



## Our bid to keep you "Current"

A message from Alan R. Long, President



Welcome to Eldredge & Lumpkin's new quarterly newsletter, Insurance Currents. As the name implies, the focus will be to keep our clients "current" on changes occurring within the insurance industry, in particular those events which may have an effect on our policyholders.

Our first issue highlights the homeowner's crisis that Cape property owners are experiencing. Eldredge & Lumpkin was one of the first agencies to bring these market conditions to the attention of the Massachusetts Division of Insurance.

Our concerns led to the creation of a committee of Cape agents to address the deteriorating market conditions on Cape Cod. We have been meeting with the Commissioner of Insurance, representatives from the state pool, legislators and company executives since last October to find long-term solutions to this market upheaval. We will continue to keep you informed as developments occur.

Future newsletters will also highlight new products, services and coverage enhancements for both our personal and business clients while, at the same time, answer some commonly asked questions we receive from you on a regular basis.

I encourage your feedback, both positive and otherwise, as it relates to the articles in this newsletter. I invite you to contact me directly at 800 945-1840 if you have a specific topic or question relating to your insurance that you would like to have addressed in a future issue of Insurance Currents. We appreciate your business!

## A Homeowner's Crisis on Cape Cod

Over the past year we have seen a dramatic change in both the availability and affordability of insurance protection for homes on Cape Cod and the Islands, and in other coastal areas throughout the state. Conditions continue to worsen as more insurance companies leave the Cape marketplace. The most recent development was the announcement by The Andover Companies (the No.1 insurer of homes on Cape Cod) that they would begin "non-renewing" all of the 14,000 homes they currently insure here, starting May 1.

### Recent Events

In 2002-03, the Cape experienced its first severe winter in a decade. Insurers paid millions of dollars in freeze-up claims for second homes left empty during the winter months. This past winter was even more severe, with prolonged sub-freezing temperatures and wind chills throughout January, resulting in even greater freeze-up losses than occurred in '02-'03. Those losses led many companies to re-consider insuring second homes on the Cape, either by "non-renewing" policies as they came due, or eliminating "preferred rates" for second homes and increasing premiums significantly.



*Two conclusions are certain about current market conditions. First, rates are going much higher and secondly, windstorm deductibles of one to five percent are becoming commonplace and are here to stay. We recommend that you budget accordingly. Increases of 50-100% of your present premium may not be unrealistic over the next two to three years.*

### The "Reinsurance" Factor

Several disasters, including the 9/11 attacks on the World Trade Center and the Pentagon, wildfires, and hurricanes, have dramatically affected the cost of "reinsurance" to homes situated in catastrophe-prone areas.

Simply stated, reinsurance is the transfer of a portion of risk of a major catastrophic event, such as a hurricane, from one insurance company to another. Since 2001 the cost of reinsurance has more than doubled for most companies doing business in hurricane-prone areas. As an example, one of our mutual companies was paying 19 cents of every premium dollar for reinsurance in 2001. So far in 2004, that cost has risen to 40 cents of every dollar of premium.

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## A Homeowner's Crisis *(continued from front)*

Wait, there's more. The reinsurance industry uses computer modeling in an attempt to project the cost of natural disasters when and where they occur. Those models never anticipated the insurance costs of an event like 9/11. More importantly, the models underestimated the potential damage caused by a hurricane of the size and scope of Hurricane Isabel that hit the mid-Atlantic in 2002, when actual losses exceeded projected losses by more than half.

That means that your insurance company is now required to purchase significantly more reinsurance for catastrophic events at the higher rates.

### Survival Strategies

Insurance companies are responding to the crisis in three ways. The first is by reducing their exposure in coastal areas by non-renewing what they perceive to be their highest risks. Examples are properties closest to the water, second homes and high valued homes. The second response strategy is to increase rates to keep pace with the spiraling cost of reinsurance. The third is to manage increasing costs of reinsurance through the use of windstorm deductibles. Most companies are using a combination of all three strategies.

Increased windstorm deductibles enable a company to reduce its overall damage exposure so that no single storm bankrupts the company. Unfortunately, the use of windstorm deductibles means that

you, the policyholder, must assume a larger initial portion of the loss.

Companies remaining on Cape Cod are now mandating windstorm deductibles ranging from 1-5% of the insured value of the home, depending upon value and proximity to the water. As an example, if your home were insured for \$300,000 with a 1% windstorm deductible, your out-of-pocket cost for the loss would be \$3,000 before any recovery from the insurance company. Move the same home closer to the water, and the windstorm deductible may increase to as much as 5% or \$15,000 out-of-pocket for the same windstorm claim.

### The Bottom Line

We recognize the significant effect the increased costs are having on our policyholders, particularly those on fixed incomes. We are committed to continuing our efforts to work with the state Division of Insurance, your legislators and our companies to find palatable solutions to the present market crisis.



*valuable information about your homeowner's insurance!*

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