



Coastal Property Insurance Availability and Affordability
July, 2007

The issue of residential property insurance in coastal areas of the United States has received extensive media coverage over the past few years. Casualty companies providing coverage in coastal areas like Florida and Massachusetts are reducing financial exposure by either not offering policies or drastically increasing rates. Actual storm damage in Florida and computer modeling which forecasts extreme damage in other coastal states has precipitated this action.

In Massachusetts, two legislative initiatives are being considered to address this problem:

1. Senator Robert O'Leary has filed legislation that seeks to establish a back up fund, financed by tax exempt bonds that would establish a re-insurance mechanism specifically for Massachusetts coastal storm exposure. The fund would be similar to one already in existence in Florida and would be used to help stabilize the state's Fair Plan so that the volatility of re-insurance rates presently out of our control might be stabilized.
2. The second initiative arose in the recently approved state budget process. Senate President Therese Murray set up a "Special Commission on Homeowners Insurance" which is charged with trying to find a solution to both the cost and availability of residential property insurance. Thankfully, Chuck Robinson of Rogers and Gray Insurance was appointed to the special commission which will begin meeting this week with a report due in November 2007.

The Cape Cod Chamber of Commerce is concerned that the second initiative does not address commercial insurance coverage, particularly for business entities with high property values and potential loss of income should a storm interrupt their operations.

Commercial insurance premiums have increased anywhere from 50% to 150% on properties that lie within a mile of the shore. Additionally, business interruption coverage is difficult to obtain for companies that require their property to operate continuously (a hotel versus a plumber or electrician).

The increased cost of insurance to business owners is another threat to a service economy that relies on visitors, second home owners, and retirees. A new building code, which will take effect in October of 2007, will require reinforced materials, including special windows that are reportedly double the cost of present glass, and will have a drastic impact on new residential and commercial construction costs. Housing affordability coupled with rising property taxes, workers compensation, municipal fees, labor costs, health care costs, and the reality of very high property taxes are creating an expensive operating climate. Business decisions are presently being made that portend an out-migration of companies that would be detrimental to our economy and job retention.

The Chamber advocates that:

1. The Special Commission on Homeowners Insurance include commercial property in their discussions and that they develop solutions broad enough to encompass business properties.
2. Start to stabilize rates by developing a Massachusetts specific re-insurance fund financed by tax exempt bonds or other financing mechanisms.
3. Consider an increase on the \$1 million limit on Fair Plan coverage.
4. Seek to use the State's technical community to look at computer modeling and assumptions about frequency and intensity of storms specifically for New England's coastal area.