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**ATTORNEY GENERAL MARTHA COAKLEY CONTESTS FAIR PLAN RATE INCREASES**

***Urges Rejection of Industry's Planned 25% Rate Hike for Coastal Communities***

**BOSTON** - Attorney General Martha Coakley's Office filed its final brief late yesterday in the FAIR Plan homeowners insurance rate proceeding before the Division of Insurance, recommending that the Commissioner not approve the proposed rate hikes. This year, the FAIR Plan requested a 25% rate hike for Cape Cod, New Bedford and Fall River, and an average overall 13.6% increase throughout the Commonwealth. This year's rate hike follows a previous 25% increase for the Cape last year.

The FAIR Plan is a state-created insurer of last resort where the private market has failed to insure or has dropped homeowners from coverage. The Plan is operated jointly by the private insurers who sell homeowners coverage in Massachusetts; they all share its profits and losses in proportion to market share. The Commissioner of Insurance oversees the administrative rate trial, which began last April, and must decide whether to allow the rate increases.

"The FAIR Plan was created to ensure affordable homeowners insurance remains available in areas where the private market has temporarily failed to do so. Many FAIR Plan customers are on a fixed income and cannot afford the proposed drastic annual increases to their homeowner insurance policies," said Attorney General Coakley. "Furthermore, the proposed rates are not supported by credible evidence of risk, and seek instead to take advantage of market disruption in areas such as coastal Massachusetts to seek inflated rates. We urge the Commissioner to disapprove this rate filing."

In the course of the rate trial, the Attorney General's Office cross examined the FAIR Plan's witnesses, reviewed numerous documents, and offered expert testimony and evidence relating to rates. Based on this evidence, the Attorney General's Office concluded that the FAIR Plan's proposed rates were inflated and unsupported. The brief points to evidence showing that:

- **The FAIR Plan rates are based in large part on a hurricane model that is not calibrated for Massachusetts weather patterns.** This hurricane model has been kept secret from the public review process. The model, which is averaged with another model to produce the proposed rates, predicts the type of storms that have never made landfall in Massachusetts. For example, Massachusetts has never recorded the most destructive hurricanes, those with the fastest windspeeds, known as Category 4 and Category 5 storms, which require warm tropical waters to maintain their intensity. The FAIR Plan's hurricane model includes Category 4 and 5 storms making landfall in the Northeast. No Category 5 storm has ever hit the Eastern Seaboard above southern Florida, and no Category 4 storm has ever hit north of South Carolina in recorded history.
- **The FAIR Plan admitted that its reason for wanting to raise its rates was to push FAIR**

**Plan prices above the rest of the market.** Rather than base its rates solely on reliable actuarial factors, the FAIR Plan conceded that it built in costs so as to increase its rates beyond the already costly private market rates. This means that the private insurers who manage the FAIR Plan would be able to continue charging high rates without losing business to the FAIR Plan.

- **The FAIR Plan intends to overcharge its consumers for reinsurance.** Reinsurance is insurance for the insurance companies. Companies purchase reinsurance so that an insurance company can absorb and pay a large number of simultaneous claims after a catastrophe. The FAIR Plan overpaid for its reinsurance purchases, and seeks to pass those inflated costs along to consumers. In its proposed rate, the FAIR Plan did not provide justification of its reinsurance purchase, and predicted its reinsurance needs based on unsupported hurricane models. The FAIR Plan also misallocated portions of these costs, substantially overcharging consumers.
- **The FAIR Plan inflated its projection for non-hurricane losses (i.e., fire, snow storms, etc.) by considering only inflation and ignoring factors that are actually driving FAIR Plan costs down.** For example, the FAIR Plan is writing more policies for homeowners on the Cape, whose homes tend to experience less of these types of losses than the rest of FAIR Plan coverage areas. The FAIR Plan does not take this into account in its loss predictions.

The FAIR Plan provides insurance to over 150,000 coastal and urban homeowners who cannot obtain insurance in the open marketplace. In its statutory role as the advocate for consumers and the public interest, the Attorney General's Office intervened in the hearings on the FAIR Plan proposal, triggering a rate case in which the Massachusetts' homeowner insurance carriers must defend their planned rate increases.

This matter is being handled by Attorney General Coakley's Insurance and Financial Services Division.