

Homeowners Insurance Problems Escalate: New Legislation To Take Effect This Summer

*By Jennifer A. Jones
VAR Legislative Specialist*

How important is insurance?

Homeowners insurance is the foundation for homeownership. Most homebuyers require a mortgage to purchase a home and mortgage lenders will not grant a loan without property insurance. The booming housing market and historically low interest rates have recently spurred many potential homebuyers into action. However, upon entry into the market many are faced with the grim reality of the decreasing availability and affordability of homeowners insurance.

What is happening?

Current conditions are that prices are up and underwriting standards are tight. Fortunately, one of those – underwriting standards – can be addressed. Several scenarios are emerging throughout the country with Virginia being no exception.

- **Unavailability.** A homebuyer is unable to obtain homeowners coverage through traditional lines of insurance.
- **Nonrenewal of an existing homeowners policy.** At the time the policy is set to expire, an insurance company refuses to renew it due to the homeowner's filing of too many claims.
- **Cancellation shortly after closing.** An insurance company issues a policy, the real estate transaction closes and the company later revokes it within the allowable time under state law. In Virginia an insurance company may cancel a policy for almost any reason within the first 90 days so long as they give the consumer 30 days notice of the cancellation.
- **Claims of a previous owner.** An insurance company will deny coverage on a property to be purchased due to claims filed by a previous owner. This scenario is usually because the insurance company finds derogatory information in an insurance claims database after the fact and decides that the level of risk is too high.
- **"Zero-dollar" claims.** "Zero-dollar" claims refer to things that did not result in a loss for the insurer being listed as a claim in an insurance claim database. Most insurance companies consult claim databases when making underwriting decisions. For example, a person could call their insurance company about possibly filing a claim and have it later count against them - regardless of whether a claim was ever actually filed.
- **Limited coverage in specific geographical regions.** In various regions of the country some major insurance carriers have decided not to write any new homeowners policies indefinitely, which only makes things worse. Taking into account the fact that many of these carriers service a large percentage of the marketplace, this shift has created a very difficult environment for those seeking to obtain new coverage.

The end result is that homebuyers trying to insure their new property are forced into very expensive plans that offer minimal coverage – all because of the insurance company's perceived risk of loss. Other homeowners find their insurance company refusing to renew their existing policy due to prior claims. They are then left with very little time to find another policy – especially in today's insurance environment.

What has caused this problem?

The existing situation – high premiums and strict underwriting standards – has resulted from a combination of several factors: rising costs of claims, losses from natural disasters and the stock market, and concerns about new risks like mold and terrorism. Despite large losses from natural disasters, companies were able to rebound rather easily thanks to the premiums they invested in a booming stock market. But slowing stock market numbers hampered their ability to continue paying more in losses than they were collecting in premiums. Then came the terrorist attacks of September 11, which wreaked havoc on insurance companies and caused the stock market to plummet.

Finally, the increased prevalence of mold claims has instilled fear throughout the entire insurance industry. Mold-related lawsuits and high-dollar jury awards entered against insurance companies only exacerbate problems with insurance availability and affordability. For instance, the Insurance Information Institute reports that 2001 mold claims in Texas cost insurers more than \$850 million compared to virtually nothing just a few years earlier.

Has VAR made any progress on this issue?

VAR has made every effort to address the homeowners insurance issue head on. Late last fall we formed an Insurance Work Group to begin examining the problem. During the 2003 General Assembly session VAR worked with key legislators to pass two important insurance measures that affect underwriting practices. These bills, effective July 1, 2003, address the use of insurance claim databases and credit scoring, respectively.

- **House Bill 1948 (Del. Drake – Norfolk) will help prevent consumers from being penalized by claim information for which they have no responsibility.** This legislation prohibits insurers from basing an adverse underwriting decision solely on the loss history of the previous owner of the property to be insured. An “adverse” decision means either being denied insurance, not receiving the most favorable rates or nonrenewal of an existing policy.
- **Senate Bill 1284 (Sen. Puckett – Tazewell) broadens consumers’ rights within the practice of credit scoring.** This legislation prohibits insurers from nonrenewing a homeowners insurance policy based solely on information contained in a credit report. Insurers will have to tell consumers when credit information is to be used in underwriting decisions, advise them of information that negatively impacts their premium and establishes guidelines as to what type of credit information cannot be used in the decisions, such as medical collection accounts or disputed items.

Where do we go from here?

VAR remains actively engaged in this issue and will be working on several things in the coming months:

- Examining recommendations of the National Association of REALTORS® Insurance Task Force;
- Meeting with state insurance industry representatives to discuss concerns and more clearly define problem practices;
- Posting an electronic “clearinghouse” on the VAR website so that REALTORS® may send accounts of any homeowners insurance problems they have encountered. Our goal is to streamline the information into one central collection system. *In the meantime, we would appreciate your informing us of problems as they occur and ask that you email your experience to jen@varealtor.com.*

IN THE NEXT ISSUE OF COMMONWEALTH MAGAZINE... an explanation of insurance underwriting practices in Virginia, including credit scoring, the "C.L.U.E." database and the role of the State Corporation Commission.

For more information on homeowners insurance, please go to VAR's website at <http://www.varealtor.com/legislative/insurance.asp>.