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FOR IMMEDIATE RELEASE

Senate Votes to Overhaul Homeowners Insurance Market, Provide Rate Relief for Coastal Residents

(BOSTON) – The Senate on Tuesday approved legislation that will set new standards for the homeowners insurance market and reduce the burden of soaring costs for coastal residents.

Because recent changes in how insurance companies use storm models to predict damages have contributed to increasing premiums, the homeowners insurance bill establishes a standing commission of scientists to define accurate criteria that storm models must satisfy.

“This bill represents the first major effort to enact real change in the homeowners insurance market,” Senator Steven A. Baddour (D-Methuen) said. “This legislation takes a bold stance against the failure of the marketplace and offers long overdue relief to low-and middle-income residents who are being hit the hardest, especially those on coastal areas that have witnessed a collapse of the voluntary market.”

The legislation effectively strengthens recommendations released last November by a special legislative task force charged with investigating the rising costs of homeowners insurance.

The legislation also addresses “wind deductibles” which have become an additional burden on homeowners because of their inconsistent application over the years. The new bill establishes a hurricane-only deductible that cannot exceed 3 percent of the insured value of a home and requires mitigation measures for the benefit of policyholders.

“This is one of the most comprehensive bills relating to coastal insurance in the nation, and will also bring about significant and positive reform to the FAIR plan,” said Sen. Stephen J.

Buoniconti (D-West Springfield), Senate chairman of the Joint Committee on Financial Services. “It will provide not only short-term relief to the consumer, but long-term stability to the coastal insurance market as a whole.”

The legislation makes critical changes to the FAIR Plan, the state-created insurer of last resort, which put through a 25 percent rate increase in 2006 for coastal residents. The plan based its increase on older numbers instead of current ones that would have resulted in a better rate for homeowners.

“This is exactly why we need to base rate models on actual science and not on insurance company predictions,” Senator Baddour said. “The rates that were submitted are a perfect example of the toll that the lack of options and rate increases are taking on homeowners.”

Under the new legislation, the Commissioner of Insurance will be authorized to consider assessment factors and adjust FAIR Plan rates to offer new discounts for primary homeowners, senior citizens, and homes with lower-insured values or ones farther from the coast.

The bill also prevents a further collapse in the voluntary insurance market for homeowners. Numerous companies have stopped writing insurance on houses on Cape Cod and other coastal areas, making the FAIR Plan the dominant insurer in those areas. The bill revises the FAIR Plan’s system of debits and credits to provide an incentive for companies to continue writing voluntary insurance in territories where the FAIR Plan has a large share of the market, such as Cape Cod.

The bill also includes the following provisions:

- Directs the Commissioner of Insurance to set standards for the availability of consumer-friendly information about homeowners insurance policies.
- Establishes a Hurricane Research Center at the University of Massachusetts at Lowell to develop current and accurate storm-model criteria for use by insurers in rate-setting practices.
- Allows for stand-alone liability-only coverage as a homeowner’s basic property insurance, but requires the homeowner to sign a form explaining the risks involved with such coverage.
- Requires one-third of FAIR Plan premiums, less the cost of reinsurance in the third year of no hurricane-related losses, to be returned to FAIR Plan policyholders who live in coastal areas, as a dividend.

The bill now goes to the House of Representatives for further action.

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