



Will the Florida Hurricanes Backlash on Cape Cod?

A message from Alan R. Long, President



In our first newsletter last April, we focused on the homeowner's insurance crisis on Cape Cod and predictions of higher rates and wind-storm deductibles. Those forecasts preceded the recent round of hurricanes in Florida and elsewhere in the

Southeast. So how will these storm events affect us here on the Cape?

By definition, insurance is a system of protection against financial loss resulting from fire, accident or death. It is based on the concept of sharing the risk of an event over a large base of individuals or businesses – in other words, the many pay for the misfortunes of a few. What happens, however, when the “spread of risk” is too small to cover the financial losses from a hurricane? The word *catastrophe* comes to mind.

In 1992, Hurricane Andrew smashed Florida causing a loss of 23 lives and \$15.5 billion in insured losses. In the wake, a dozen insurance companies went bankrupt because the spread of insurance risk was too small. Too few companies assumed too much risk, and there was not enough “capacity” to handle all the losses from that catastrophic event (the Cape Cod homeowner's market is in a very similar position today).

Insurance companies need the ability to predict future catastrophes and the resulting losses to determine if they have the proper spread of risk, based on their financial size and condition. Leaving out 9/11 and acts of

(continued on page 3)

Cold Water, Water, Everywhere — It Can Flood When You Aren't There!

Whether you're heading south for the winter or leaving your home empty for a winter week or two, it's critical to prepare for a repeat of the frigid temperatures we experienced in recent years. As many Cape homeowners have learned too late, when a pipe freezes and bursts, the damage can be mind-boggling.

Imagine finding your furnishings and treasured possessions reduced to a sodden mess. Your favorite armchair, your books, clothing, family photos - all destroyed by a rising tide of cold, dirty water.

Both copper and plastic (PVC) pipes can burst. Even a tiny 1/8” crack in a pipe can spew up to 250 gallons of water a day, according to the Institute for Business and Home Safety. It's not uncommon for a burst pipe in an empty home to go undetected for days or even weeks, often until someone notices water overflowing a cellar window and running down the driveway.



Courtesy Chatham Historical Society & Spencer Grey

Snowdrifts envelop Chatham's Main Street in this historic winter scene. Have you made sure your property is ready for snow, ice and plunging temperatures?

Water damage is costly in many ways, some of which you may not have considered:

- You'll actually have to pay for the water that did all the damage. When pipes burst, water bills can run as high as \$3,000 or more, according to Chatham Water Department Administrator Colleen Ferber.

(continued on page 2)

Cold Water, Water, Everywhere... *continued from page 1*

- You may also have to hire a contractor to repair structural damage. (Finding one who can provide immediate assistance may be a problem.)

The total cost of a freeze-up incident easily runs upwards of \$20,000 and can reach the high six figures, as documented by recent insurance claims.

Why take a chance when it's so easy to avoid the risk of burst pipes and flooding? The lesson learned too late by too many homeowners is this: always **turn off the water** before leaving your home empty for even a few days in cold weather.

How To Shut Off Your Water Supply

It's easy! Turning off the main water valve should be sufficient if your home will be empty for only a short time. This valve is usually located near the water meter.

If the valve is old and hard to close, you should probably replace it with a newer-type ball valve, advises Charles Markarian, a master plumber and owner of the Pipe Doctor, serving mid-Cape customers. After closing the valve, be sure to relieve the pressure on the system by opening a faucet, he cautions. Also be certain to leave the heat on in the house.

If you're leaving for an extended period, it's safest to drain all the water pipes, including those serving the furnace, water heater, dishwasher, washing machine, refrigerator and icemaker. It's probably wise to hire a professional plumber for that. If you're mechanically handy and watch the plumber carefully, you may be able to do it yourself another year.

Draining all the domestic pipes also allows you to turn off the heat in the house while you're away. Since there's no danger of freeze-ups, you can save the cost of fuel, notes Freeman Winslow, Jr., General Manager of E.F. Winslow Plumbing in Yarmouth. Many plumbers will contract to turn on the water and heat again just before you return home, he says.

"Is Your Home Alone?" a publication of the Institute for Business and Home Safety (IBHS), offers valuable information for homeowners. Go online to: www.ibhs.org/publications/view.asp?id=493

Editor's Note: Portions of this story were reprinted with permission from The Barnstable County Mutual Insurance Co. www.TheBarnstable.com.

"I've seen houses floated right off their foundation."

*Ken Foster
Hall Oil Co., South Dennis*

Coming in the Winter Insurance *Currents*:
Tips to Protect Yourself from Identity Theft
and Your Home from Mold.

Taking Care of Business

Winter Means Rewards and Risk for Independent Plowers

You are an independent contractor who uses a pickup to plow and clear snow from driveways and parking lots in winter months. Does your auto insurance policy cover you for liability and property damage? It depends.

All insurance companies handle this differently. The only common denominator is that you must inform the company that you are plowing.

Most companies will charge you a higher premium to cover the risk. Most will also require that you to carry a liability policy. Sometimes they will accept your general liability policy or business owner's policy. Other times they will require that you have a special liability policy based on an individual's history.

Accidents that occur during plowing - knocking over signs or damaging structures - and accidents that occur after the plowing - slips and falls - can be covered by insuring properly.

For more information, please call your Customer Service Representative at Eldredge & Lumpkin. The Chatham number is 508 945-0393. For Harwich, call 508 430-2266.

Call Us Right Away If You Have Water Damage

We hope you've taken the recommended precautions to prevent freeze-ups but in the event that you do have water damage, call the Eldredge & Lumpkin Agency as soon as possible at our Chatham office: **508-945-0393**, or our Harwich office: **508-430-2266**. In the event of an emergency after hours, you can always reach Alan and Pat Long at their emergency number listed in the phone book under Eldredge & Lumpkin.

Auto Insurance Reform will be a Gradual Process By Pat Long, Vice President



Editor's Note: This is the second article on activities underway in Massachusetts to change the ways in which auto insurance is managed.

The summer edition of our newsletter noted that Massachusetts has fewer companies insuring homes and cars than any other state. If we are to attract more companies to write Cape Cod homeowner's insurance, we must first interest companies to write heavily regulated auto insurance.

In the past six months, Gov. Mitt Romney and Insurance Commissioner Julianne Bowler took a major step by appointing a six-member committee to "fix" the market. Committee members were charged with several tasks. Some of the major ones are:

- 1) Allowing "bad" drivers to subsidize their own premiums rather than spreading the cost through the system to good drivers;
- 2) Reducing fraud that is responsible for 40 percent of claims; and,
- 3) Correcting the CAR (Commonwealth Automobile Re-insurer) market - the bad driver pool - to reflect proportionate reimbursements to companies; in other words, to equalize the system to make Massachusetts a more attractive state for insurance companies.

The CAR market corrections are of particular importance to attract companies back to Massachusetts. Currently, those companies that understand and can work the CAR market effectively are minimizing their losses and maximizing profits. Reform needs to make the losses proportionate to the profits.

To avoid any disruption to consumers and companies, the correction process must happen gradually. A four-year program has been proposed. The Insurance Commissioner has stated that if the changes are not implemented through the committee process, she will exercise her authority to get them done.

So change has started but as with most things in our state, it will be slow. We do not see either the auto or the homeowner market improving much in the next year, but there is light down the road!

Will the Florida Hurricanes Backlash on Cape Cod?... continued from page 1

terrorism (since they cannot be predicted), the *re-insurance* market has put sophisticated models in place to predict future catastrophes like hurricanes. The models foretell where and how often hurricanes are likely to occur, and how severe they are likely to be.

Companies that insure coastal areas such as Cape Cod need to look at all the geographical areas they insure and assess how each area may affect their spread of risk. Only then can they approximate their probable maximum losses. Based on the results, the companies determine how many years they should save or "reserve" for the next catastrophe. Then they try to set their rates accordingly. Keep in mind that one catastrophe has the potential to wipe out 20, 30 or even 50 years of company profits.

In the case of Hurricane Andrew, the Florida legislature mandated that the remaining companies stay in the marketplace. But it also had the foresight (or hindsight, depending upon your view point) to create a windstorm "pool" and a catastrophe fund to assist the companies when - not if - the next major hurricane occurs.

Fortunately for Florida residents, the decade following Andrew was reasonably quiet in terms of major hurricane activity, and the special funds had had time to accumulate significant reserves for future events. Even though the recent round of Hurricanes Charley, Frances, Ivan and Jeanne has already exceeded \$20 billion in insured losses, the payment outlook in Florida is positive.

Recently my wife, Pat, and I attended a meeting where Massachusetts Insurance Commissioner Julianne Bowler discussed the potential impact of Florida events on Massachusetts. She confirmed

that rates in coastal areas will continue to rise.

Commissioner Bowler further acknowledged that she is concerned with the limited number of companies that write insurance on Cape Cod, and the very limited spread of risk that exists. The encouraging news, however, is that she has been meeting with insurance departments in the other New England states and along the Atlantic seaboard in an attempt to develop a regional solution to the market crisis in states with coastal exposures similar to Cape Cod's.

Although there appears to be no quick fix to our current market crisis, we are encouraged by the pro-active efforts that the Massachusetts Division of Insurance is taking to alleviate the current crisis. We will keep you informed as developments occur.

Holiday Greetings from Our Family to Yours

At this special time of year on Cape Cod, we will pause in our daily routine to offer you our very best wishes for a warm and wonderful holiday season.

We are very grateful for your friendship, your business and your confidence in us.

As a token of our appreciation, we've prepared a full-color, 2005 Norman Rockwell wall calendar for you.

To get yours please call 508-945-0393 or stop by the Chatham office at 697 Main Street, or the Harwich office in Harwich East Plaza where Routes 39 and 137 meet.
Happy Holidays!

The Eldredge & Lumpkin Family

Alan and Pat, Pete, Margie, Shannon, Diane, Jane, Kris, Janet, Julie, Josephine, Gloria and Kathleen.

Routine Maintenance will Prevent Winter Problems at Home

Minimize the dangers of winter weather by taking a few common-sense precautions:

- Clean gutters and downspouts so snow and ice can flow freely;
- Clean basement window wells, making sure water will flow away from the house;
- Trim trees, removing dead or weak branches—especially near your home or adjacent to electrical wires;
- Stow outdoor furniture, tools and toys. These are potentially destructive missiles in a high wind;
- Inspect your roof and replace missing or broken materials and flashing.

Look Inside: Catastrophe! A Pipe Bursts and You're Not Home.



Insurance Risk for Solo Flowers

Auto Reform Update

Will Florida Hurricanes Affect Our Insurance Costs?