because they had related private passenger coverage.

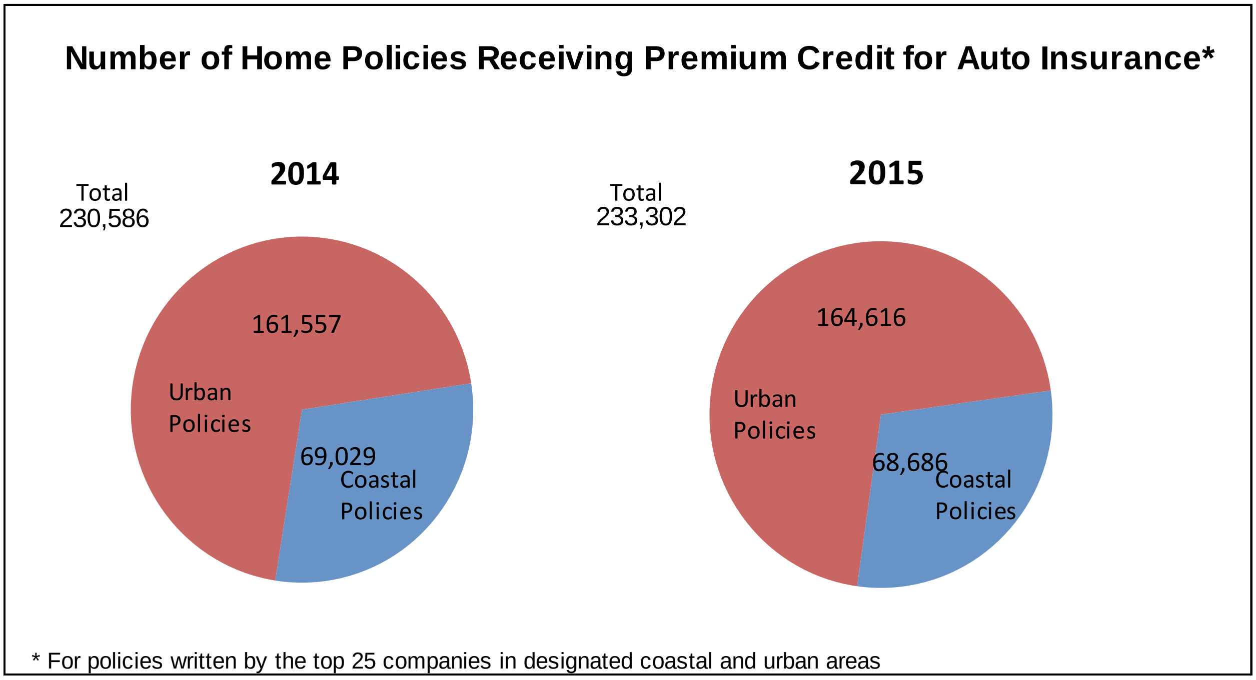


Figure 10

The overall average credit increased from $248 per policy in 2014 to $267 per policy in 2015.

As illustrated in Figure 11, between 2014 and 2015, the average percentage level of premium credit per policy increased from 14.4% to 15.8% of the average policy premium in urban areas and from 16.3% to 17.3% in coastal areas.

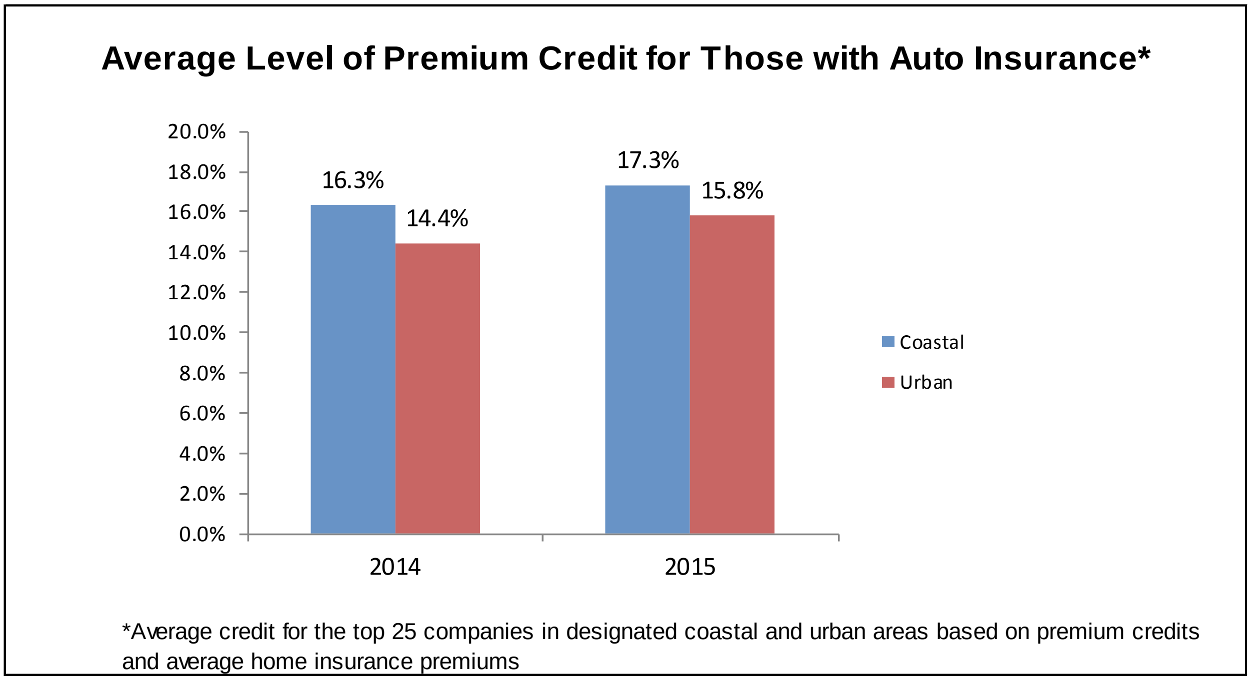


Figure 11

Coverage Options and Limitations

Policy Form Options

The Division examined whether the top 25 home insurance companies and the FAIR Plan used standard policy forms developed by national rating organizations, such as Insurance Services Office (ISO) or American Association of Insurance Services (AAIS), or their own company-specific forms. Of the 26 companies, 20 use standard ISO or ISO-modified forms, seven use company-specific proprietary forms and one uses AAIS-developed forms. (The total exceeds 26 because two companies use both proprietary and ISO-type forms.)

Wind Deductibles

In order to reduce their risk, many home insurance companies have amended their standard policies to include mandatory wind deductibles.[18] These deductibles may apply to any wind-related damage that occurs in specified coastal territories, typically located in Bristol, Plymouth, Barnstable, Dukes and Nantucket counties, or within a certain distance from the shore. These deductibles are imposed either as flat dollar amounts or as a percentage of the covered dwelling amount.[19] Although the Division has required that consumers be given clear disclosures of the

[18] A wind deductible is a deductible that applies only to losses caused by wind.

[19] The FAIR Plan, for example, currently requires certain insureds to have a minimum wind percentage deductible of 1% to 5% of the coverage amount for the dwelling and attached structures, or a minimum fixed dollar deductible of up to $5,000, depending on the property's county, distance from the coast and coverage.

deductibles before they purchase coverage, it remains unclear whether consumers understand the potentially large sums they may be responsible for paying in the event of a wind-related loss.

According to information submitted to the Division from the FAIR Plan and the top 25 companies in the market, all but two companies reported that they have mandatory wind deductibles that are part of the coverage they offer in the market, with deductibles as high as 5% of the coverage for the main structure.[20] The largest wind deductibles are in the coastal parts of Bristol, Plymouth, Barnstable, Dukes and Nantucket counties.

Of all policyholders living in a coastal or urban area who are covered by the FAIR Plan or the top 25 home insurance companies, 47.5% had a mandatory wind deductible on their coverage in 2015. In coastal areas, 74.8% had a mandatory wind deductible. In urban areas, 29.6% had a mandatory wind deductible.

Beginning in 2006, the Division encouraged insurance companies to allow consumers to reduce or eliminate their wind deductibles by taking steps to mitigate the potential exposure of their property in the event of a wind event. Drawing upon the experience of other states, most notably Florida, the Division encouraged companies to reduce wind deductibles for policyholders who install hurricane shutters or shatterproof glass, hurricane-proof garages or patios, and other doors and/or roof/foundation anchor bolts. The Division has worked with many carriers to establish clear rules for mitigation programs and to establish ways to document that mitigation steps have been taken.

Coverage for Unattached Structures

Traditionally home insurance policies identify coverage for the principal property under what is referred to as the "Coverage A" limit. Standard policies also automatically include coverage for unattached structures on the insured's property, such as a detached garage, under what is referred to as the "Coverage B" limit which is set equal to 10% of Coverage A limit. Under examination, the Division asked the top 25 home insurance companies and the FAIR Plan to report on whether they give policyholders the voluntary option to exclude Coverage B for unattached properties, and to report how many opted not to purchase the coverage.

A substantial majority of the insurers (20 out of 26) indicated that Coverage B is automatically included with all homeowners policies; only six insurers indicated that insureds have the option to not purchase Coverage B with the offered home insurance policy. Among the six companies offering policyholders to exclude Coverage B voluntarily, 1,256 total policyholders opted not to purchase Coverage B during calendar year 2015.

[20] Additional detailed information is included in the Statistical Supplement to this report.

Flood Exclusions

In the United States, home insurance policies do not cover damage associated with floods.[21] Recognizing this lack of protection, Congress enacted legislation in 1968 to create the National Flood Insurance Program ("NFIP"), which is administered by the Federal Emergency Management Agency ("FEMA"). Under the program, the government plays the role of underwriter and assumes the financial risk for damages while relying on private insurance agents to sell policies.

Flood insurance is mandatory only for those homes that have been identified by FEMA mapping as located in high-risk flood areas and that are mortgaged through a federally-backed lender. However, the NFIP makes flood coverage available for all property holders as long as the property is located in an approved NFIP community. The property does not need to be in a flood plain to qualify for coverage.

Prior to the current re-mapping of flood zones in Massachusetts, FEMA had estimated that more than 11 million U.S. homes were in flood zones and that about one-fourth of the homes located in Special Flood Hazard Areas ("SFHA")[22] were covered by NFIP-issued or NFIP-backed flood insurance. The proportion of property with flood coverage is believed to be low because many people underestimate the risk of flooding.

As presented in Figure 12, FEMA reports that 62,449 policyholders in Massachusetts had flood insurance in 2015, which is an increase of 4.1% from the 60,018 reported for 2014.

Federal Emergency Management Agency (FEMA)
National Flood Insurance Program Report
MASSACHUSETTS*

County	V-Zone Policies	A-Zone Policies	Other Policies	2015 Total Policies	2014 Total Policies	Total Premium	Total Coverage
Berkshire & Franklin	0	713	355	1,068	1,206	$1,266,940	$216,483,100
Hampden & Hampshire	0	933	722	1,655	1,708	$2,035,241	$375,629,200
Worcester	0	1,017	727	1,744	1,887	$2,384,465	$431,674,600
Middlesex	0	3,953	3,347	7,300	6,780	$6,618,746	$1,744,059,900
Essex	319	4,951	4,625	9,895	9,273	$10,269,276	$2,516,140,500
Suffolk	11	2,978	2,661	5,650	4,050	$4,860,355	$1,398,012,500
Norfolk	53	4,126	2,888	7,067	6,757	$6,413,610	$1,693,300,300
Bristol	307	2,218	1,664	4,189	3,964	$5,547,681	$1,033,719,200
Plymouth	711	6,073	3,001	9,785	10,067	$14,547,971	$2,391,283,400
Barnstable, Dukes & Nantucket	677	6,305	7,114	14,096	14,326	$18,502,968	$3,754,034,600
State Total :	**2,078**	**33,267**	**27,104**	**62,449**	**60,018**	**$72,447,253**	**$15,554,337,300**

Figure 12

*Data is based on information received from the Federal Emergency Management Agency as 6/3/2015 for 2014 policies and as of 6/14/2016 for 2015 policies.
Flood insurance is required for insurable structures within high-risk areas to protect Federal financial investments and assistance used for acquisition and/or construction purposes within communities participating in the National Flood Insurance Program.
V-Zone Policies - policies, in primarily coastal flood hazard areas (high risk), that have a one percent chance in any given year to be flooded.
A-Zone Policies - policies, in primarily flood hazard areas (high risk), that have a one percent chance in any given year to be flooded.
Other Policies - policies outside V and A Zones, including those held by owners who have received disaster assistance and are now required to purchase policies and those owners who have purchased optional flood insurance policies (preferred risk policies).

[21] Automobile insurance policies, cover flood damage to a motor vehicle under optional comprehensive coverage..

[22] There are two types of Special Flood Hazard Areas: (1) a V-zone or coastal high hazard area including "the inland limit of a primary frontal dune along an open coast and any other area subject to high velocity wave action from storms or seismic sources" and (2) an A-zone area that is expected to be flooded once every 100 years.

The NFIP continually updates statistics on national purchases of flood insurance and periodically will produce special reports on the matter. According to the NFIP's monthly countrywide policy statistics, as of 6/30/15 Massachusetts ranked 14th in the country in the number of policies in place through the flood insurance program. The U.S. Census Bureau ranked Massachusetts as the 15th most populous state.[23]

Although the Division issued Bulletin 2006-05 to remind insurers and insurance producers to offer flood insurance to all state residents, the Division estimates that the number of Massachusetts homes with flood insurance continues to be relatively low for 2015. Barnstable County, with 10.3% NFIP coverage, was the only county where more than 10% of the homes were covered by flood insurance in 2015 (see Figure 13).

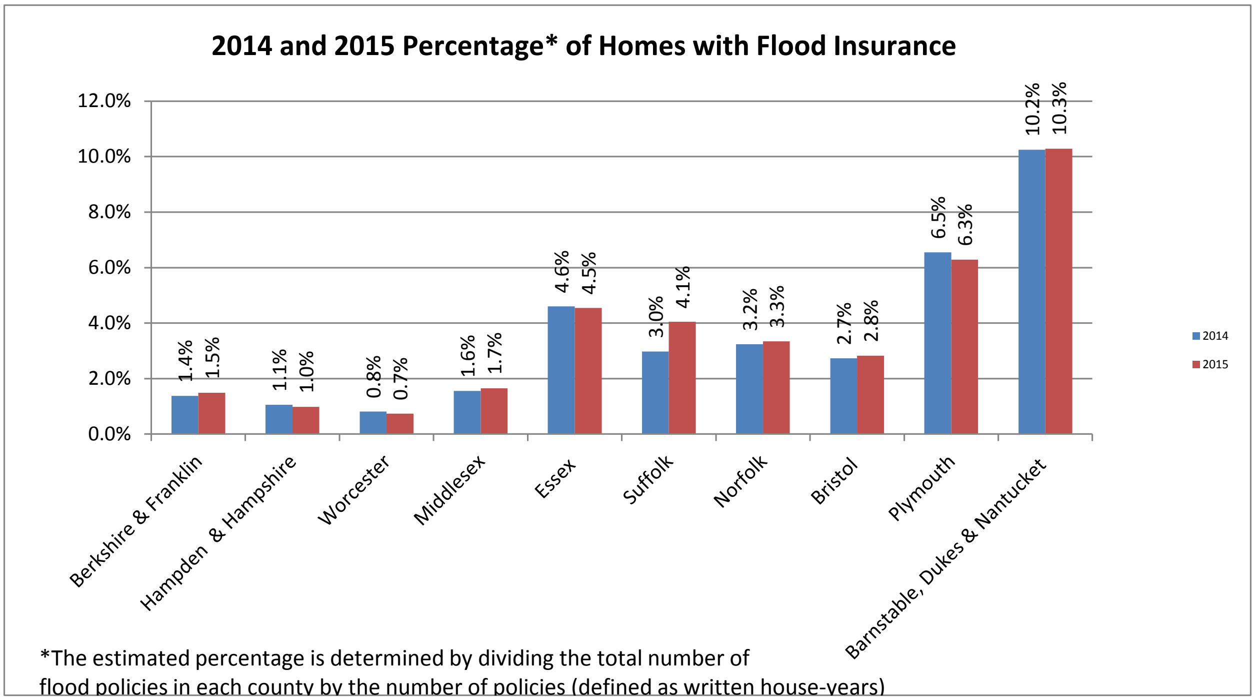


Figure 13

[23] Massachusetts population ranking is based on estimates as of July 1, 2015 the 2015 U.S. Census Bureau statistics, available at http://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?src=bkmk

Changes to National Flood Insurance Program

In July 2012, reflecting the experiences following Hurricane Katrina and Super Storm Sandy, the U.S. Congress passed the Biggert-Waters Flood Insurance Reform Act of 2012 (“Biggert-Waters”) to require the NFIP to develop procedures which will ensure its long-term actuarial soundness. Among the key provisions, the NFIP was required to make the program more financially stable by increasing flood insurance premiums to reflect true flood risk and updating the Flood Insurance Rate Map (“FIRM”). In 2013, many homeowners, particularly in coastal communities, were required to buy flood insurance for the first time or pay a significantly higher premium on their existing flood insurance policies due to changes implemented since Biggert-Waters.

In 2014, the U.S. Congress passed two acts that altered Biggert-Waters. The Consolidated Appropriations Act of 2014 prohibited the implementation of certain sections of Biggert-Waters, effectively stopping certain rate increases while new laws were being developed to address rate concerns. The Homeowner Flood Insurance Affordability Act of 2014 repealed certain parts of Biggert-Waters, restored grandfathering, placed limits on certain rate increases, continued the use of subsidized (lower) premiums for some new NFIP policies (resulting in premium refunds), updated the approach to ensuring the fiscal soundness of the fund through an annual surcharge to all policyholders, authorized FEMA to designate a position of Flood Insurance Advocate for NFIP policyholders, and allowed a higher policy deductible option of up to $10,000.

Changes to Massachusetts Law With Regard to Flood Insurance

In 2013, the Massachusetts legislature enacted a law limiting the amount of flood insurance that could be required of consumers whose loans are held by state-regulated banks. Chapter 177 of the Acts of 2014 specifies that such residential property owners may only be required to purchase flood insurance in the amount of their mortgage or home equity loan balance and that the amount of such insurance must be based on the value of the structure only and not the building’s contents.

Financial Results

Premiums

In 2015, Massachusetts insureds purchased approximately $2.2 billion in home insurance, as measured in premium paid, which is 4.2% more than was reported for 2014. Of the total premium, 93.1% was for traditional homeowners insurance. Between 2014 and 2015, traditional homeowners insurance premiums increased by approximately $83 million.

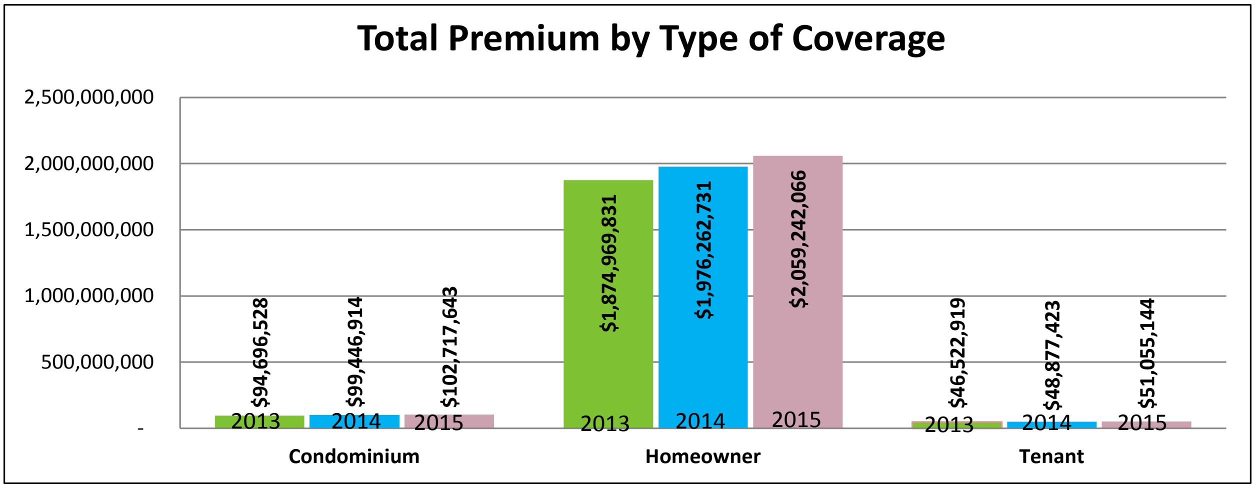


Figure 14

Average premiums increased in 2015 for traditional homeowners and condominium coverage, while average premiums for tenant coverage decreased slightly.

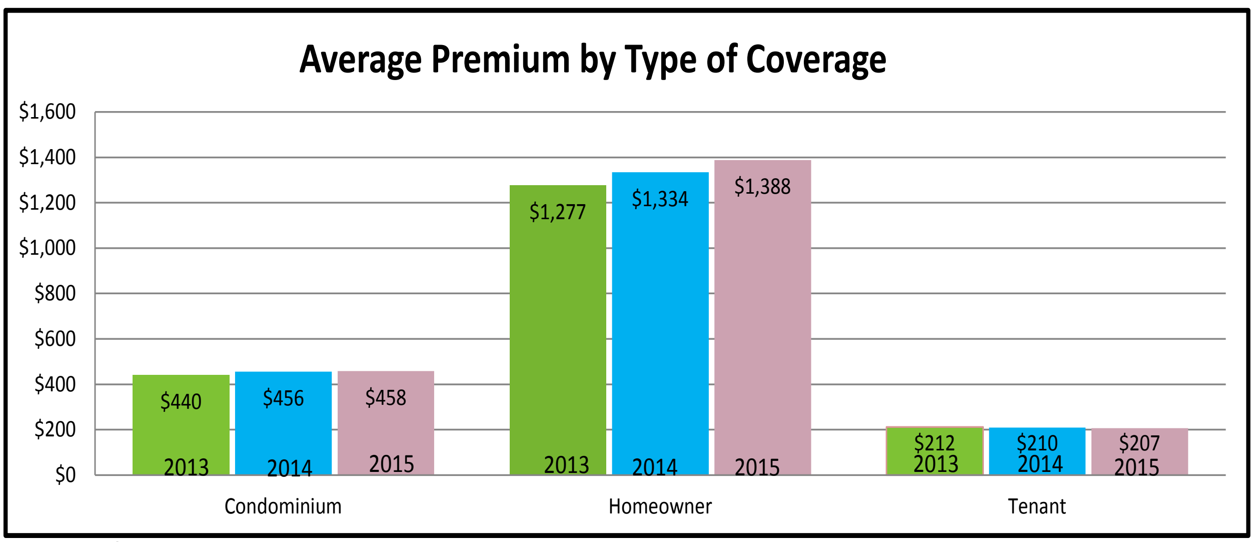


Figure 15[24]

[24] This year's Home Insurance report, as did last year's, uses a different premium basis from prior reports for calculating the average premium in order to more accurately reflect average premium changes between years.

Costs

Insurance rates are based on individual company projections of future claims and expenses, which are, in turn, based on prior years' experience. This section looks at past claims and expense trends.

Filed Claims

In 2015, insureds filed a total of 192,979 claims with their home insurance companies, 200.4% more than the 64,237 filed in 2014. Approximately 91% of these claims were filed on traditional homeowners insurance policies. As illustrated in Figure 16, condominium and tenant coverage types also experienced increases in the number of reported claims between 2014 and 2015.

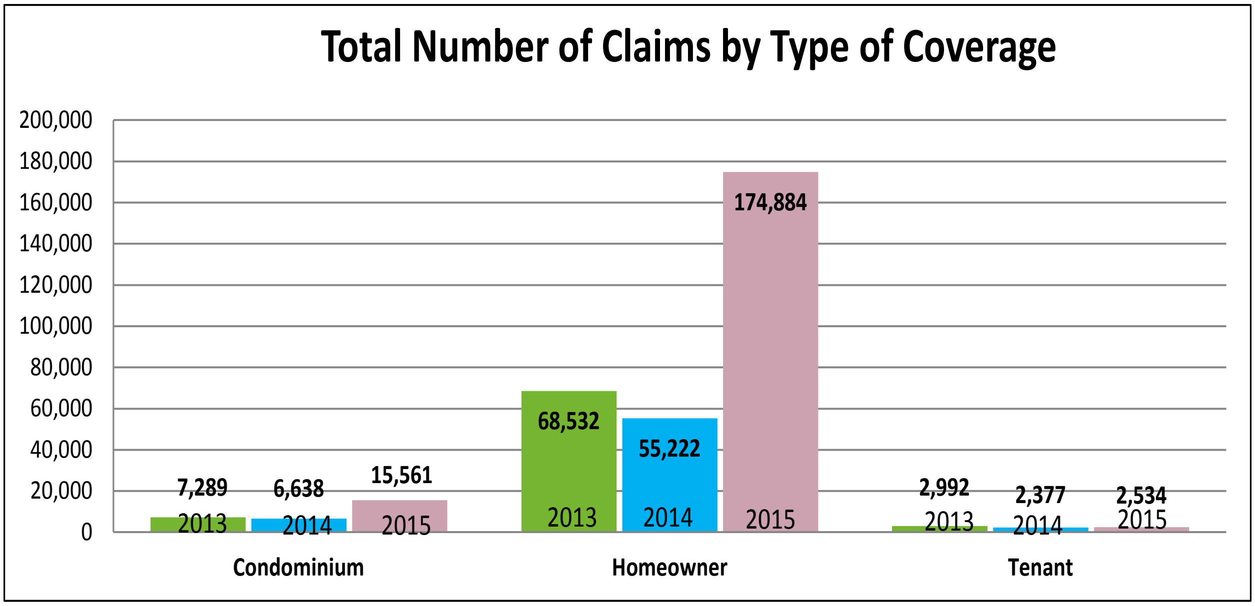


Figure 16

Claim trends tend to fluctuate with damage-causing weather patterns. In 2015 there were six catastrophes with estimated Massachusetts property losses of $1.2 billion from flooding, freezing, hail, ice, tornadoes and wind compared to $81.1 million in 2014. The large increase over 2014 was associated with the unprecedented winter of 2015. Please see footnote 26 for further information.

The total number of filed claims increased, as illustrated in Figure 17 (below), the average size of incurred claims increased 3.6% for traditional home insurance, while decreasing by 8.6% for condominiums, and 16.6% for tenants. The increase in average claim size for traditional home insurance reflects the large number of weather-related claims (see following section discussing cause of loss).

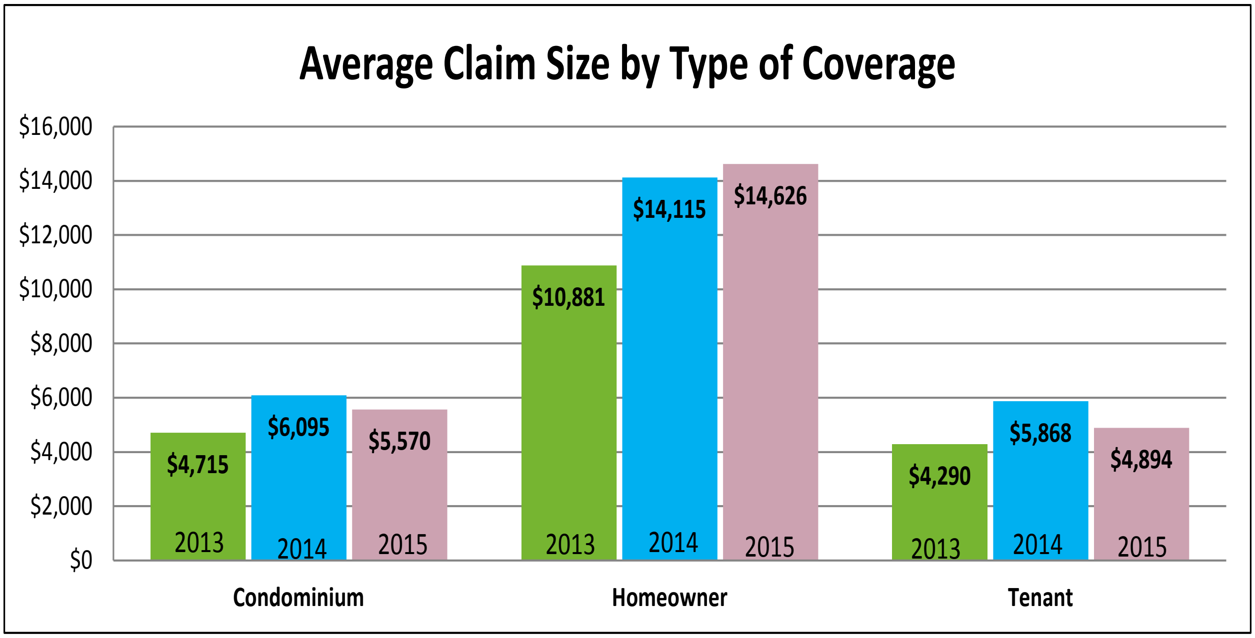


Figure 17

Analysis of Claims Experience

When recording reported claims, companies categorize submitted claims according to the cause of loss in order to project future claims and to develop loss control programs aimed at reducing future losses. Although companies track losses from both natural events (such as earthquakes) and man-made events (such as thefts) to develop loss controls that are tailored to various events, in general, company groups categorized claims as follows:

- Fire, lightning and removal;
- Wind and hail;
- Water damage and freezing;
- Theft;
- Liability and medical; and
- All other.[25]

[25] The "all other" category is used when: (a) the claim does not fit one of the other causes of loss, (b) there is some question as to which cause of loss among several possible causes of loss caused the claim, or (c) the cause of loss is not known initially.

As illustrated in Figure 18, 142,656, or 74.3%, of total claims, were submitted for water losses for non-flood related water damage and freezing. This large percentage is estimated to reflect water damage associated with the cold winter. Policyholders also submitted 4,936 claims for fire, lightning and removal damages and 28,131 claims for damages classified as "all other losses," accounting respectively for 2.6% and 14.6% of total claims filed. There were a total of 9,215 claims filed under the wind category, which represents 4.8% of total claims filed.

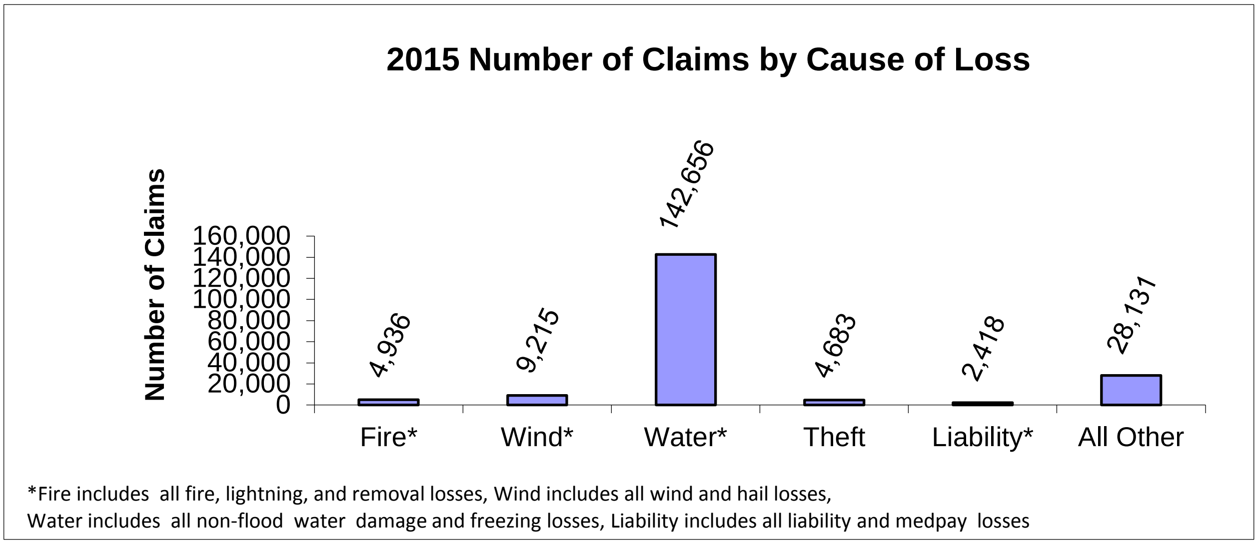


Figure 18

When considering the dollar cost of claims, as illustrated in Figure 19, the distribution of losses reflects the fact that certain types of claims (viz., typically fires) have a higher average cost. Due to the severe winter of 2015, water damage and freezing had a sizeable increase. Notably, fire losses decreased from 33.8% of all total losses in 2014 to 10.8% in 2015. Theft and liability losses decreased from 2.2% and 5.4% in 2014 to 0.6% and 2.0% in 2015, respectively.

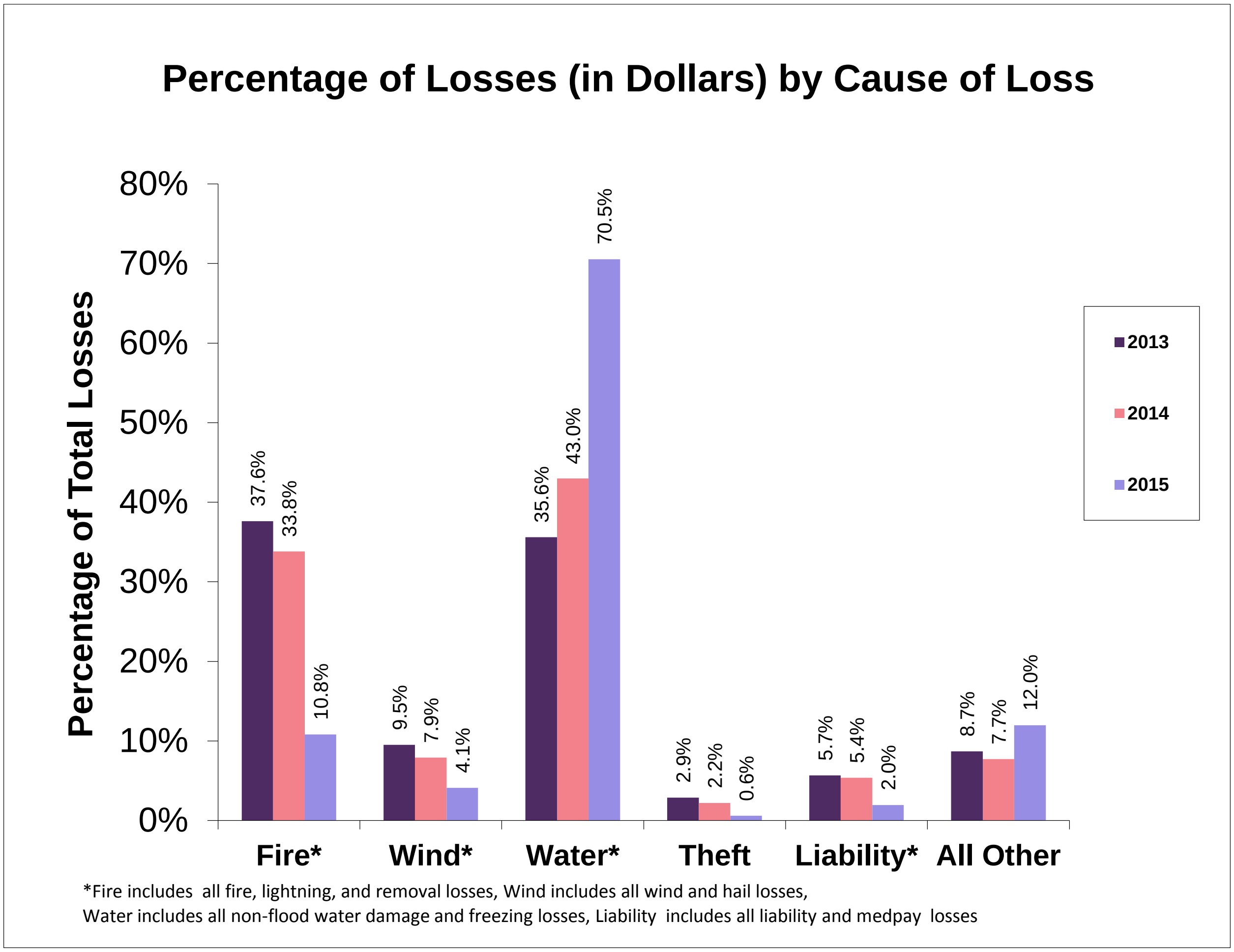


Figure 19

Additional Detail on Each Cause of Loss

Fire, Lightning and Removal dollar losses as a percentage of statewide losses decreased from 33.8% in 2014 to 10.8% in 2015. The statewide average fire, lightning and removal claim cost was $50,951 in 2014, increasing to $58,056 in 2015.

Wind & Hail losses accounted for 4.1% of total losses in 2015, down from 7.9% in 2014. The statewide average claim cost for wind and hail increased from $7,465 in 2014 to $11,839 in 2015.

Non-Flood Water Damage and Freezing losses accounted for 43.0% of total losses in 2014 and 70.5% of total losses in 2015. The statewide average claim cost for non-flood water damage and freezing increased from $10,920 in 2014 to $13,089 in 2015.

Theft losses accounted for 2.2% of total losses in 2014 and 0.6% of total losses in 2015. The total number of theft claims decreased from 5,708 in 2014 to 4,683 in 2015, and the average statewide theft claim cost increased from $3,225 in 2014 to $3,337 in 2015.

Liability and Medical Payments dollar losses accounted for 5.4% of total losses in 2014 and 2.0% of total losses in 2015. The average statewide liability and medical claim cost increased from $19,355 in 2014 to $21,372 in 2015.

All Other claims losses accounted for 12.0% of total losses in 2015, compared to 7.7% in 2014. Total filed claims increased from 8,603 in 2014 to 28,131 in 2015. The average claim cost was $7,464 in 2014, increasing to $11,258 in 2015.

Ice Dam Claims Filed Due to Damage from the 2014-2015 Winter

The winter of 2014-2015 was particularly harsh, marked by record-breaking snowfall and persistent cold with resulting damage associated with the development of ice dams on the roofs of Massachusetts homes. Under special examination, the DOI asked the top 25 home insurance companies and the FAIR Plan to provide detail about related claims payments.

As of July 1, 2016, Massachusetts policyholders filed 125,631 ice dam claims with the top 25 home insurance companies and the FAIR Plan and of that total:

- 113,181 claims (90.1%) have been fully paid;
- 1,610 claims (1.3%) have been partially paid as carriers negotiate claims amounts or await completion of repairs or the confirmation of supplemental damage;
- 10,561 claims (8.4%) were not paid because damages fell below policy deductibles, claims were withdrawn or denied, or claims were found to be duplicates; and
- 278 claims (0.2%) are under litigation, or involved in divorce disputes, condominium master policy disputes or other appeals.

As of July 1, 2016, policyholders have received $1,268,460,937 in payments for damages associated with the 2014-2015 winter storms with an average payment to policyholders of $11,050 per claim.

Loss Ratios

Loss Experience Compared to Earned Premiums

Loss ratio (incurred losses divided by earned premium) is a generally accepted measure of the underwriting success or failure of property insurance. The higher the cost to the company of reinsurance and other expenses, the lower the company's loss ratio must be for it to continue to operate. The higher the loss ratio, the more likely companies will have overall losses after paying for administrative expenses. Based on the submitted loss data, the 2015 overall loss ratio for all FAIR Plan and insurance company policies was 123.3% across all types of residences (viz., traditional homes, condominiums, rentals).

Figure 20 presents a history of the loss ratios for the entire market since 2006:

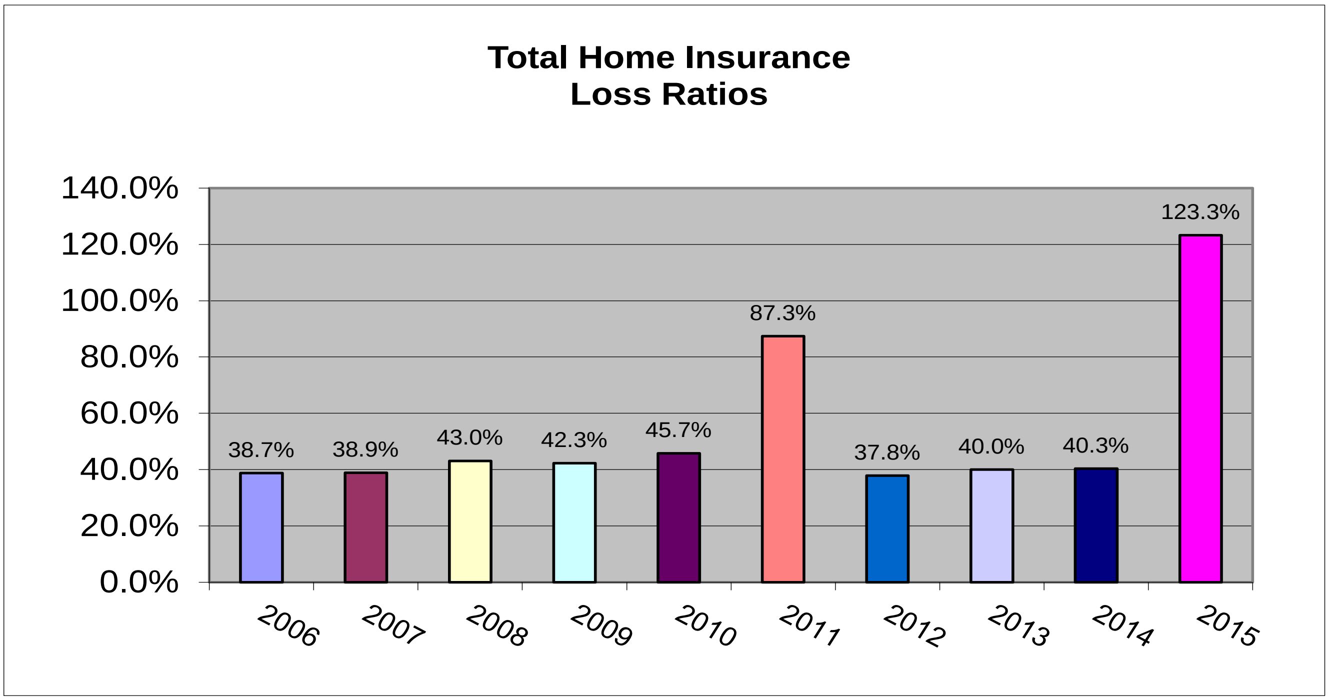


Figure 20

Non-weather events do not usually cause major shifts in loss trends;[26] weather-related events can cause significant shifts, depending on the severity of the events. For example, there was no "catastrophe" event in 2009, four each in both 2010 and 2011, one in 2012, none in 2013, two in 2014 and six in 2015 but the resulting losses varied with the severity of the events. The loss ratio for 2015 is much higher than in 2014 due to the variability of the weather and of the number of homes impacted. As presented in Figure 21, the traditional homeowners loss ratio was 127.6%, the condominium loss ratio was 86.3%, and the tenant coverage was 25.0% in 2015.

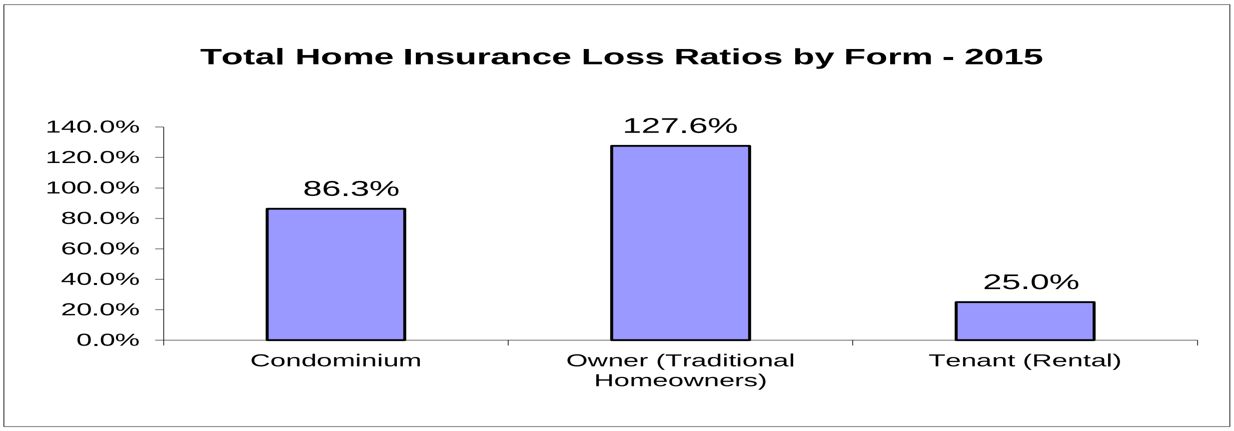


Figure 21

[26] Fire losses are an exception since fires involving multiple dwellings can significantly impact losses for a year.

Combined Ratios: Loss and Expense Experience Compared to Premiums Collected

The combined ratio (the combination of company expenses and incurred claims costs divided by earned premium) is a measure of the overall experience of property insurance companies in a market. A lower combined ratio corresponds with a higher potential profit for the company. The research which forms the basis for this report does not include information on insurance company operating expenses. In order to get a more complete picture of insurers' financial results, the Division has incorporated industry expense data that insurance companies submit as part of their annual financial statements. Figure 22 calculates the percentage of premium that insurance companies paid out for Massachusetts home insurance losses and the percentages of premium that can be attributed to various operating expenses. The result is an "Adjusted Combined Ratio" for the Massachusetts home insurance market.

Calculation of Adjusted Combined Ratios

Year	(A) Earned Premium ($000's)	(B) Incurred Losses ($000's)*	(C) = (B)/(A) Loss Ratio*	(D) Incurred Losses + All Loss Adj Expenses ($000's)	(E)= (D)/(A) Adjusted Loss Ratio (incl All Loss Adjust Expenses)	(F) Producer Commissions	(G) Taxes and Licensing Fees	(H) Other Acquisition Expense	(I) General Expenses	(J) = (F)+(G)+(H)+(I) Expense Ratio	(K)= (E)+(J) Combined Ratio (Adj Loss Ratio + Expense Ratio)	(L) Mutual Company Dividends to Policyholders	(M)= (K)+(L) Adjusted Combined Ratio (incl Mutual Divs)
2015	1,907,594	2,452,064	**128.5%**	2,793,791	**146.5%**	15.6%	2.9%	8.9%	5.5%	32.9%	**179.4%**	0.7%	**180.1%**
2014	1,823,597	721,727	**39.6%**	820,789	**45.0%**	16.8%	2.8%	8.8%	5.5%	33.9%	**78.9%**	0.7%	**79.6%**
2013	1,739,644	660,369	**38.0%**	755,269	**43.4%**	17.0%	2.9%	7.8%	4.7%	32.4%	**75.8%**	0.7%	**76.4%**
2012	1,627,267	607,289	**37.3%**	684,780	**42.1%**	17.3%	2.8%	7.7%	4.3%	32.2%	**74.3%**	0.7%	**74.9%**
2011	1,564,579	1,442,793	**92.2%**	1,600,343	**102.3%**	16.6%	2.8%	7.8%	4.5%	31.7%	**134.0%**	0.6%	**134.6%**

* For the purpose of these columns, incurred losses includes both incurred losses and allocated loss adjustment expenses (defense and cost containment expenses). Premium & loss data is voluntary market only. Reinsurance expenses are not included in this calculation and are more fully discussed below.

Figure 22

Figure 22 also presents various home insurance company expenses as a percentage of premiums. The adjusted combined ratio illustrates how other necessary expenses, when combined with losses, can be compared to homeowners insurance premiums.[27] The adjusted combined ratio of 180.1% for 2015 is more than twice the ratio for each of the previous three years, indicating a much higher level of losses carriers experienced in 2015.

This analysis does not include what insurance companies pay to reinsurers for catastrophe and hurricane reinsurance, information which is not readily available within the aggregate financial statements for Massachusetts homeowners business. Based upon information submitted as part of individual company rate filings, the Division estimates that reinsurance expenses could account for as much as 25% of a company's premiums, depending on that company's portfolio of coastal

[27] Insurance companies pay claims handling expenses (also known as "loss adjustment expenses") which, if added to incurred losses to calculate an adjusted loss ratio, provide a clearer picture of the proportion of premium dollars that are devoted to claims and claims handling expenses. In addition to claims, companies need to pay other expenses, including producer commissions, taxes and licensing fees, other acquisition costs, and general administrative expenses in order to run their businesses. These expenses, when combined with the adjusted loss ratio, generate a combined ratio reflecting the overall costs of business during a calendar year. Finally, some mutual insurance companies make payouts to policyholders in the form of dividends that should be factored into the analysis, as these are real expenses paid out by companies to their policyholders.

exposures. The analysis also omits reinsurance recoveries, or payments from reinsurers to insurance companies that partially reimburse the insurance company for losses paid.

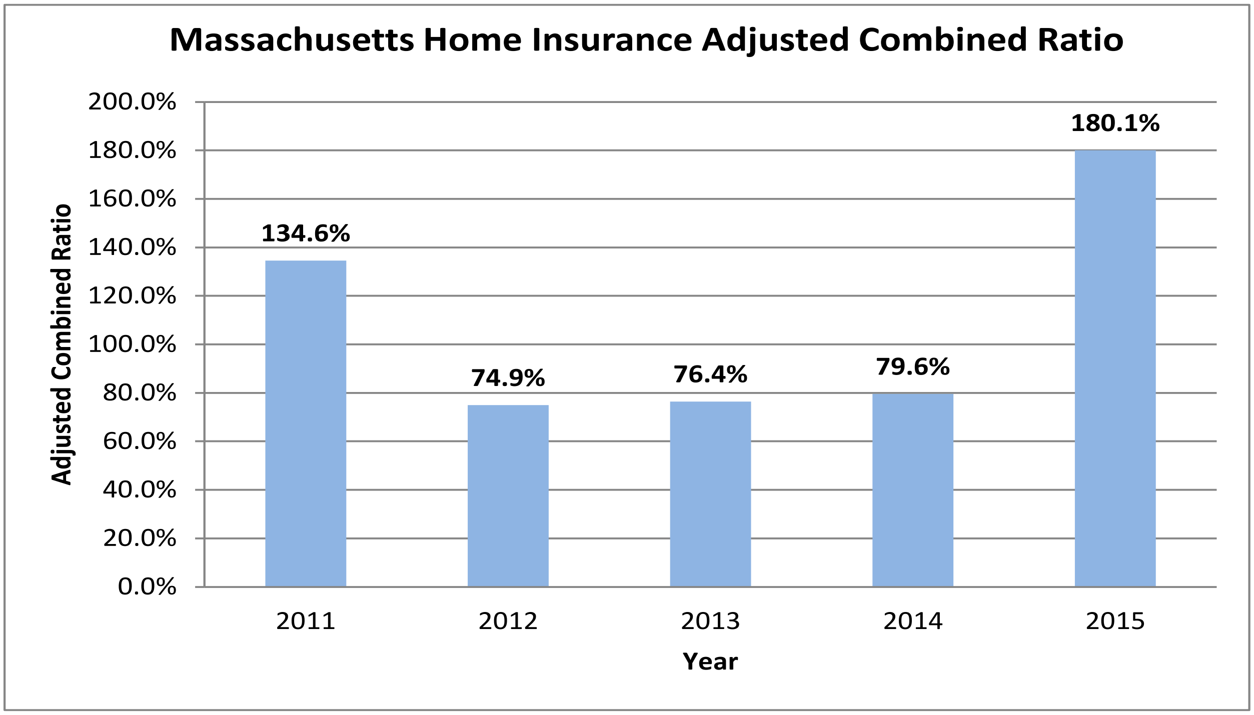


Figure 23

Figure 23 illustrates how weather-related disasters can cause significant fluctuations in the market's adjusted combined ratio, as observed, for example, in the higher combined ratio in 2011 when Massachusetts was impacted by tornadoes and Tropical Storm Irene and in 2015 primarily by winter storms / ice dams.

FAIR Plan Financial Results

During its 2015 fiscal year, the FAIR Plan had an underwriting loss of $56,932,000[28] (see accompanying Statistical Supplement). The last underwriting loss to the FAIR Plan was in 2011. Please note that the FAIR Plan underwriting results are on a direct basis and do not reflect reinsurance premiums paid by the FAIR Plan or reinsurance recoveries.

[28] The FAIR Plan fiscal year runs from October 1st of one calendar year to September 30th of the following calendar year.

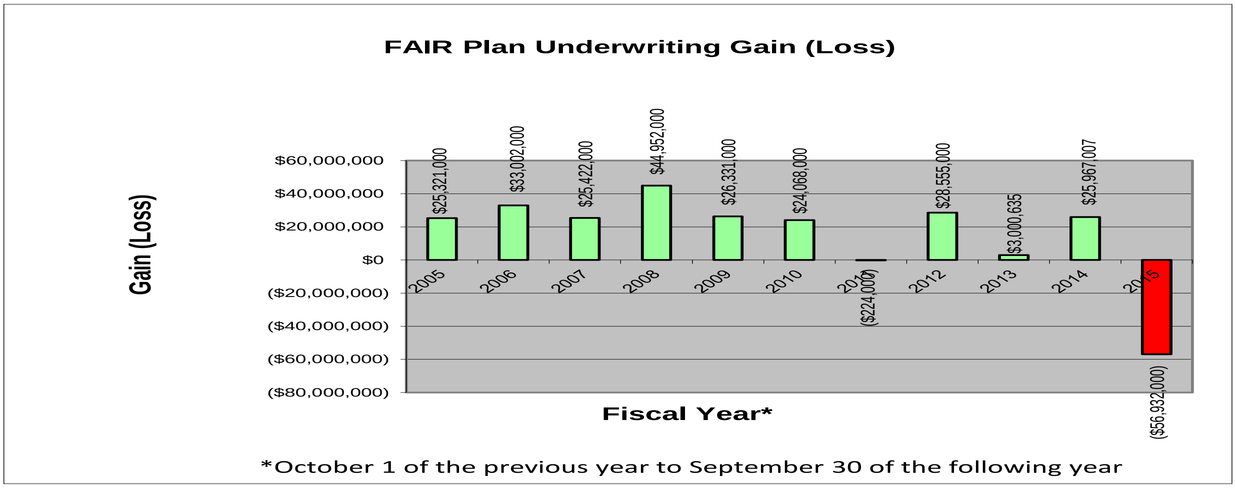


Figure 24

As illustrated in Figure 25, the FAIR Plan experienced a Fiscal Year 2015 underwriting loss – usually called the FAIR Plan's contribution to surplus[29] – of $307 per policy, as compared to an underwriting profit per policy of $138 in Fiscal Year 2014.

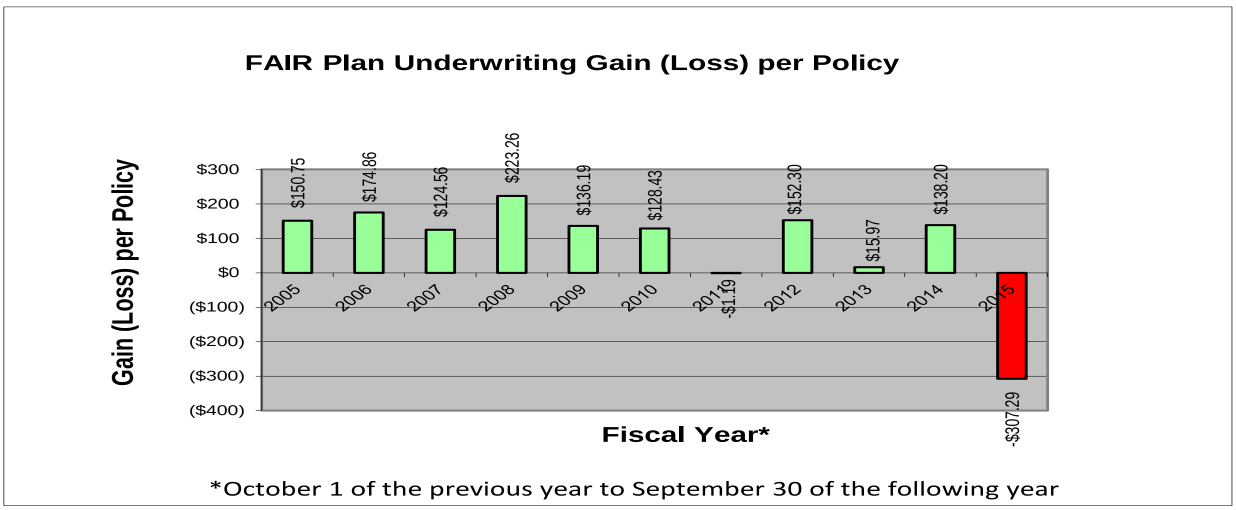


Figure 25[30]

[29] Since the FAIR Plan is not an insurance company per se, it refers to its underwriting profit as its contribution to surplus. For the purpose of this analysis, the report will continue to refer to this as an underwriting profit, for owner, condominium and tenant policies, as reported by the FAIR Plan.

[30] Fair Plan underwriting gain (loss) per policy is calculated by dividing the fiscal year's underwriting profit (loss) by the number of fiscal year owner, condominium and tenant policies issued.

Changes in FAIR Plan Rates

As illustrated in Figure 26, the FAIR Plan revised its annual average rates between 1996 and 2010 from a low of -1.0% (decrease) in 2010 to a high of 12.4% (increase) in 2006. Each of these filings was reviewed according to the standards in M.G.L. c. 175C and hearings were scheduled as required by that statute. In most of the years between 1996 and 2012, the proceedings on those filings were ultimately resolved by rate stipulations agreed to by the parties.

However, in 2005 the FAIR Plan submitted a request for a 12.5% statewide rate increase, including a request for a 25.0% rate increase in Barnstable, Dukes and Nantucket counties.[31] Following an administrative hearing, the FAIR Plan was granted a 12.4% statewide increase, including a 25.0% rate increase in Barnstable, Dukes and Nantucket counties to take effect in 2006.

FAIR Plan Home Insurance Rate Changes

Effective Date*	Percent
12/31/1996	5.3%
12/31/1997	2.2%
12/31/1998	0.9%
12/31/1999	0.1%
12/31/2000	-0.5%
12/31/2001	-0.2%
12/31/2002	1.9%
12/31/2003	2.8%
12/31/2004	3.2%
10/1/2006	12.4%
3/31/2010	-1.0%

*Years not shown had no rate change

Figure 26

In spring 2013, the FAIR Plan submitted a request for an overall statewide increase of 6.8%. The hearing on this rate proceeding concluded in 2014 and the requested rate increase was denied after the Commissioner found that the FAIR Plan had failed to meet its burden of support for two aspects of its rate request and to prove, by a preponderance of the evidence, that its rates satisfied the statutory requirements.

[31] Identified as ISO statistical territory 37 and is commonly known as the Cape Cod and Islands area.

Review of FAIR Plan Compared to Private Market

It appears that consumers who are assigned to the FAIR Plan may not be shopping around aggressively for other coverage. In 2015, only 36 policyholders of the 185,274 policies written through the FAIR Plan took advantage of the FAIR Plan's Market Assistance Plan, where the FAIR Plan offers the applicant's coverage to any other insurer writing in the market (see Statistical Supplement for details on this program).

Cancellations and Nonrenewals

Under M.G.L. c. 175, §4B, the Division collects information from the top 25 insurers[32] and the FAIR Plan regarding policies in force, total cancellations, and total nonrenewals for each urban and coastal zip code designated by the Commissioner for additional review and reporting. The data is collected on a calendar year basis for policies written during the reporting period.[33]

Aggregate Cancellation/Nonrenewal Data for Urban/Coastal Areas[34]

Figures 27A and 27B depict the percentage of cancellations and nonrenewals in the designated areas. The top 25 companies and the FAIR Plan reported that they had a total of 484,819 policies in force in urban and coastal areas as of December 31, 2015. Of the total policies in force, there were 293,295 policies in urban areas and 191,524 policies in coastal areas. The top 25 companies covered 364,132 homes and the FAIR Plan covered 120,687 homes.

A policy cancellation is the termination of a policy before its one year effective period has expired. The cancellation may be effected at the request of the insured or, under certain circumstances, by the insurance company. During 2015, there were a total of 67,512 policies cancelled in urban or coastal areas, with 52,126 cancellations among the top 25 companies and 15,386 cancelled FAIR Plan policies. Of the total number of cancellations, 47,346 policies were cancelled in urban areas and 20,166 policies were cancelled in coastal areas.

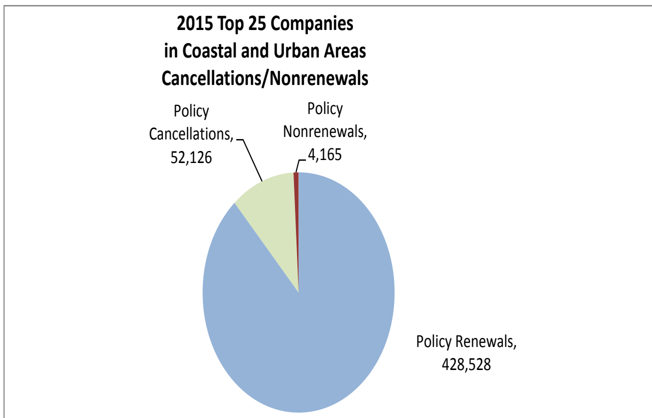


Figure 27A

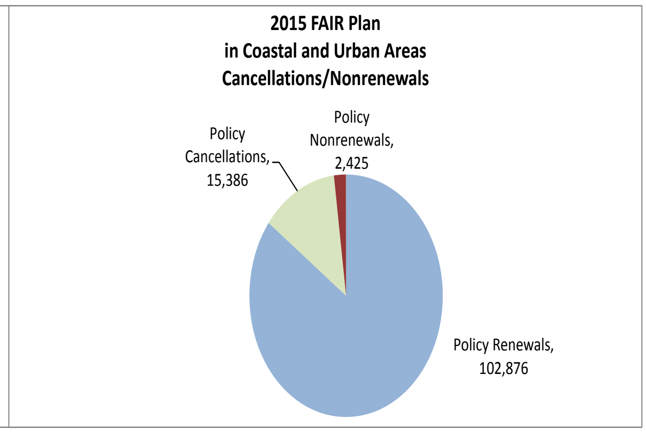


Figure 27B

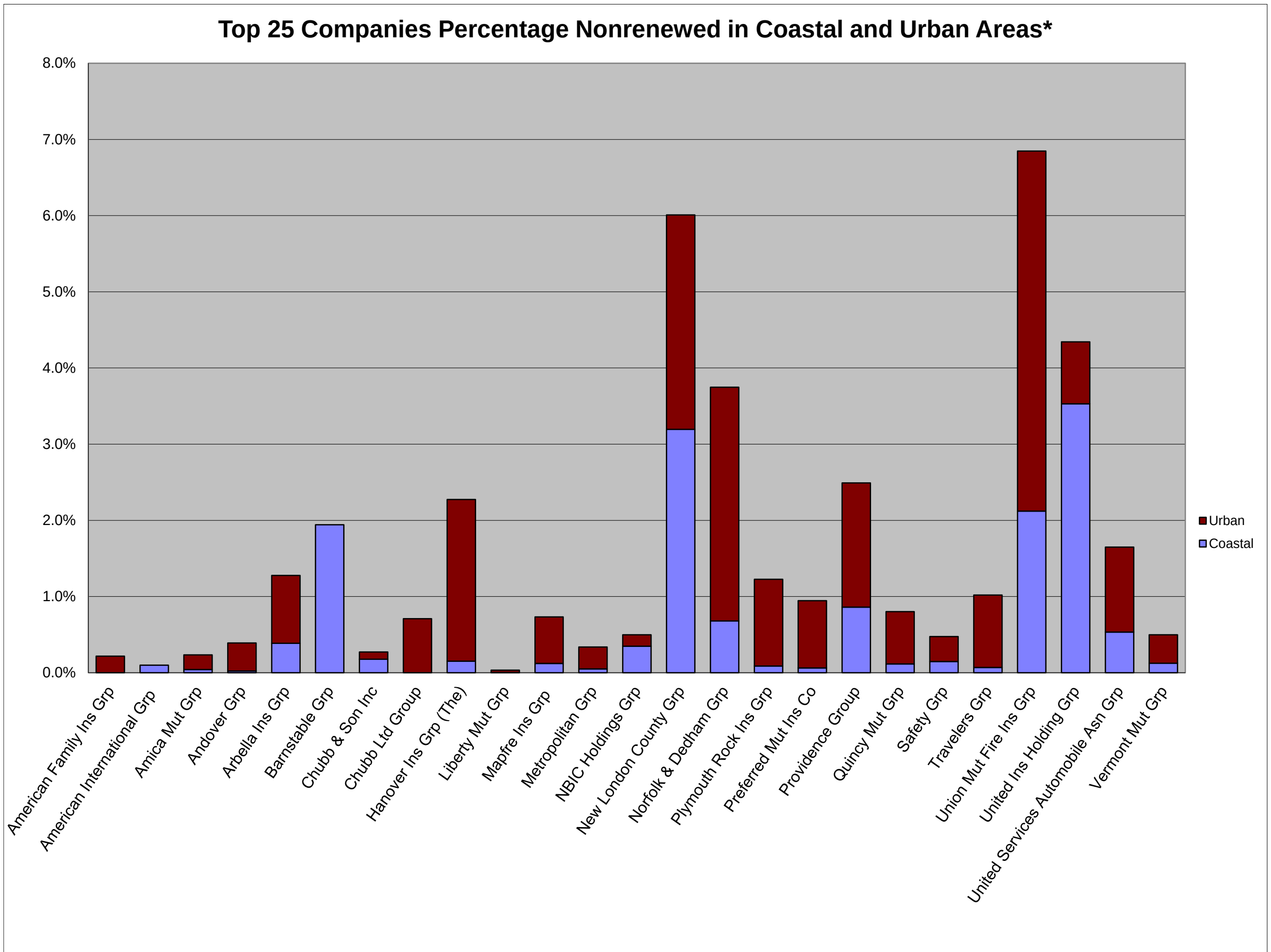
[32] The top 25 insurers, primarily insurer groups that were writing homeowners insurance in Massachusetts in 2015 based on written premium data from the National Association of Insurance Commissioner's database for homeowners multiple peril, are listed within footnote 9. Some of these insurer groups are better known by the names of their individual insurance companies.

[33] The designated zip codes are identified in Exhibit 8A of the Statistical Supplement to this report.

[34] Statutory cancellation and nonrenewal provisions can be found in M.G.L. c. 175, §§ 4C, 99 and 193P. Detailed information identifying the number of cancellations and nonrenewals by zip code for each of the noted companies is included within the Statistical Supplement to this report.

Policy nonrenewal refers to either the policyholder electing not to renew the policy when it expires or to the insurance company not offering to renew the policy when it expires. The top 25 companies and the FAIR Plan report that there were a total of 6,590 policies nonrenewed in the urban and coastal designated zip codes in 2015, with 4,165 policies nonrenewed among the top 25 companies and 2,425 nonrenewed FAIR Plan policies. Of the total number of nonrenewals, 4,021 policies were nonrenewed in urban areas and 2,566 policies were nonrenewed in coastal areas.

When examining the information submitted on a company-by-company basis, as illustrated in Figure 28, four companies – New London County Group, Norfolk & Dedham Group, Union Mutual Fire Insurance Group and United Insurance Holding Group – had the highest numbers of nonrenewals in 2015.



*The number of nonrenewals percentage is relative to the number of in-force policies each insurer has in designated zip codes .
"Nonrenewals consist of both "Total Nonrenewals" and "Insurer initiated Nonrenewals due to Company's Geographic Withdrawal".

Figure 28

Cancellations for Urban/Coastal Areas

In examining cancellations in urban and coastal areas, the Division asked companies to report whether cancellations were policyholder-initiated or insurer-initiated, and if insurer-initiated, whether they were made in the first 60 days (when an insurer may do so without reason) or were due to nonpayment or for other permitted reasons after the first 60 days of a policy. The Division requested information regarding the number of cancellations specifically associated with geographic concerns, as opposed to those undertaken for any other reasons.

The top 25 companies and the FAIR Plan reported:

- 67,512 cancellations during 2015.
  - 49,024 were initiated by the policyholder; and
  - 18,488 were initiated by the insurer, of which:
    - 1,396 initiated by the insurer in the first 60 days,
    - 13,348 cancelled due to nonpayment, and
    - 3,744 cancelled for other reasons permitted by law.

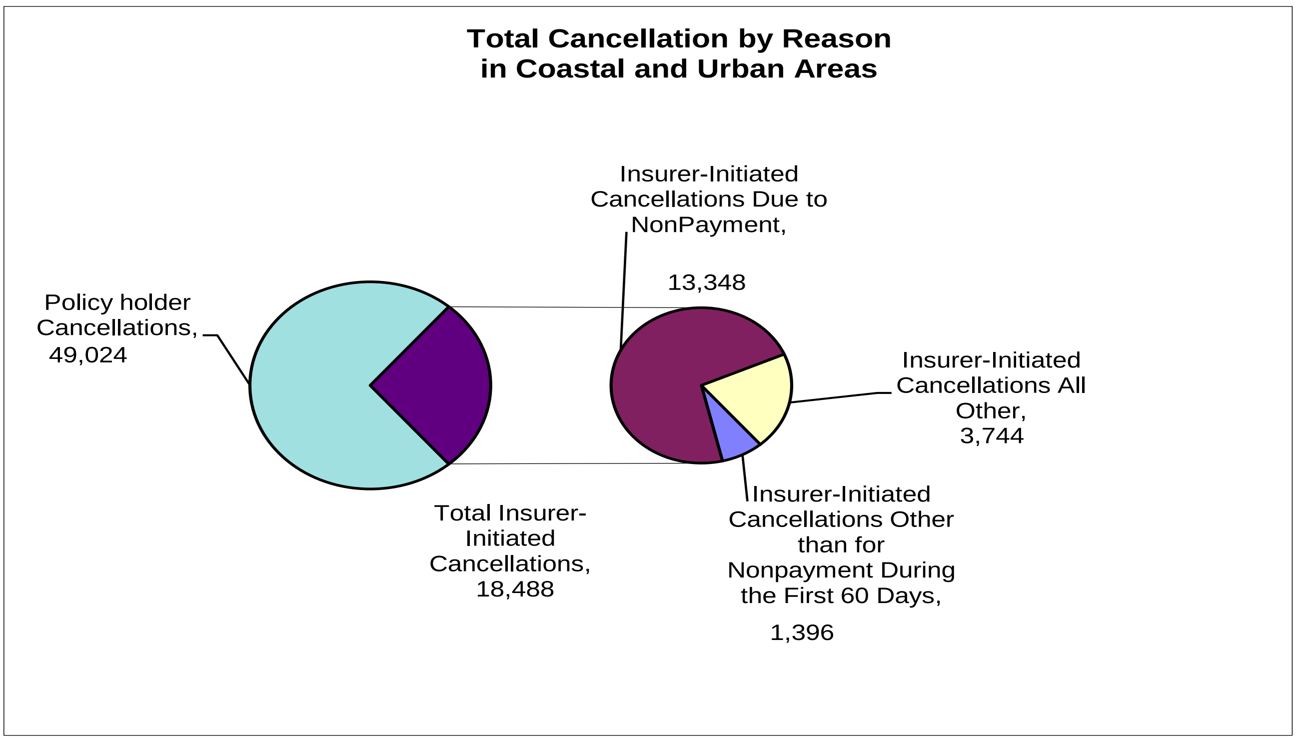


Figure 29

From an examination of those policies that were in urban areas:

- 47,346 cancellations occurred during 2015.
  - 33,497 were initiated by the policyholder; and
  - 13,849 were initiated by the insurer, of which:
    - 997 initiated in the first 60 days,
    - 10,137 cancelled due to nonpayment, and
    - 2,715 cancelled for other reasons permitted by law.

From an examination of those policies that were in coastal areas:

- 20,166 cancellations occurred during 2015.
  - 15,527 were initiated by the policyholder; and
  - 4,639 were initiated by the insurer, of which:
    - 399 initiated in the first 60 days,
    - 3,211 cancelled due to nonpayment, and
    - 1,029 cancelled for other reasons permitted by law.

Home insurance products are term products, almost always written with a one-year policy period. At the end of the one-year period, insurance companies and insureds must decide whether to continue the coverage for another policy period or to nonrenew the policy. There are no Massachusetts statutes that limit the reasons for the nonrenewal of coverage by an insurer, but an insurer must provide the policyholder or policyholder's insurance producer with at least 45 days advance notice.

The Division requested that companies not report data where a renewal offer was made and the policyholder did not accept the offer, instances where the policyholder requested that the policy not be renewed, and any nonrenewals connected to an insurance agency that did not produce business for the company during the years 2013, 2014, and 2015. The Division requested that companies distinguish between nonrenewals that were made based on (a) the risk of natural perils (*i.e.*, windstorm, hurricane) that are usually covered under the standard homeowner's policy and (b) all other reasons.

The top 25 companies reported that there were a total of 4,165 insurer-initiated policies nonrenewed in the urban and coastal designated zip codes in 2015,[35] with 3 of those nonrenewed as insurers withdrew from certain geographic areas and 4,162 nonrenewed for other reasons. This compares with a total of 4,141 policies insurer-initiated nonrenewed in the urban and coastal designated zip codes in 2014, with 45 nonrenewed as insurers withdrew from certain geographic areas and 4,096 nonrenewed for other reasons. Of the reported 3 in 2015 that were nonrenewed because the insurer decided to withdraw from a geographic area, none was in those zip codes identified as coastal areas. Of the reported remaining 4,162 nonrenewals for reasons other than a decision to withdraw from a geographic area, 1,630 were nonrenewals in those zip codes identified as coastal areas and 2,532 were nonrenewals in those zip codes identified as urban areas.

[35] The designated zip codes are identified in Exhibit 8A of the Statistical Supplement to this report.

In addition to the top 25 company nonrenewals, the FAIR Plan did not renew 2,425 policies according to what is permitted within its Plan of Operations, including properties whose value exceeds the FAIR Plan's $1,000,000 cap.

Claims History of Policyholders Renewed and Nonrenewed in Urban/Coastal Areas in 2015

In the 2015 survey, the Division asked the top 25 home insurance companies to separately report the claims history of policies that were renewed or nonrenewed.[36]

In 2015, of the reported 364,132 urban or coastal policies renewed by the top 25 home insurance companies, there were an estimated 30,877 claims filed during the reporting period, an average of 85 claims filed per 1,000 policies renewed in 2015. The companies reported having paid $342,743,238 in claims during the reporting period for those renewed in 2015, with an average claim size of $8,148. By comparison, in 2014, of the reported 355,733 policies renewed by the top 25 home insurance companies, there were an estimated 26,701 claims filed during the reporting period, or an average of 75 claims filed per 1,000 policies renewed. The companies reported having paid $241,334,527 in claims during the period for those renewed, with an average size of $7,477.

When comparing urban and coastal renewed policies, there were 84 claims filed per 1,000 coastal policies, as compared to 85 claims filed per 1,000 urban policies. The average claim size for renewal policies was $9,704 per claim for coastal policies, as compared to $7,441 per claim for urban policies.

Of the reported 4,162 policies nonrenewed by the top 25 insurance companies, there were a total of 5,398 claims filed in 2015, or an average of 1,297 claims filed per 1,000 nonrenewed policies. The companies reported having paid $19,646,739 in claims during the reporting period, with an average claim size of $3,640.

When comparing urban and coastal nonrenewed policies, there were 284 claims filed per 1,000 coastal policies, as compared to 1,949 claims filed per 1,000 urban policies. The average claim size for nonrenewed policies was $12,787 per claim for coastal policies, as compared to $2,781 per claim for urban policies.

Summary of Cancellation/Nonrenewals in Urban/Coastal Areas

While the results are not identical, it is apparent from survey data that insureds who have been nonrenewed have on average filed more claims and more expensive claims during the experience period. Nevertheless, a significant number of insureds whose policies were renewed also filed claims. In 2014, approximately 32,000 of those whose coverage was renewed did file claims sometime in the prior three years and companies made payments of $241,334,527 on these claims.

[36] In collecting the claims history for those policies renewed in 2015, the Division requested in its survey that the company report the number of claims reported and dollar value of claims paid during each of 2013, 2014 and 2015. Similarly, in collecting the claims history for those policies nonrenewed in 2015, the Division requested that the company report the number of claims reported and dollar of claims paid during each of 2013, 2014 and 2015.

In 2015, approximately 42,000 of those whose coverage was renewed did file claims sometime in the prior three years and companies made payments of $342,743,238 on these claims.

In urban areas, 85.4% of those policyholders with claims who sought to renew were renewed by their insurers. Similarly, 96.6% of those policyholders with claims in coastal areas who sought to renew were renewed by their insurance companies.[37] See Figures 30A and 30B.

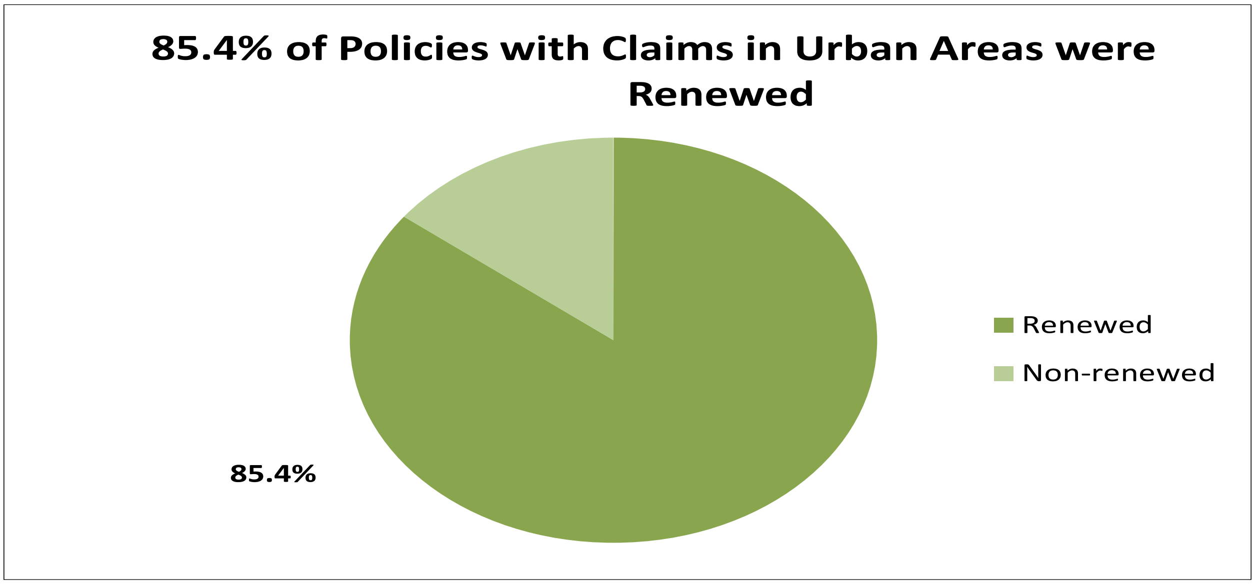


Figure 30A

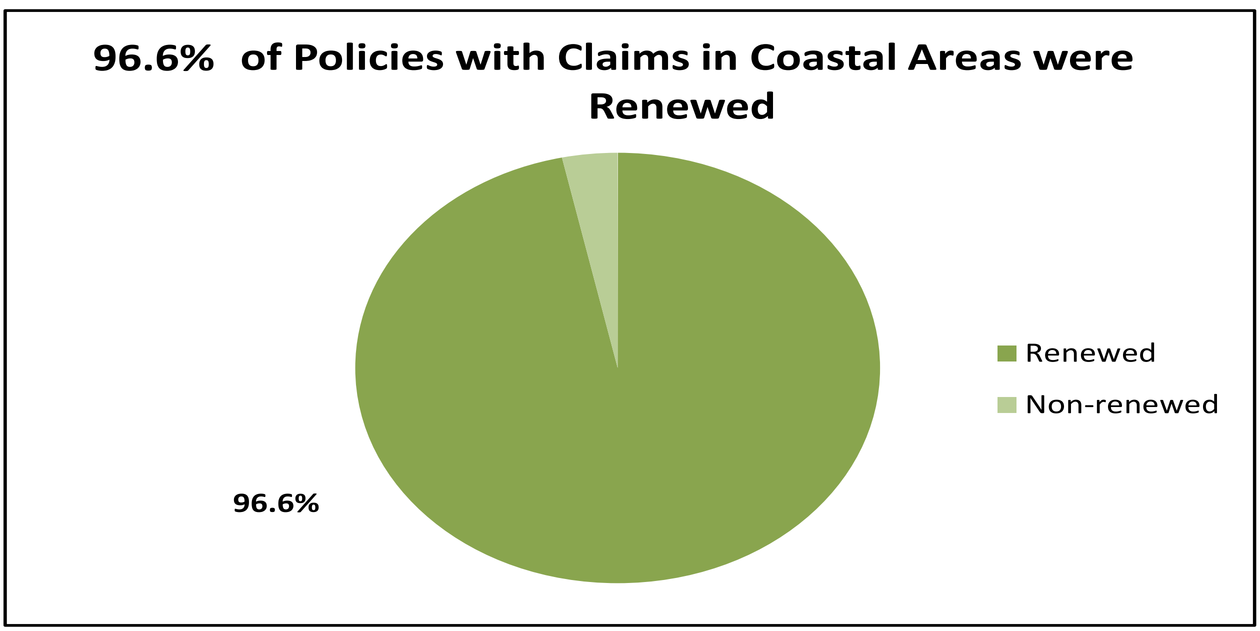


Figure 30B

[37] Based on the assumption that there was only one claim per policyholder.

Methods to Establish Home Insurance Limits

Homeowners purchase home insurance to protect their principal residences up to the policy limits of the coverage. Personal residences are not like other fungible items, such as a car, because it is not possible to order a replacement home "off the shelf" and a damaged house does not have an obvious price for a replacement. A home insurance policy's Coverage A represents a coverage limit applicable towards the full cost of replacing a destroyed home with a new house at the original home's location. The Coverage A limit is significant because it is the basis for the maximum amount the insurance company will pay to replace the covered home, and it is also the basis in a standard policy for establishing limits on coverage for unattached structures (Coverage B routinely set at 10% of Coverage A), personal contents (Coverage C routinely set at 50% of Coverage A), and additional living expenses (Coverage D routinely set at 20% of Coverage A) and for the level of premium paid by the insured.

In order to understand the methods used by companies to establish Coverage A limits, under special examination, the Division asked the top 25 home insurance companies and the FAIR Plan to explain the ways that they calculate the Coverage A limits for individual policyholders.

<u>Determination of Coverage A Amount</u>

The Division found that all 26 companies queried use a Coverage A amount that reflects the cost to reconstruct the insured's home at its present location in a timely manner. The *reconstruction cost* may differ from the cost of replacing a home with new construction on a greenfield site, where economies of scale, timing flexibility and location efficiencies reduce expenditures. Reconstruction costs may also differ significantly from a property's market price and from the structure's depreciated actual cash value[38].

Of the 26 companies, 24 use commercial software to generate a detail-driven estimate of the reconstruction cost of an insured's home. According to the reporting companies, they use software tools from three vendors:

Marshall & Swift/Boeckh "RCT" estimator owned by CoreLogic (used by 19 insurers);

"ISO 360"/"Xactware" estimator owned by Verisk (used by 6 insurers); and

"e2value" estimator used by Gordian (used by 1 insurer).

(One insurer uses both the ISO-360 and RCT estimator in developing reconstruction costs.)

These estimators are data-driven software tools that use site-specific information, such as tax records, building shape, square footage and room count as well as quality of construction and the building materials used in order to create a comprehensive characterization of the existing structure. In order to use the estimator tools, an agent or company sales representative obtains data

[38]CoreLogic defines reconstruction cost as follows: "…the cost to build, at one time, an entire building of equal quality, features, finishes and utility in the most expeditious manner possible after a loss. The overall goal is to create a duplicate or replica of the insured building using the building codes, construction pricing, overhead and profit, and fees in practice at the time the valuation was written. Modern materials and current methods, designs, and layouts are used and may not be the same as when the building was originally constructed."

from the homeowner's application, as well as data taken from public tax records, address-specific vendor data, and, sometimes, information from a home inspection and inputs it into the proprietary software. This information is combined with current local building code requirements, local construction materials costs and prevailing local labor rates to electronically calculate a "virtual contractor's itemized bid" of the projected total cost of rebuilding any particular home. This is then used to establish a Coverage A coverage limit for a home.

Even though there may be standard software, there appears to be latitude that an agent or company representative has in inputting data into the estimator and this can allow for different outputs for the same property.