

YOUR MONEY

What's up with our Homeowner Insurance?

IF YOU HAVEN'T YET received a registered letter from your insurance company telling you that they won't be renewing your Nantucket homeowners insurance policy, chances are you'll get one soon. One by one, most insurance companies are exiting or pulling back from the Nantucket market—forcing most of us to seek coverage in the State's insurance pool, The Mass Fair Plan—generally at much higher cost.

The reason so many insurance companies are abandoning Nantucket has virtually nothing to do with specific insurance risks on this island. Rather, it has everything to do with the staggeringly large rate increases that the insurance companies are being hit with by their re-insurance providers. These increases are based on the re-insurance industry's new computer models that lump together all coastal areas everywhere as potential hurricane damage claim areas. (The only way they can hedge their huge risks in hurricane-prone areas is to collect more premiums from the rest of us!) The fact that Nantucket has a very low probability of major hurricane damage is not factored into the new models.

These higher re-insurance costs are forcing most of the insurance companies currently serving Nantucket to withdraw from the market. Their only alternative is to increase their premiums to a level far in excess of what Massachusetts regulators allow.

To give you some idea of the potential impact of these re-insurance rate hikes, here are a few comparisons for three Nantucket properties—

2004 Total Premium	2005 Re-Insurance Part Only
\$ 1,575	\$ 2,402
\$ 974	\$ 2,209
\$ 2,336	\$ 3,263

The left hand column shows the total homeowners insurance premiums for the three specific properties in 2004. (These figures include all re-insurance costs, all underwriting costs, all fees, agent commissions, insurance company profit, etc.) The right hand column shows just the amount that the re-insurance provider wants in 2005 to continue to cover that same property. Add to this all the other costs that your insurance company charges—and the actual final premiums to the homeowner would be significantly higher.

The insurance companies that have traditionally served Nantucket are responding in various ways. Andover has stopped renewing all their coastal business. Hingham is phasing out all of their seasonal coastal properties and some year-round properties. Norfolk & Dedham is non-renewing all coastal accounts. Arbella is accepting no new coastal accounts. And Chubb is only accommodating major clients who book a significant amount of other business with them.

This exodus is driving more and more of us into the Mass Fair Plan insurance pool—officially called the Massachusetts Property Insurance Underwriting Association. Originally intended as the insurer of last resort, the MPIUA is now one of the largest carriers in the state. And without any real competition, it's almost a certainty that their rates will keep climbing every year.

One more thing to consider about your homeowners insurance policy—almost certainly it does not include flood insurance. That requires a special separate policy, maybe two. And since the entire island is classified as a flood zone (with some areas classified as special hazard areas), flood insurance can be costly. Wind damage coverage is also limited in some policies.

The only way to make sure that you have the specific insurance coverage you want is to sit down with your homeowners insurance agent. All that fine print in your policy defies easy comprehension! ❖