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[testimony9.1.07drft]

HR 3355, A BILL TO ENSURE THE AVAILABILITY AND AFFORDABILITY OF  
HOMEOWNERS' INSURANCE COVERAGE FOR CATASTROPHIC EVENTS  
"HOMEOWNERS' DEFENSE ACT OF 2007"

TESTIMONY

By Massachusetts Representative Matthew C. Patrick, Third Barnstable District

My name is Matthew Patrick, I am the State Representative for the Third Barnstable District in the Massachusetts legislature and I am here to testify in favor of HR 3355. Thank you for giving me this opportunity to describe the homeowners' insurance crisis in Massachusetts and how HR 3355 will benefit the Commonwealth of Massachusetts.

Beginning in late 2003 the price of homeowners' insurance started increasing for residents and businesses of Cape Cod. On Martha's Vineyard and Nantucket the increases began earlier. Other coastal areas of Massachusetts have more recently felt the effects of the increasing cost of homeowners' insurance. The price of insurance in these areas has gone up more than 150 percent in three years for many homeowners.

Several retail homeowners' insurance companies have left the coastal market citing the cost they must pay for reinsurance and the increase in projections by catastrophe models for hurricane damage. Reinsurance has increased due to the predictions of proprietary computer models as well as 2004 and 2005 hurricanes in the United States and other worldwide catastrophes.

Today, forty four percent or 57,527 homes on Cape Cod and the islands are now with Massachusetts FAIR Plan, the insurer of last resort. That's up from 5,614 in 2001 or better than a one thousand percent increase. The average FAIR Plan premium on the Cape and islands is now just over \$1,739. The FAIR Plan is no longer just the insurer of last resort for economically

troubled areas. It has become the only option for many residents in coastal areas. The FAIR plan is increasing its rates to keep up with its costs of reinsurance. It has won a 25% increase from the insurance commissioner and has applied for a second 25% increase.

The FAIR Plan is spending more and more on reinsurance that has gone up every year. In 2005 the FAIR Plan spent \$17.5 million for \$500 million worth of reinsurance. In 2006, they spent \$43 million for \$455 million in reinsurance and in 2007 the FAIR Plan spent \$75 million for \$979 million in reinsurance.

This homeowners' insurance problem is moving progressively up along the coasts of Massachusetts. Beginning in 2007, legislators from the south coast of Massachusetts (Fall River to Wareham) and the south shore (Quincy to Plymouth) received a growing number of complaints from their constituents about the rising cost of homeowners' insurance.

Before you are swept up in the assumption that everyone is rich on Cape Cod, consider the following facts. Rising homeowners' insurance costs have dramatically affected the affordability of housing for seniors on fixed incomes who represent twenty five percent of the Barnstable County population. Some senior citizens, who have paid off their mortgages, have invited disaster by not purchasing homeowners' insurance because the price has gone up so high.

In addition, sixty percent of the Barnstable County workforce have average incomes of around \$20,000 according to 2000 US census data. Even accounting for an increase in the interceding years most families are having trouble with the rising costs of homeowners' insurance and were struggling to stay afloat already. The cost of living in Barnstable County is nearly on a par with the Boston Metropolitan area. According to Crittenton Women's Union Cost of Living Study, a family of four need \$57,919 to cover minimum, "no frills" needs in Barnstable County. The cost of living requires that both spouses work to even approach that figure and then there is an \$18,000 affordability gap. <http://www.liveworkthrive.org/calculator.php>

This affordability gap is only exacerbated by the escalating cost of homeowners' insurance. We hear from our constituents on an almost daily basis, calling to say that they are being forced to sell and move because of the high cost of their insurance premium. Barnstable County is losing its middle class that has been struggling to survive. For many the double digit increases in insurance is the proverbial straw breaking the camel's back.

The increases are affecting homes several miles from the coast, not just within immediate vicinity of the coast. This is where the working families of Cape Cod, Barnstable County, live, not in the expensive, high end ocean view neighborhoods.

As mentioned earlier the increases are being driven by high cost of international reinsurance companies and their reliance on private computer models. Three private computer models are projecting higher risks because there is more building and more expensive building along the coast line and because of the impacts of global warming which include more intense storms and sea level rise.

The Cape Cod State Legislative Delegation has moved forcefully to remedy this problem by endorsing Senator Robert O'Leary's Catastrophic Reinsurance Fund, S 624. The bill will create a reinsurance pool for private insurance companies doing business in the Commonwealth and the FAIR Plan. By doing so we hope to maintain the private sector's role as the primary risk bearer and stabilize the rising cost of homeowner's insurance. We have gained the support of many of our south coast and south shore colleagues and HR 3355 will help us in our effort to pass the legislation.

The Klein and Mahoney bill, HR 3355 will be very helpful to our efforts. HR3355 will provide us with a backup in the event of an extreme catastrophic event that depletes our reinsurance pool before we have it fully funded which will be seven to ten years. It will also help us finance the fund by issuing bonds if the Commonwealth has trouble on its own.

While helpful as drafted, we would like to see HR 3355 provide more emphasis on tax exempt status for the Massachusetts Catastrophic and similar funds in other states.

The provision of dependable and affordable homeowners' insurance is a severe problem for Massachusetts and other coastal states. Homeowner's insurance is a necessity in today's society and if the private sector can't provide a viable product for average Americans, it falls to state and federal governments to assist in doing so. We believe that the establishment of our state catastrophic fund, backed by the federal fund will result in a calming of the market because the insurance companies will be purchasing reinsurance from the Commonwealth at a lower cost than if bought through private reinsurers – a fund that will continue to grow until there is a catastrophic event. Once the cost of reinsurance is stabilized, we believe that market forces will cause many companies who have left coastal areas to recommence writing business in these areas. Cape Cod and coastal Massachusetts is a fundamentally desirable place to do business. Homes are well built and maintained, major storms are infrequent and people pay their premiums. HB 3355 will help us to help market forces to work!

HB 3355, A bill to ensure the availability and affordability of homeowners' insurance coverage for catastrophic events, compliments our efforts on the state level. With it we will be able to provide a reinsurance pool for both the FAIR Plan and private homeowners' insurance companies.

We would only ask that the tax exempt status be affirmed leaving no question in the matter.

Thank you for this opportunity to present my view.

Respectfully,

Matthew C. Patrick

