



## Top Insurance Stories in 2007 in East

December 31, 2007

New leaders tackled old issues and the region battled fire and rain.

### 1. No day at the beach

Insurance markets for coastal properties continued to challenge insurers, agents, policymakers and property owners, despite an inactive hurricane season. For the most part, while policymakers debated, private markets went about their business.

Insurers writing in the Atlantic and New England states boosted premiums for coastal homes and began requiring owners to modify their homes to prevent storm damage or dropped insureds altogether. Carriers also expanded their definitions of hurricane risk to encompass homes miles from the coast.

In Connecticut, agents fielded complaints from coastal home owners who were told they had to install storm shutters. Most felt these steps were reasonable, but Attorney General Richard Blumenthal drafted legislation to block insurers from requiring shutters as a condition of insurance.

Maryland lawmakers dabbled with the idea of requiring insurers writing anywhere in the state to write in all areas -- including the coast -- but eventually rejected the idea.

For the second year in a row, the Massachusetts FAIR Plan requested a 25 percent rate increase for Cape Cod home insurance premiums. Massachusetts insured coastal properties are valued cumulatively at around \$700 billion. Only three other states -- Florida, New York, and Texas -- are at greater financial risk in this regard.

Rhode Island prepped for the worst hurricane to ever crash into New England -- on paper at least. About 250 federal emergency management officials staged a response to the fictional "Hurricane Yvette," from a "storm center" in Providence. The leaders of a special Rhode Island House commission introduced legislation aimed at protecting coastal homeowners from "unreasonable" rate hikes or from having their policies canceled because of their location near a coast.

New York lawmakers heard from constituents and agents, especially on Long Island, that the already tight coastal market was getting tighter. Insurance companies claimed the market was fine and urged public officials to refrain from intervening, but agents called for action, including making permanent the state's residual property insurer, the New York Property Insurance Underwriting Association.

In June, Homeland Security Secretary Michael Chertoff warned that a hurricane "would be an extraordinarily devastating blow" to America's largest city. Weather experts have said New York is about due for a major hurricane that could cause the Hudson and East Rivers to overflow. Such a storm could inflict more than \$100 billion in economic losses while forcing the evacuation of 3 million people -- more than six times the population of pre-Katrina New Orleans.

New York regulators ordered that insurance companies stop refusing to renew homeowners insurance policies based on whether a policyholder has other business such as an auto or life policy with them. New York Insurance Superintendent Eric R. Dinallo proposed creating a state catastrophe reserve pool funded by homeowners insurance companies to help pay claims caused by hurricanes and other natural disasters.

None of the region's sweeping property insurance bills passed. Virginia took a practical approach, exempting portable generators, batteries, gas tanks and other items used to prepare for a hurricane from its 5 percent sales tax.

### 2. New sheriffs in town

New leadership took hold at key state regulatory posts throughout the East.

Pennsylvania Commissioner Diane Koken resigned in February after serving for 10 years and three governors to return to the private sector. She was the state's longest-serving commissioner. Her successor turned out to be a familiar face to those who

follow state regulation: Joel Ario, who has been Oregon insurance chief since 1994.

In January, N.Y. Gov. Eliot Spitzer's nominated Eric R. Dinallo as the new superintendent of the New York State Insurance Department. Dinallo joined the department from Willis Group Holdings, where he had been general counsel since 2006. Dinallo had previously worked for Morgan Stanley's regulatory affairs department. Dinallo worked with Spitzer from 1999 to 2003, during which time he headed an investigation into investment research firms for potential conflicts of interest.

In February, Massachusetts Gov. Deval Patrick turned to Superior Court Justice Nonnie Burnes to be his commissioner of insurance. Burnes, a Superior Court justice since 1996, was previously a member of the law firm Hill and Barlow.

The same month, Connecticut Gov. M. Jodi Rell unhappy with how the department had handled consumer complaints over coastal insurance named former claims administration executive, Thomas R. Sullivan, Susan Cogswell as commissioner of insurance. Sullivan most recently served as senior vice president of Specialty Risk Services, a large property-casualty third party administrator for workers' compensation and general liability claims and a wholly owned subsidiary of The Hartford Financial Services Group, Inc.

Maryland Gov. Martin O'Malley, stressing the end for a consumer voice, named attorney and long-time advisor Ralph S. Tyler to be the commissioner responsible for overseeing Maryland's \$26 billion insurance industry. Tyler had been serving as chief legal counsel for the O'Malley-Brown Administration.

In Maine, Eric Cioppa continued serving as acting superintendent, a role he has filled since Superintendent Al Iuppa left in January after 13 years, while in Vermont, Michael S. Bertrand was appointed deputy commissioner of the insurance division.

### 3. Albany actually works

In a major first term victory, N.Y. Gov. Spitzer struck a deal with legislative leaders to reform the state's workers' compensation system, a deal that had the backing of business and labor. Benefits for injured workers will be increased for the first time in more than a decade, and employer costs, previously among the highest in the nation, will drop 10 to 15 percent. The plan called for changes in the current Compensation Insurance Rating Board, new anti-fraud measures and the closing of the state's Second Injury Fund. In July, the state announced rates for workers' compensation insurance would shrink by more than 20 percent - the biggest cut in more than 20 years - saving employers about \$1 billion.

### 4. Driving history in Mass.

Thirty years ago, the last time Massachusetts tried to introduce competitive rating into private passenger auto insurance, Democrat Michael Dukakis was governor. The Jan. 1977 experiment lasted about seven months before being abandoned due to political pressures when rates skyrocketed, particularly for urban and young drivers. The Bay State returned to being the sole state where regulators set premiums for all auto insurers. Now, 30 years later, another Democrat, Deval Patrick, is in the governor's chair, and taking the political risk of changing the system, introducing what Insurance Commissioner Nonnie Burnes is calling "managed competition" beginning in April, 2008. Patrick and Burnes are implementing competitive rating with some restrictions, including a ban on the use of credit scores. Insurers have already filed rates for the April 2008 start date and officials hope some new carriers will also be enticed to enter the fray, although thus far only one - Peerless Insurance -- has.

### 5. Spring surge

Vicious April weather with snow gusts and up to 9 inches of rain brought more than flowers to parts of N.Y., N.J. and New England. The spring Nor'easter brought widespread flooding and power outages that took several lives and required thousands to evacuate their homes. Insurance Services Office's Property Claims Services unit estimated the storms caused \$1.2 billion in insured property damage in 18 states and the District of Columbia. In Connecticut alone, the storm damaged 179 businesses and more than 2,400 homes, the government said. Government costs associated with the storm totaled \$12 million, and private losses in the state were put at more than \$31.2 million. In New Jersey, the storm was blamed for at least two deaths and forced more than 1,400 people from their homes. The central part of the state was the hardest hit, with Middlesex and Somerset counties reporting the bulk of the evacuations. In New Hampshire thousands of homes and businesses lost power, in some cases for weeks. In the nation's most heavily forested state, Maine, thousands of trees were knocked over, the prime cause of power outages for more than 125,000 homes and businesses.

### 6. Arson attack

Insurance fraud investigators began preparing for an expected rash of arsons by cash-strapped homeowners trying to avoid foreclosures and ballooning monthly payments as the subprime mortgage crisis deepened. But arsonists were not waiting for bank foreclosures. There were scary reports throughout the year of arsons and serial arsonists even before the subprime meltdown.

A man charged with starting 18 fires in Queens, N.Y. over several months said he set the blazes "just for fun." An Atlantic County, N.J. man previously convicted of insurance fraud was named in a grand jury indictment charging him with setting fire to an abandoned house even while awaiting trial in connection with an earlier arson on his own commercial property. A man who had just finished two years in prison for an Ohio burglary was charged with burglarizing a Pennsylvania hotel and setting it ablaze, killing one man. In June, an arson task force began investigating a string of six fires that broke out in the seaport city of Newport, R.I. last spring three of them in one week. The Massachusetts Fire Marshal's office said it believes at least 10 recent fires in Provincetown on Cape Cod were deliberately set.

According to the U.S. Fire Administration, arsonists killed 305 people and caused \$755 million in property damage in 2006 alone. Less than 20 percent of arson offenses result in arrest and conviction.

In Washington, D.C. the House approved legislation to set up a national registry to track convicted arsonists and require them to report to authorities on where they live or attend school.

#### 7. Yes, Virginia, there is road rage

Virginia passed a landmark "abusive driver" law designed to curtail egregious behind-the-wheel behavior, and it immediately became the target of court challenges and public outrage. The law, which was intended to make the worst drivers pay a greater share of the costs of new highways needed statewide, was passed as part of Virginia's first transportation funding reform in 21 years. Critics of the law under which fees can top \$1,000, -- say it's unfair because it's too punishing and applies only to in-state drivers. Adding fuel to the fire: A recent report from the Legislature's own watchdog agency found no evidence the fees deter abusive driving.

#### 8. Drive free or die

Maine and N.H. were among the states leading the opposition a proposed national drivers' license program, which they criticized as an unfunded \$11 billion mandate on states that could place citizens' personal information at risk. Maine Republican Congressman Tom Allen called for the repeal of the law known as the Real ID Act, passed in response to the Sept. 11 terrorist attacks. It requires all states to bring their drivers' licenses under a national standard and link their record-keeping systems. States must verify identification used to obtain a driver's license, such as birth certificates, Social Security numbers and passports. Both states, along with South Carolina, Montana, Washington and Oklahoma passed laws withholding implementation of the program. All states have until May 2008 to comply.

#### 9. FBI enters insurance business

Federal agents arrested and charged 11 New Jersey officials with taking bribes in exchange for giving public contracts to a fake insurance brokerage set up by investigators. The investigation netted five members of an Atlantic County school board, two state Assemblymen, the mayor of Passaic, a current and a former Passaic city council member and the chief of staff to Newark's city council president. The investigation began in mid-2006 amid evidence of corruption in the Pleasantville School District.

#### 10. East Coast Congress

Some East Coast politicians benefitted significantly from the Democratic takeover of Congress as Reps. Barney Frank of Mass. and Rep. Paul Kanjorski of Pa. took leadership positions on committees with direct control over insurance legislation. Frank is chairman of the powerful House Financial Services Committee, while Kanjorski heads one of its key subcommittees, the Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises. There was also Sen. Chris Dodd, D-Conn., who became the point person in the Senate on big insurance issues as he assumed chairmanship of the Senate Banking Committee.

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