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Hurricane Fears Cost Homeowners Coverage

By [PAUL VITELLO](#)

GARDEN CITY, N.Y., Oct. 15 — It is 1,200 miles from the coastline where Hurricane Katrina touched land two years ago to the neat colonial-style home here where James Gray, a retired public relations consultant, and his wife, Ann, live. But this summer, Katrina reached them, too, in the form of a cancellation letter from their home-insurance company.

The letter said that “hurricane events over the past two years” had forced the company to limit its exposure to further losses; and that because the Grays’ home on Long Island was near the Atlantic Ocean — it is 12 miles from the coast and has been touched by rampaging waters only once, when the upstairs bathtub overflowed — their 30-year-old policy was “nonrenewed,” or canceled.

The Grays signed with a new company, but their case attracted the attention of consumer advocates and, in turn, the New York insurance commissioner, Eric R. Dinallo.

Mr. Dinallo’s sharp rebuke last month of the Grays’ company, Liberty Mutual Fire Insurance Company, reflected a shift in how public officials view a new reality in the homeowners’ insurance business, advocates say.

In the last three years, more than three million homeowners have received letters like the Grays’ as insurance companies, determined to avoid another \$40 billion Katrina bill, have essentially begun to redraw the outline of the eastern United States somewhere west of the Appalachian Trail.

Public officials in Southern states from Florida to Texas have been fighting insurance carriers for years over rising rates and withdrawal of services, but officials in the Northeast have only recently joined the fray.

Companies including [Allstate](#), State Farm and Liberty Mutual have “nonrenewed” policies not only in hurricane-battered places like Florida and Louisiana, but in New York and other Northern states that have not seen [hurricanes](#) in years. Since last year, those three companies and others have turned down all new homeowners’ insurance business in New Jersey, Connecticut, Rhode Island, Maryland, Massachusetts and the eight downstate counties of New York.

An independent insurance agents’ group puts the Grays among about 50,000 residents of the New York metropolitan area — and about one million homeowners in the Mid-Atlantic and New England states — whose policies have been canceled since 2004. While most homeowners have been able to find coverage with other major insurers, or with smaller companies, in most cases it is at higher rates and with larger deductibles.

The companies say they are obliged to avoid undue risks where they see them, and to remain solvent.

“Considering what happened between 2003 and 2005,” said Robert P. Hartwig, president of the Insurance Information Institute, an industry lobbying group, “and considering that the best meteorological minds are telling us that for the next 15 to 20 years hurricane activity will be heavier than normal, if we didn’t do something to reduce our exposure, we’d be out of business.”

In response to a growing torrent of complaints, state officials and lawmakers have lately begun to push back, if gingerly, against the industry, which they see as overreacting to the hurricane threat in the Northeast. “My concern is that this situation is being manipulated by the insurance companies in order for them to get higher rates,” said State Senator Kenneth P. LaValle, who calls the cancellation of policies in his eastern Long Island district “more than a problem — it is a crisis.”

Mr. Dinallo, the commissioner, has focused his attention on the law: It was a single line in the Liberty Mutual letter sent to the Grays that prompted him to issue his rebuke. The line noted that one consideration in dropping their policy was that they did not have car insurance with the company.

That, Mr. Dinallo said, is illegal. Predicating one policy on another, or so-called “tie-in business,” is a violation of state insurance law, he said. Liberty Mutual said the tie-in was a secondary issue, but in response to Mr. Dinallo’s warning, Liberty Mutual, State Farm and the largest insurer in the state, Allstate, agreed to stop the practice.

Earlier this year, [Richard Blumenthal](#), the Connecticut attorney general, also challenged insurers’ tactics, subpoenaing records from nine insurance companies that were requiring homeowners to install storm shutters if they wanted to keep their policies. “The insurers are making record profits,” Mr. Blumenthal said in an interview, “and the dire predictions of disastrous hurricanes, fortunately, have been very wrong — fortunately for everyone, including the insurers.”

Meanwhile, heated public hearings were held this year in the Rhode Island General Assembly about the lack of homeowners’ insurance in coastal areas, which include most of the state.

In Massachusetts, New Jersey and New York, lawmakers and regulators this year proposed requiring all insurance companies doing business in the states to set aside billions of dollars to help defray losses from future catastrophic storms.

At a public hearing of the New York Senate Insurance Committee last Tuesday, Senator Charles J. Fuschillo Jr. said the retreat of major home insurers had hurt the housing market. (Home insurance is required by all banks that make home loans.)

“We have people who cannot buy a house because they can’t find insurance,” he said.

Amy Bach, executive director of United Policyholders, a California-based consumer advocacy group, has watched the situation in the East with both professional and personal interest, since the policy on her parents’ Long Island home was recently canceled. Crisis or not, she said, the pattern is familiar.

“Wide-scale nonrenewal has been the knee-jerk reaction of the big insurance companies after every major disaster: hurricanes, earthquakes, wildfires,” she said.

Florida set the pattern for states in picking up the risk shed by major carriers. Its state-created Citizens Property Insurance Corporation, the insurance pool for those unable to find home insurance anywhere else, has become the state's largest homeowners' insurer, with 1.3 million policies.

But Massachusetts, last hit by a moderate hurricane in 1991, has also found itself in the insurance business. Its high-risk pool has doubled in size in the last five years, reaching 200,000 policies this year, which makes it the largest single homeowners' insurance carrier in the state. On Cape Cod, 44 percent of homeowners are covered by the plan.

In New York, Connecticut and New Jersey, the number of people covered by state insurance pools has remained relatively low. The New York plan, known as the New York Property Insurance Underwriting Association, carries about 70,000 policies, most for homes in coastal areas; this year, officials said, the state pool was expecting 10,000 more.

To some extent, insurance brokers in the New York metropolitan area have closed the gap left by the major carriers by finding policies with subprime insurers, also known as the excess and surplus market. Figures provided by the Excess Line Association of New York, a group representing those insurers, show that 7,689 such policies were sold last year, and almost as many, 7,456, in the first seven months of 2007.

Robert J. Hunter, director of insurance for the Consumer Federation of America, said the extent of the retreat by major insurers "will depend a lot on what happens this year, hurricane-wise."

Insurance companies have condensed their projections of risk, he said.

"They used to project 20 years in the future, but now it is more like 4 or 5," Mr. Hunter said, a practice that has driven the current pull-back along the Northeast coast, where a big hurricane is overdue, according to computer analysis.

Mr. Hartwig, of the Insurance Institute, said it was more complicated than that. "What insurers are worried about is not just a hurricane in New York, but hurricanes in New York and Florida at the same time," he said.

Betty Clark, a retired waitress living on a fixed income in a modest house where she raised her children in Eastham, Mass., on Cape Cod, said she had no idea how the tussle between insurance companies and public officials would play out. But after years of paying \$742 a year, her home insurance doubled last year, to \$1,440, which she would not be able to afford if not for some help from her children.

"I've never made a claim in all these years," she said by telephone. "And yet, here it's possible I'll lose my home," she said.

And not to a hurricane, she added.

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