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AUTO - HOME - BUSINESS INSURANCE

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SPECIAL LEGISLATIVE COMMISSION TO STUDY HOUSING AFFORDABILITY

The current home insurance market in Rhode Island and the impact on affordable housing

Turbulent Homeowners Insurance Market

- Steep premium increases for several years
- A large number of policy non-renewals in Rhode Island over a five year period
- Segments of the market are facing reduced availability issues

A combination of factors have caused the problems

- Greatly increased amounts of building coverage needed for current values has driven up premiums
- Climate change has resulted in more frequent & severe windstorms, causing claim driven rate increases
- Claim repair costs up sharply since 2020, further fueling premium increases
- Portions of the Ocean State are high wind risk areas, creating availability problems for coastal communities
- Rhode Island has the second oldest housing stock in the nation, older homes cost more to insure
- Roof Claim Solicitation Abuse is further driving up premiums

What should consumers do to make home insurance as affordable as possible?

- Shop around, thirty percent or more price differentials can sometimes be obtained, there is competition
- Increase deductible to \$2,500, will lower the premium and prevent premium increases for small claims
- Updated homes get better rates, roof age, heating system age, electrical system age are pricing factors

There is no easy solution

Home insurance costs have gone up across the country by 20% or more for several years. As bad as it is here it's much worse in many states. The average cost of insuring a \$300,000 home in Nebraska is \$6,587, in Louisiana it's \$6,274 and in Florida it's \$5,838. Rhode Island's average premium cost of \$2,347 is \$77 less than the national average according to the Insurance Information Institute..

Future Outlook - Reasonable optimism that large premium increases are behind us

- The hyper building construction cost inflation has leveled off
- Recently released industry statistics indicate that most of the major Rhode Island home insurers made a profit on home insurance in 2024, unlike the prior two years. This will reduce the justification for approval of future rate increases.
- Home insurance premium rates usually don't go down but if the large increases are behind us that's better than it's been the last few years

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Commentary on relevant insurance industry practices

Huge renewal premium increases for existing homeowners is usually attributed to the fact that the standard home insurance policy is based upon the premise that the amount of building coverage on the policy is equal to the cost to rebuild the entire house at present construction costs. Upon renewal if insurers determine that a house has become under insured, the renewal amount of building coverage is increased, plus any rate increase during the prior year. For home buyers the homeowner's policy replacement cost provision means that a three family home that can be purchased for about \$500,000 would probably have to be insured for close to \$1,000,000 to rebuild a typical 3,300 square foot three family dwelling. Homeowners insurance premiums are based on rebuilding costs not market value. The purpose of this is so that a homeowners policy will have enough coverage to rebuild a total loss with the same size and quality house.

Senator Whitehouse released statistics about a year ago which showed a huge increase in home policy non-renewals during a five year period. Much of this is attributable to the fact that in 2022 one insurer stopped selling home insurance here and non-renewed all their policies over a one year period. Another insurer suddenly went into receivership in 2023 and cancelled all their policies abruptly transferring them to a stop gap insurer. Currently a third insurer is getting out of the home insurance business and is halfway through the one year process of non-renewing a couple thousand policies. Hopefully the worst is behind us, no other insurers have announced their intended withdrawal from Rhode Island.

There are segments of the market where availability is a problem. Consumers who live within 3 miles of the ocean in our coastal communities have much less availability to choose from. The wind from coastal storms is much stronger for homes within the first few miles of the coast. Once inland wind damages are less severe. Many standard insurers won't accept new applicants who live close to the ocean.

Rhode Island has the second oldest housing stock in the country, at an average home age of 61 years. Older homes pay more for insurance than newer homes. Newer homes usually have less claims. The vast majority of insurance companies won't insure the typical three family house that was built in the 1920s. The reasons cited are that old homes have more claims because old pipes leak more often, old wires start fires more often and old heating systems spew smoke more often. The very few insurers that will accept these properties require that all of the critical systems have been substantially updated in the last 25 years and that the building be insured for the full construction replacement cost.

To address availability we have the Rhode Island Joint Reinsurance Association, commonly referred to as the FAIR Plan, it's an insurer "pool" type of funded operation. The FAIR Plan generally accepts homes in coastal communities, three family homes, homes with knob & tube wires and people that have had multiple claims. The FAIR Plan fills an important need, provides a standard policy, has good customer service, and has good claim service. However the premiums are generally 25%-40% higher than would be in the standard market. Mr Frank O'Brien of the FAIR Plan is one of the presenters today and more qualified than myself to explain how the FAIR Plan works and the increasing market they serve.

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Some homes won't be eligible for the FAIR Plan such as large homes with a replacement cost of over \$1.25M or homes with prior unrepaired damage. In these cases the only option available for consumers is what's called the "surplus lines" market. These are companies such as Lloyd's of London that will insure homes not accepted in the standard market or the FAIR Plan. These surplus lines insurers operate here legally but they are not licensed or regulated by the DBR. They can charge whatever premiums they want and they usually attach coverage exclusions not found in standard policies.

Another factor driving up home insurance premiums is wide spread Roof Claim Solicitation Abuse. I know this to be true because I've been solicited to submit a phoney roof claim more than six times in the past five years. My roof is 34 years and about five years ago three shingles fell off the roof on their own accord. The most recent solicitation happened a few months ago. A glossy door knob flyer was placed on my door. The person wrote a note on the flyer stating he was in the area, noticed I had a few shingles missing and he "can help get your insurance company to pay for your roof replacement". On the flyer there was a preprinted section "Recent Storm" followed by a space, he filled in the space with July 3rd which was the date we had a strong wind/thunder storm in Rhode Island. The suggestion was that I could submit a claim that the shingles were damaged by the July 3rd storm, which of course would be false. Many customers have told me when submitting roof claims that they were doing so at the suggestion of these roofing companies. These roofing companies troll neighborhoods, look for homes that have old roofs with some imperfections and after a storm entice people too falsely claim that their roof was damaged from a recent storm. In another recent instance the DBR sent out an alert because roofing companies were sending out letters to households that implied that the person's home insurance was not going to be renewed unless they got a new roof, giving them a phone number to call. It's hoped that the DBR will tighten up claim settlement rules to address this widespread roof claim abuse.

With home insurance prices up across the country the best options for consumers is to shop around. It's possible that there is a 30% or more price differences between insurers that have good home insurance rates and those with rates that aren't good. Consumers shouldn't be afraid to unbundle. I'm unbundled. Some insurers have good auto insurance rates but terrible home insurance rates. A small bundle discount applied to a terrible home insurance rate isn't a good deal.

With the present much higher premiums a \$2,500 deductible is becoming the new normal. Many consumers are changing to a \$2,500 deductible for the savings and because they don't want to put in small claim which will drive up their individual premium and make it more difficult to switch insurers in the future if needed.

In the overall picture, hopefully, recent laws enacted will increase housing supply and help make purchasing real estate and rents more affordable.

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