

Homeowner's Insurance in Washington State

In the last Washington REALTOR® we reported approximately half of the Washington REALTORS® surveyed experienced problems obtaining or renewing Insurance for themselves or their clients (see www.warelator.com/insurance.htm). In this issue, we look at the emerging problems facing Washington residents as they try to insure their homes and the impact insurance has on the real estate transaction.

Insurance Companies Tighten Belts

Insurance companies are losing money for the first time in recent history, and stockholders are not happy. According to the Insurance Services Office and the National Association of Independent Insurers, the property/casualty insurance industry posted a \$7.9 billion net loss in 2001, its first-ever net loss. Three factors contributed greatly to these losses – the downturn in the economy, the lack of income from investments and claims that exceeded premium revenue. According to a story that appeared in the Spokane Journal of Business, State Farm Insurance paid out \$1.14 in claims for every dollar it received in premiums in Washington state. Nancy Carpenter of State Farm Insurance says, "We can only do that for so long before something has to change."

In addition to casualty claims, the profits of insurance companies are further jeopardized by recent large court judgments against insurers. One well-publicized Texas lawsuit, for example, resulted in a \$32.1 million judgment. While the award for this judgment was recently reduced to approximately \$4 million, most legal experts expect large mold judgments to continue as mold cases are introduced in more states. "These suits not only drive up the cost of premiums but they are driving insurance companies out of the states that fail to regulate these judgments," Karl Newman of the Washington Insurance Council (WIC) said. Farmers essentially pulled out of Texas by not renewing 700,000 homeowner's insurance customers.

As a result of these losses, insurance companies are closely analyzing risk and either not insuring high-risk clients or charging a higher premium for the coverage. But what is a high risk? According to Newman, a high risk determination may be a result of multiple claims or incidents in a three-year period, water damage, post & pier foundations, outdated fusebox design, knob and tube wiring, older manufactured homes, rental homes, certain types of siding, buried oil tanks, bad credit reports and new policyholders. New policyholders? Yes, according to industry statistics, new policyholders are more likely to file claims than established customers.

But how do they know all this stuff? The insurance companies have several underwriting tools they use. One such tool is a Comprehensive Loss Underwriting Exchange (CLUE) report, obtained from a shared database system operated by ChoicePoint that insurance companies use to track incidents and paid claims (see *Get a CLUE*, pg .). In addition to the information they discover from the CLUE report, the insurance companies will send out inspectors to physically review the home and property. Finally, they will verify the information submitted on your insurance application. Unfortunately for REALTORS®, this process takes up to 60 days, so the home transaction has often closed before the buyer knows for sure if they have homeowner's insurance past the binder period.

Binders Good for 60 Days

An insurance binder supplies 60 days of coverage and that is all. At the end of the binder period, continued coverage is at the discretion of the insurer. Several factors can trigger the decision not to continue coverage past the binder period including:

- Upon physical inspection, the house has water damage or other elements that may identify the house as "high risk"
- The CLUE report identifies past claims or incidents relative to the house and/or the buyer that would flag the policy as likely to file future claims
- The original binder application left out past claims or the application included false information

What's a REALTOR® to Do?

Get started early.

Advise your buyers to shop for insurance early – start as soon as they find a house they are interested in. And, they should shop around and get quotes from several insurance companies. The Internet makes this chore easier, a search on google.com for "shop homeowners insurance" produced dozens of companies that represent several carriers.

Also, you may refer your customers to the Office of the Washington Insurance Commissioner (OIC) www.insurance.wa.gov. Here you can find a list of insurance companies doing business in Washington and their ranking. OIC publishes several guides and fact sheets that can assist consumers in shopping for and understanding their coverage. Consumers should call the Consumer Advocacy Hotline at 1-800-562-6900 to receive a free copy of the guides. You can also investigate insurance companies on line at <http://www.insurance.wa.gov/consumers/home/homecomplaint.asp>.

While many insurance companies have put a moratorium on new policies, some companies have identified this situation as a growth opportunity and are aggressively seeking out new business. Margaret Haines, District Manager of Liberty Mutual Fire Insurance Company, said, "We see Washington as an opportunity for growth rather than a target of contraction. The state is rich with a diverse population and geography, and boasts educated, informed consumers who take pride in the homes they own. Washington is an opportunity for growth rather than a target of contraction."

Get a CLUE

Buyers may want to ask the seller to get a CLUE report on the house. In addition, buyers can purchase their own CLUE profile (available for \$12.95 at <http://www.choicetrust.com>), as insurance companies will look at the potential home buyer's history as well as the home's history when deciding whether to write a policy. (See *How I Got a CLUE*, pg. .)

Further, home sellers can provide buyers with proof that prior damage has been properly repaired and outline other property features or improvements that will reduce risk.

What if it's the House?

If you want to buy a home that turns out to have a history of claims – especially for water damage – an insurance company probably will not give you insurance unless you go on a high-risk basis, says Jim Carollo, of Tomlinson Black Affiliate Services, which provides marketing and development services to their real estate companies in the Eastern Washington/Northern Idaho area.

If the house has a history of water damage or past claims, it may be tagged as high risk and will be more difficult to insure. In these cases, the homeowner (or perspective homeowner) will need to secure insurance through a high-risk carrier or verify the house has been repaired and repairs were complete and effective. Insurance carriers that specialize in high-risk policies are often called *Wholesalers, surplus-lines* or *non-admitted carriers*. According to Newman, "There are many companies that specialize in this field, and insurance is normally available, although the premiums are usually 50 to 100 percent higher." Newman also advises you ask the current owner of the home who his insurance company is, because that company knows the home and may be more likely to insure the home and buyer.