

**REPORT of the NEW HAMPSHIRE INSURANCE DEPARTMENT  
RELATIVE to the AVAILABILITY of  
HOMEOWNERS COVERAGE & COMMERCIAL PROPERTY COVERAGE  
September 20, 2002**

**Background:**

Over the last six months the Department has received numerous consumer and producer calls regarding the availability and cost of homeowners coverage and commercial property coverage, especially in the Seacoast Area and in the North Country. The Department has also received calls from concerned Legislators and Executive Councilors that have heard complaints from constituents.

At the end of May 2002, the Department met with representatives of the Professional Insurance Agents of New Hampshire (PIANH) and representatives of the Independent Insurance Agents of New Hampshire (IIANH) to discuss market conditions in the area of property coverage in New Hampshire. On June 19, 2002, Commissioner Rogers and Assistant Commissioner Sevigny were invited to and attended a meeting in Hampton sponsored by the Hampton Beach Chamber of Commerce. They heard from individuals having difficulty obtaining coverage, and from individuals rejected for coverage in the admitted market. A number of those consumers were able to obtain coverage in the surplus lines market, but at a significantly higher premium with reduced coverage. At the end of June 2002, the Department issued a memorandum to insurer and producer trade and professional associations asking those associations to survey their membership regarding market conditions for property coverage in New Hampshire. On July 2, 2002, Assistant Commissioner Sevigny met with representatives of the Independent Insurance Agents of New Hampshire (IIANH) to discuss the results of their survey, and to hear about a program initiated by IIANH to broker personal lines property coverage in the surplus lines market. To provide broader public comment, the Department scheduled and publicized two (2) hearings to obtain information from the public, insurers and producers. Those hearings were held on August 5, 2002 in Hampton and on August 6, 2002 in Carroll.

The following is intended as a synopsis of information collected by the Department from the various consumers, insurers, producers and associations.

**Insurers:**

The industry has experienced growth in both personal and commercial lines during the past decade. As a function of a very competitive market, premiums for property coverages have been artificially low for a number of years. Insurers were able to withstand the underwriting losses because of favorable investment market conditions. Investment market conditions have changed. Adverse insurer loss-cost experiences have been substantial. Emerging coverage issues involving terrorism, mold, and wind have compounded the problem. Larger legal settlements and awards have continued to impact insurers. As a consequence of these trends, the insurance market has hardened with tighter underwriting and higher premium costs. Capacity issues exist for a number of carriers. Certain carriers have withdrawn from the personal lines market in the State over the past eighteen months to two years because of adverse business experience. Others are placing restrictions on new business or seeking to address excessive risk concentration.

While companies are instituting stricter adherence to underwriting standards, the majority of companies report that they have not reduced their market share or changed

underwriting criteria, although a significant number of insurers have chosen not to write commercial properties within 500 to 1000 feet of the shoreline or tidal waters

**Reinsurers:**

Discussions with the Reinsurance Association of America confirm a very active reinsurance market. Market observers note that the rate increases in the primary market were felt very quickly, after September 11, while reinsurers in some instances have effected their first rate increases in July of 2002. While the reinsurance markets, particularly Bermuda, have experienced an influx of money over the past year, the reinsurance markets will be focusing on underwriting profits. Property catastrophe reinsurance is abundant and available for both homeowners and the small to mid-size commercial lines property market; however, the cost of reinsurance is up.

**Producers:**

Insurance producers (agents, brokers) have uniformly reported a tightening of the personal lines and commercial lines markets. Some companies have not renewed agency contracts and some are not interested in new business. Producers unable to place certain risks in the admitted market have had to look to the surplus lines market for coverage, at substantially increased rates with reduced protection. Producers indicated that the surplus lines market was at risk of being overbooked and that timely response was sometimes a problem.

The results of an IIANH poll of their members showed that of seventy-two agencies reporting, thirty-five had experienced a termination and sixty-two had experienced coverage refusal of one type or another. Prime coverage denials exist for dogs, trampolines, wind exposure, coast exposure and proximity to inland waters.

Some producers suggested that carriers should be allowed to offer Department approved sublimits for certain risks as a possible ease to market conditions. Other producers expressed concerns over sublimits that they believed would expose producers to errors & omissions claims.

**Consumers:**

Seacoast consumers reported an array of issues at the August 5<sup>th</sup> public hearing, including insurer withdrawal from the market, insurer underwriting restrictions on properties with proximity to coastal waters, and insurer underwriting restrictions on properties within close proximity to each other. Wind damage exclusions in the surplus lines market were of particular concern. Commercial property owners expressed similar concerns.

At the August 6th hearing in the North Country, consumers expressed concerns about insurer withdrawal from the market and tighter underwriting restrictions. Coverage for second homes (condominiums held for rent) was nearly unavailable in the standard personal lines market with new carrier requirements that these risks be written as commercial lines coverages. Also, older properties and properties in remote areas away from fire protection were not meeting tight underwriting standards and, therefore, were being refused coverage in the standard market.

**Nationwide Trends and Indicators:**

Regional and national news reports carried in general circulation newspapers and insurance trade journals confirm the existence of a nationwide hard market in the

property and casualty area, particularly in the homeowners and commercial property market.

Property markets, both personal and commercial, are experiencing rate hikes and diminished capacity nationwide. On July 18, 2002, the Council of Insurance Agents and Brokers reported to the National Association of Insurance Commissioners (NAIC) that their latest survey of the commercial insurance market shows that the hard market is unabated. Reinsurance rate hikes are expected to continue as that market struggles with the aftermath of September 11, 2001, low investment income and reserve strengthening. Terrorism coverage had become unavailable in some instances and difficult to secure for other risks, and when secured is more expensive for all risks.

**Department Findings/Conclusions:**

The Department has engaged in an information gathering effort to better understand the prevailing market conditions as they apply specifically to New Hampshire's residents and markets, and to more accurately assess the availability of property coverages in the voluntary market.

The Department has found:

- A hard market exists.
- Insurers are applying renewed focus to underwriting guidelines and adequate pricing.
- Property coverage (personal and commercial lines) is more difficult to obtain.
- Premium costs for property coverage (personal and commercial lines) have increased dramatically.
- Producers are working more diligently than ever to find coverage for certain risks.
- More risks, both personal and commercial lines, are being placed in the surplus lines market.
- Surplus lines coverage is expensive and has some concerning exclusions (i.e. wind, dogs) and narrower coverages.

Mindful of the fact that there are limitations to the insurance mechanism, and that intervention in the voluntary market has the potential of creating unanticipated adverse consequences, the Department has determined that formal regulatory measures at this time are neither necessary nor appropriate. Nonetheless, the Department will maintain regulatory vigilance to ensure that, should the market experience further deterioration, the Department will be positioned to move quickly. Toward that end, the Department is requesting that industry provide recommendations as to the design of a market assistance program narrowly targeted to the prevailing market conditions presently being experienced by New Hampshire consumers. Initial request for input is being directed to the top ten carriers by premium volume presently writing in both the commercial and homeowner lines. Input is also being requested from other carriers through insurer trade associations. Additionally we are requesting that producer associations provide the Department with input on the administrative issues raised by the consideration of a market assistance program.

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