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Insurance for high-risk properties easier to get A ripple from state's auto-policy market

By Todd Wallack
Globe Staff

Competition in the state's car insurance market has yielded an unexpected benefit: Thousands of residents who once had to buy expensive home coverage from the Massachusetts FAIR Plan are increasingly able to find policies through other insurers, saving them hundreds of dollars a year on premiums.

The FAIR Plan, known as the insurer of last resort, provides home insurance in high-risk areas, including neighborhoods that have high crime rates or sit perilously close to the ocean. Home insurance companies have traditionally been reluctant to do business in such locations.

But since the state gave insurers more freedom to set their own auto insurance rates, starting in 2008 — something it calls “managed competition” — 13 more auto insurance companies have set up shop in Massachusetts, with most also selling homeowners policies or partnering with firms that do.

Over that time, the FAIR Plan lost nearly 27,000 homeowners insurance customers, or 16 percent of its base, an exodus few in the industry predicted.

“It is all driven by this shift in the competitive marketplace,” said Robert Tommasino, general counsel for the Massachusetts Property Insurance Underwriting Association, better known as the FAIR Plan.

Some insurers, including Narragansett Bay Insurance Co., also decided the escalating prices of premiums for coastal properties made it worth their while to start selling policies in those locations. Their strategy has been to undercut the FAIR Plan rates while still charging enough to turn a profit.

Bob Inello, whose waterfront home in Nahant is exposed to the wrath of storms, said he was forced to buy Fair Plan coverage for more than a decade. But three years ago, Inello said, his agent said he could switch to Narragansett, cutting his bill by \$570 a year — more than 20 percent.

“I don't feel like I am being held hostage anymore,” Inello said. “It's very liberating.”

Even insurers that were well-positioned here before the state partially deregulated the auto insurance market are stepping up their marketing.

Boston-based Liberty Mutual, for instance, has tripled its salesforce and opened four new offices since 2008.

Like many other companies, Liberty Mutual also offers a discount to customers who bundle their auto and home insurance. Over the past five years, the company has gained tens of thousands of customers, helping to make Liberty Mutual the second-largest auto insurer and third-largest home insurer in Massachusetts.

“The shift to managed competition opened the door for us to grow,” said spokesman Glenn Greenberg. “If you can sell customers two products instead of one, that's a smart way to do business.”

Both regulators and insurance agents say competition has helped customers find alternatives to the FAIR Plan that are cheaper or better. “There are a lot more benefits available to the consumer in the voluntary market than in the FAIR Plan,” said the state’s insurance commissioner, Joseph Murphy.

For instance, the Boston insurance agency Vargas and Vargas said it recently saved a Brockton customer \$600 by moving her off the FAIR Plan.

While the FAIR Plan may be best known for offering coverage on Cape Cod, it was established by the state in 1968 to provide coverage in urban neighborhoods where insurance was becoming harder to buy because of concerns about arson, looting, and other crimes. It also became important in areas where houses are packed closely together or have not been updated to comply with modern building codes.

Even today, the FAIR Plan remains the dominant carrier in large swaths of Boston — such as Roxbury and Mattapan — and in Lynn and Lawrence, where it has 42 percent of the market.

But starting a decade ago, the FAIR Plan became increasingly common in coastal areas when many insurers became worried about the risk from severe storms. The plan still has about 54,000 homeowners policies on the Cape and Islands, accounting for more than one-third of those markets. Statewide, it accounts for more than 1 in 10 homeowners policies.

And even with the additional competition, home insurance remains scarcer and much more expensive on the coast. A typical four-bedroom in Groveland, a small town near the New Hampshire border, might cost \$1,000 a year to insure, said Steven P. Roy of Elliot Whittier Insurance Services, an insurance broker in Danvers. But the owner of a similar home in Falmouth would probably pay more than twice that, he said. Many coastal customers also complain about high deductibles. Yet many Cape and Islands property owners remain unaware that better deals might be available, insurance agents say.

“There are still a lot of customers in the FAIR plan that shouldn’t be there,” said Kevin Hicks of K.D. Hicks Insurance Agency Inc. in Boston. “It’s still in the mind-set of customers that the FAIR Plan is the only game in town. It’s not.”

Maria Zodda, a retired schoolteacher on Nantucket, knows that to be true. Two years ago, she said, her agent was able to offer a homeowners policy through the British insurance giant Lloyd’s of London. The coverage was more comprehensive, Zodda said, and her annual premium dropped by more than 25 percent, or \$2,300 a year.

“For years and years, I was trying to find another company to cover me,” she said. “Now we finally have a choice.”

Todd Wallack can be reached at twallack@globe.com. Follow him on Twitter [@twallack](https://twitter.com/twallack).