UnFAIR plan: Why we need reform

March 12, 2012 2:21 AM

This is the first of a three-part series examining homeowners insurance in Massachusetts in the wake of 2004 legislative changes. The series was written by Paula Aschettino, chairwoman of Citizens for Homeowners Insurance Reform, and members and consumer advocates Ron Lasko and Jane Logan.

The Massachusetts FAIR Plan, known as the homeowners insurance plan of last resort, is managed by 16 private insurance companies — the same ones that canceled 80 percent of the Cape and Islands' policies from 2003 to 2005, requiring thousands of coastal homeowners to insure with the FAIR Plan.

The FAIR Plan board intentionally misled coastal legislators in 2003 on the full impact of Chapter 436 of the Acts of 2004, passed that year by the Legislature, on coastal homeowners' insurance rates.

This new state law added language allowing the FAIR Plan to increase rates in coastal Massachusetts without caps, allowing the cost of reinsurance to be passed down to coastal homeowners through premiums.

Can the Acts of 2004 supersede the federal laws that created FAIR Plans? We ask for a full investigation by the state attorney general and the U.S. Justice Department.

WHAT IS THE FAIR PLAN?

In the 1960s, when civil unrest led to considerable property damage across the U.S., insurers drew red lines on maps around certain "high-risk areas" and refused to sell property insurance in those locations, coining the term "redlining."

To provide insurance to these areas and prevent discrimination, Congress enacted the Urban Property Protection and Reinsurance Act of 1968, establishing FAIR Plans — an acronym for Fair Access to Insurance Requirements. The act allowed insurers to pool together to provide insurance in these redlined areas, and the Massachusetts FAIR Plan adopted this language.

The intent of the federal law was to provide insurance at affordable rates, no higher than those in other parts of the state, and reinsurance costs were not to be passed down to the consumers in the redlined areas.

All insurers writing home-

owners insurance policies in the state were to be members of the FAIR Plan. Costs of reinsurance were to be split among all member insurance companies.

HERE IS THE PROBLEM

Since the passage of the Acts of 2004, FAIR Plan property owners on Cape Cod and the Islands, a redlined area, have paid the cost of the reinsurance — more than 50 percent of our premiums. Conservatively calculated, that's more than $100 million a year.

- Premiums have increased 300 percent to 400 percent over the past seven years.
- Our homeowner rates, on average, are 200 percent higher than the same policies inland.
- Wind deductibles are 2 percent to 5 percent of homes' replacement value and are triggered by any wind event.

The FAIR Plan and all insurance companies have shifted more risk onto the policyholder through high wind deductibles and high reinsurance costs, and by continuing to increase the replacement values on our homes, which increase the premiums, add more to the wind deductibles and give more profits to the FAIR Plan, thus constituting a "rate increase" without regulatory approval.

This was not the intent of the federal FAIR Plan laws of 1968.

ALL ABOUT REINSURANCE

Reinsurance is insurance purchased by insurance companies to protect their assets and to cover catastrophic losses over and above certain levels. This is how they manage risk and grow their capital investments.

Most reinsurance companies today are located in Switzerland, Germany, London, Bermuda and the Cayman Islands, providing better tax treatment — some free of taxes and regulation.

These companies are foreign entities, not necessarily subject to U.S. law. Will the money be available in the event of a catastrophic loss? No telling.

The Massachusetts Property Insurance Underwriting Association purchased just over $79 million in reinsurance this year, and more than $80 million last year, to protect itself from catastrophic risk. Coastal policyholders paid most of this cost.

Add to that the fact that homeowners pay high wind deductibles, and it is clear the insurer has little exposure to losses — only profits. The FAIR Plan's $280 million in profits stays invested.

We must ensure the $280 million in excessive overcharges to policyholders is never released to the FAIR Plan member insurance companies.

LOCAL IMPACT

The Cape and Islands region has paid more than $700 million in the past seven years for foreign reinsurance — for the benefit of the insurance industry. This money is gone forever from our local economy.

Using the U.S. General Accounting Office precept that every dollar recycled in the U.S. economy will result in the equivalent of $1.80:

- The Cape and Islands economy has lost $1.26 billion over the past seven years.
- Policyholders have less money for bills, mortgages, college savings, local business, home improvements, restaurants, theaters and the arts. This results in job losses.
- Seniors on fixed incomes are finding the excessive cost of homeowners insurance devastating.
- More Cape citizens are now living near or below the poverty level.

The state insurance commissioner must deny the FAIR Plan's requested 7.2 percent rate hike, and our legislators must repeal Chapter 436 of the Acts of 2004.

Tomorrow: Collusion, fraud and manipulation.

Collusion, fraud and manipulation

March 13, 2012 2:00 AM

The following is the second part of a three-part series examining homeowners insurance in Massachusetts in the wake of 2004 legislative changes. The series was written by Paula Aschettino, chairwoman of Citizens for Home-

owners Insurance Reform, and members and consumer advocates Ron Lasko and Jane Logan.

Many private insurers wrote homeowners policies on the Cape and Islands before passage of the Acts of 2004. Wind losses were low — still are — almost the lowest in the state for more than 12 years. Until 2004, the FAIR Plan did not have many policies on the Cape and Islands.

But the insurance industry lobbied for the new law, which allowed the caps to be taken off the FAIR Plan rates in so-called "large-share territories" and allowed the cost of reinsurance to be passed down to policyholders. This new state law contravenes the federal laws that created FAIR Plans.

After 2004, we saw private insurers leave the Cape and Islands, forcing thousands of homeowners to insure with the FAIR Plan, thus creating a large-share territory, the planned scheme.

The immediate result was a 25 percent rate increase for the Cape and Islands, with reinsurance costs passed down through premiums.

Both FAIR Plan and private homeowner insurers have raised coastal rates 300 percent to 400 percent over the past seven years.

The FAIR Plan, which is made up of private insurance companies, was and is the spearhead enabling the state insurance industry to make additional profits. We feel it manipulates and controls the number of private companies writing homeowners insurance in the coastal area to keep the Cape and Islands as a large-share territory free of rate caps. This is why we do not have an open insurance market.

The FAIR Plan made more than $280 million in profits from 2004 to 2011. This gouging was not the intent of the federal laws that created FAIR Plans. We feel this is collusion.

CONFLICT OF INTEREST

A great many aspects of the insurance industry are incestuous — rating agencies, catastrophe modeling companies, data service companies, reinsurance companies, the National Association of Insurance Commissioners — all to the detriment of the consumer, who has little protection from this greedy industry.

AIR Worldwide, a company that develops models to calculate hurricane losses, is owned by ISO, an insurance industry company.

The largest company used by the FAIR Plan to inspect homes and establish replacement values is owned by the FAIR Plan president's son.

These are conflicts of interest and must cease.

ACCURACY OF DATA

Data from insurance industry data banks used to justify rates are not audited or validated for accuracy in Massachusetts.

Hurricane models used by the insurance industry to calculate "predicted losses" from "predicted storms" are not accurate for Massachusetts and result in inflated intensities and frequencies of predicted hurricanes. Thus predicted losses are inflated, adding millions to the reinsurance purchased by the FAIR Plan. Policyholders pay for this reinsurance, which represents 57 percent of their premiums.

As can be seen in pages from the rate filing, the FAIR Plan also manipulates and intentionally withholds important data on our homes from the modeling companies, resulting in our homes looking "weak" and vulnerable to winds. The insurers provide the very barest minimum information, thus increasing the predicted losses and justifying the rate hike.

Insurers must "prove" in rate filings that the hurricane models used are accurate for Massachusetts-specific data. They must prove the amounts of reinsurance purchased are justified by the real risk of hurricanes in Massachusetts, and show how this amount was calculated.

For calculating vulnerability to wind, hurricane models must incorporate building codes and architectural expertise for Massachusetts homes, not homes from South Carolina and Florida.

INSURANCE INFLUENCE

Industry lobbying in 2007 and 2008 contributed a record $46.7 million to federal elections, according to the Center for Responsive Politics as stated in a recently published paper "A Failure of Oversight in Need of Rescue: Insurance Regulation" by Robert Hunter, director of insurance for the Consumer Federation of America.

A revolving-door policy exists between the insurance industry and many insurance commissioners and members of the state Division of Insurance. Many state lawmakers sit on important committees overseeing insurance regulation and are connected to the insurance industry. Legislators and governors take campaign money from the insurance industry.

Citizens: Let's stop the influence of the insurance industry in this country. Those found taking campaign money from the insurance industry should not be elected or re-elected.

Readers may go to our website (see below) to join our fight and sign our petition. Call your legislator to urge passage of House Bill 00311 and repeal of the Acts of 2004. Write the Division of Insurance and ask the commissioner to deny the FAIR Plan rate hike.

Tomorrow: How reform can be achieved.

How to fix what ails insurance

March 14, 2012 2:00 AM

This is the last of a three-part series examining home-owners insurance in Massachusetts in the wake of 2004 legislative changes. The series was written by Paula Aschettino, chairwoman of Citizens for Homeowners Insurance Reform, and members and consumer advocates Ron Lasko and Jane Logan.

The foreign reinsurance cartel and our insurance companies are calculating to raise Massachusetts coastal property premiums up to an additional 50 percent in 2012-13 on both FAIR Plan and private insurance homeowners policies. This will drain the Cape and Islands economy of more than $2 billion in the next seven years, in addition to the $1.2 billion it has drained in the past seven years. More than half of that money will go to Bermuda, the Cayman Islands and to Swiss and European banks.

Working together we can stop these out-of-control, spiraling insurance premiums that threaten our very livelihoods and property values. Together we can ensure that our American insurance industry, which has lost its way, will be forced to act responsibly; we can break the stranglehold of the foreign catastrophe reinsurance cartel.

What readers can do

We need your help and support to take the following steps as outlined on our website, www.homeowners insurancereform.org.

- All business owners, homeowners, workers, retirees, municipal workers, public and elected officials — everyone — needs to write the docket clerk of the state Insurance Department asking the insurance commissioner to deny the proposed rate request. Visit our website for specifics.
- Everyone needs to write their state legislators requesting they pass citizens' bill H.00311, which requires proof of hurricane models and reinsurance costs. It also gives the attorney general the right to call hearings on insurers' rates and prevent excessive charges. Our website has specifics.
- We need to repeal the state Insurance Acts of 2004 to restore the original intent of fair and reasonable pricing of property insurance.
- We need readers to visit our website and sign our petition that calls on our attorney general and our Legislature to implement reforms.

What else must happen

As a result of insurance company mergers into banking institutions and Wall Street securities firms since 1995, along with the international scope of the foreign catastrophe reinsurance cartel, a full and complete investigation of overpricing and wrongdoing is beyond the assets of a single state attorney general. Therefore:

- We are calling for a full investigation into the insurance companies, the FAIR Plan and its insurance company board of directors and the foreign catastrophe reinsurance cartel by our state attorney general and the U.S. Justice Department's recently formed Financial Fraud Enforcement Task Force (FFETF).
- We are calling on the directors of the recently created Federal Insurance Office and the Consumer Financial Protection Bureau to investigate and join with all federal agencies in this investigation.
- We are calling on our congressional representatives and the entire Congress to put property insurance reform on a fast track.
- We are calling on President Obama and his entire administration to support this investigation and support necessary federal legislation to end the unfair discriminatory insurance and reinsurance practices on both FAIR Plan and insurance company policyholders

Visit www.homeownersinsurancereform.org and log on to sign the petition. We can start taking back control of our premiums so they are fair and appropriate and free of foreign and financial services industry manipulation.