

COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
DIVISION OF INSURANCE

One South Station • Boston, MA 02110-2208
(617) 521-7794 • FAX (617) 521-7475
TTY/TDD (617) 521-7490
<http://www.mass.gov/doi>

DEVAL L.
PATRICK

DANIEL
O'CONNELL
GOVERNOR

TIMOTHY P. MURRAY
LIEUTENANT GOVERNOR

SECRETARY OF HOUSING AND
ECONOMIC DEVELOPMENT

DANIEL C. CRANE
DIRECTOR

NONNIE S. BURNES
COMMISSIONER OF INSURANCE

January 27, 2009

Paula Aschettino
Chair/Founder
Citizens for Homeowners Insurance Reform
21 Smith Street
Eastham, MA 02642

Dear Ms. Aschettino:

Commissioner Burnes requested that I respond on her behalf to the e-mail that you sent on January 12, 2009 regarding homeowners insurance in the Cape Cod area. We appreciate your continuing attention to the availability of coverage in your area and hope that the time that Caleb Huntington and I have spent with you have answered many of the questions you have had about home insurance. Due to other pressing issues, we are not able to schedule the meeting you requested but are responding to the questions that you have raised.

Among the issues noted in your e-mail, you suggested that consumers need clearer policies so they can understand the features of their home insurance. You suggested that there should be a standard policy to explain coverage, options and deductibles. We at the Division of Insurance agree that consumers need better information about what is covered and not covered in their home insurance policies. We are actively working on a draft bulletin that would require clearer consumer documents. As we get closer to completing this document, we will contact you to get your advice on information to include in the bulletin.

In another section of your e-mail, you discussed wind deductibles and what you believed should be limits to what types of deductibles are offered in Massachusetts. We at the Division of Insurance agree that there should be rules regarding wind deductibles and are actively working on a draft bulletin that would establish standards for wind deductibles and mitigation programs. As we get closer to completing this document, we will contact you to get your advice on information to include in the bulletin.

Your e-mail also included a number of questions about the material that is included within filed rate submissions. You suggested that the Division collect additional expense information and review all company reinsurance contracts. As we have discussed, Caleb Huntington, our actuary, devotes a significant part of his time to the review of submitted homeowners rate submissions. He scrutinizes the detail of each filing, contacts companies to collect missing material and detail regarding the filed material and tests the assumptions used in each filing. He will not consider his review to be complete until a company has submitted what he finds to be sufficient actuarial support for a requested rate change and he believes that the submitted rate is not inadequate, excessive or unfairly discriminatory. Caleb and I believe that much of the information that you referred to in your e-mail is either within the material that Caleb reviews or is not necessary for him to complete his review

according to the standards established under the law. We could talk about this in more detail if you find this to be helpful.

In another set of questions, you suggested that the Division hold rate hearings on all submitted rate increases and also review previously submitted rates. You also suggested that there should be refunds where you believe it to be appropriate. As we have discussed, the Division does have the statutory authority to hold rate hearings on filings submitted by the Massachusetts Property Insurance and Underwriting Association ("MPIUA", also known as the FAIR Plan), but does not have the statutory authority to call hearings on any non-FAIR Plan filings, unless she disapproves the rates. Absent any changes to existing laws, when companies submit rate filings that we review and find are actuarially supported, we do not have the authority to hold the hearings that you have suggested.

You also asked that we at the Division of Insurance follow recommendations in Commissioner Bowler's 2003 home insurance report that insurers submit their "lending guidelines." From our review of the 2003 report, Commissioner Bowler indicated that if companies did submit their underwriting – as opposed to lending - guidelines, she would make them available to the public. Absent any changes to the existing laws, we do not have the authority to require companies to submit their underwriting guidelines to the Division.

I hope that this responds to your questions. If you would like additional clarification, please contact me at (617) 521-7323 so we can set up a time to talk.

Sincerely,

Kevin Beagan
Director, State Rating Bureau

Cc: Commissioner Burnes

From: Insreform@aol.com [mailto:Insreform@aol.com]
Sent: Monday, January 12, 2009 9:25 AM
To: Pinion, Stephanie (DOI)
Subject: Requesting a meeting on Cape Cod with the Commissioner

Dear Stephanie and Commissioner Burnes,

The Citizens for Homeowners Insurance Reform are asking for a meeting with Commissioner Burnes to be held on Cape Cod in the near future.

The purpose of this meeting is to get answers from the Commissioner regarding the following areas of concern and possibly other questions from Citizens:

1. The Commissioner is approving rate hike requests for the private insurers (Commerce Ins- 70% rate hike last year) when the State Homeowners Insurance Report shows 38% loss ratios for a second year and over 12 years of low losses. "Profits are up for the insurance industry in MA.
Why are these rate increases being approved? What proof of justification is required by the Commissioner and what information of "risk" is reviewed by the commissioner?
We want a list of all rate increases approved in the past and future easily available for citizens to review.
2. We want public hearings with notification prior to approval of rate hikes. File and Use practices must end.

3. Private Insurers are increasing rates that are excessive and unreasonable in Coastal MA especially Territory 37. Also, the Fair Plan is making huge profits at the expense of the Coastal Citizens. Rates are excessive, and risks inflated. The increases in replacement values of homes have been increased.

The 2007-2008 Fair Plan profits were \$46 million according to Jack Golembeski. This gives the Fair Plan \$170 million in profits from 2004-2008- These profits are unreasonable and excessive to the citizens who are in economic crisis.

4. The Commissioner has the power to disapprove rates that are excessive and she can ask the AG to hold a hearing. We need a change so the Attorney General shall have the power to call for a rate hearing on any insurance company asking or receiving excessive rate increases, if the Commissioner fails to call for such a hearing.

5. The Commissioner should be requiring insurers to provide a standard policy which can be read by a consumer, explaining coverage, options and deductibles. Lack of supervision of Agents who should be working in the best interest of citizens to ensure citizens have the information necessary to make the right decisions on homeowners coverage such as deductible amounts, guaranteed replacement, etc.- Is there a conflict of interest when agents get paid a commission on the amount of the policy from the insurers?

Agents and insurers are not providing citizens with a copy of the declaration page and copy of the most recent home inspection report when a renewal letter is sent. This is a must so consumers can check with other insurers and agents for competition quotes.

6. There needs to be a meaningful appeal process at the DOI for citizens who are not satisfied with the replacement values can be heard and gain relief.

7.. Commissioner Bowler recommended in her report of 2003 that the insurers be required to submit to the DOI their "lending guidelines", in detail, and that these be made available for consumers. This has not been implemented.

8.. With the low incidence of Hurricanes in the historic past in MA and low loss ratios in the State and large profits to insurers, we want the removal of the word "wind deductible" and have the Commissioner make a regulation that the deductible be triggered by a named storm. Hurricane, having sustained winds in excess of 74 mph, commencing with the issuance of a hurricane warning, in the geographical area of the commonwealth where the damage occurs, by the National Weather Service off and concluding 12 hours after the storm has been downgraded from a hurricane status.

Hurricane Deductibles shall not exceed 3% of the part A of said policy.

9.. Re-Insurance Contracts shall be required for review by the Commissioner in all rate hike requests and made public.. Since the citizens pay for the cost of re-insurance and the Commissioner has the power and responsibility to ask for review ALL documents related to the Insurance Company, we want all details made transparent of costs which are directly passed down to citizens. We want to see if the re-insurance amounts are double dipped by companies/ Fair Plan? Are kickbacks given? Are all amounts paid out annually or premiums paid? Transparency of this industry is mandatory.

10 . All insurers shall provide to the Commissioner all company expenses when filing for a rate hike. Any failure to include this information shall render the request null and void.

11. With the Commissioner's report showing low loss ratios over many years and the large profits made by all insurers, along with the overrated risk of catastrophe which has been falsely inflated in the coastal rates since 2004, the Coastal citizens request the commissioner to require the return of a 20% refund to Coastal policy holders from all insurers covering coastal properties. Excessive payments have been made.

12. The Commissioner shall consider the low losses in geographic areas of the State in relationship to insurance rates charged. It is obvious that of the losses that do occur, the Coastal region has the lowest yet pays the highest premiums. The Commissioner shall require all insurers to submit detailed information on the models used, length of time (short or long term) proof that MA has been studied and all factors of MA are current and used by modelers. The insurers shall provide information on who else uses these models, year of model used etc. There is much the Commissioner can do to ensure citizens the DOI is overseeing the accuracy of rates. If information such as this is not provided when a rate increase is requested, such a request is denied.

The Commissioner has the responsibility to make recommendations to the Legislators on the Homeowners Insurance Report annually. We want regulatory improvements made by the Commissioner to this state homeowners practices. If

legislative actions are necessary to accomplish this , the Commissioner must make those recommendations. This would be the sign of a great commissioner.

Please get back to me on an acceptable date for a meeting. The Citizens for the Cape and Islands and Coastal MA are overdue for this meeting. I will arrange a site such as the Cape Cod Community College for this meeting and would prefer a Saturday if possible. If not perhaps a Friday would work out.

I thank you for your prompt attention.

Paula Aschettino

Chair/founder

Citizens for Homeowners Insurance Reform

508-240-5231