Statement of Senator Jeffrey D. Klein
Deputy Minority Leader, New York State Senate

To the New York City Council Committee on Consumer Affairs

October 10, 2007

Good morning. I am Senator Jeff Klein and I represent the 34th State Senate District, which covers a section of the north Bronx reaching from Riverdale to Throggs Neck and from Morris Park to Woodlawn. I also represent a portion of lower Westchester County, including parts of Yonkers, Mount Vernon and New Rochelle, and the towns of Pelham and Eastchester.

I would like to thank Chairman Leroy Comrie and the members of the Committee on Consumer Affairs for investigating the recent wave of homeowner insurance cancellations in coastal regions of New York and for inviting me to speak here this morning. We are here specifically to discuss **Proposed Resolution No. 430A**, calling on the New York State Legislature to pass legislation that would lower the percentage of homeowners' insurance policies that a company may cancel or refuse to renew without the approval of the New York State Insurance Department.

As the sponsor of this legislation in the New York State Senate, I urge the Committee and the entire Council to pass this resolution as speedily as possible to send a message to both houses of the State Legislature that the magnitude of these ongoing policy cancellations is unjustified by scientific or financial evidence and that the resulting hardship to homeowners and disruption to local insurance markets can no longer be ignored.

Since early 2006, residents of my 34th State Senate District and throughout the coastal communities of New York City, Westchester County and Long Island have reported widespread non-renewals of homeowners' insurance policies as companies, particularly Allstate, have professed a desire to reduce their risk exposure in these purportedly high-risk areas. Coastal homeowners who have paid their premiums faithfully for decades and never filed a claim are suddenly too risky to insure. New York's relatively low risk exposure for natural disasters, along with the continued coverage of homeowners who purchase additional insurance products like auto insurance, have belied companies' claims that our local homes cannot safely be insured.

The abrupt abandonment of relatively low-risk coastal insurance markets, like New York, makes little financial sense in the short-term. I suspect that it is instead part of a long-term strategy by the insurance industry to scare the public and create a sufficient shortage of affordable coverage to compel the government to assume the risk of any future catastrophes for them. In fact, after reading the dire predictions in their cancellation letters, some of my constituents were convinced that a Category 5 hurricane was imminent.

These scare tactics and heavy-handed attempts to manipulate local insurance markets are what prompted me to reach out to the new Superintendent of the New York State Insurance Department, Eric Dinallo. I have had multiple meetings with Superintendent Dinallo and his staff in recent months to discuss these problems and determine what the State can do to help the affected homeowners.

On August 28th, the Department ruled that companies could no longer cancel policies based on the purchase of other lines of insurance. Renewing homeowners' policies of customers who also held auto insurance coverage, while canceling their neighbors who did not had become a widespread practice, despite state laws against the tying of different insurance products. Last month, industry hold-out Allstate agreed to comply with the state law, bringing this particular consumer abuse to a close.

I am also working with the Insurance Department to determine if holders of cancelled policies are being steered to purchase more expensive coverage from entities with financial ties to the original insurers who are casting them adrift. But these issues are secondary to the steady erosion of affordable homeowners' coverage in our coastal communities.

Right now, the major impediment to further Insurance Department oversight of these unscrupulous practices is lax state laws that allow insurers to cancel large numbers of policies each year with little or no justification. Under current law, an insurance company can cancel up to 4% of its statewide policies each year without having to gain the approval of the Insurance Department. This can amount to thousands of policies for a large insurer, and cause a major disruption in the local insurance market if an insurer targets all of its cancellations to a small geographic area.

In 2006 alone, Allstate issued "non-renewal" notices on 26,000 of its homeowners' insurance policies in the coastal regions of New York City, Westchester County and Long Island, leaving those homeowners scrambling to secure alternate coverage. My Senate Bill 2269, would halve the amount that can be summarily cancelled to 2% and require the insurer to provide a financial or risk analysis justification for its cancellations.

New York's homeowners deserve insurance coverage that is dictated by an even-handed assessment of their actuarial risk, not driven by scare tactics and industry collusion. Please join me in helping to strengthen state laws governing policy cancellations, to put an end to these abuses, once and for all.

TESTIMONY OF THE

AMERICAN INSURANCE ASSOCIATION

NEW YORK CITY COUNCIL
COMMITTEE ON CONSUMER AFFAIRS

Public Hearing
On

"The Sudden Increase of Homeowner Policy Terminations in Coastal areas of NYC"

and

Proposed Resolution No. 430A

"Resolution calling upon the New York State Legislature to pass legislation that would lower the percentage of homeowners' insurance policies that a company may cancel or refuse to renew without the approval of the New York State Insurance Department."

TUESDAY, OCTOBER 30, 2007
250 BROADWAY
NEW YORK CITY

Presented by:

Gary Henning
Assistant Vice President
American Insurance Association

Chairman Comrie, members of the committee, good morning. My name is Gary Henning. I am an Assistant Vice President of the American Insurance Association (AIA). Thank you for this opportunity to discuss our views with you today.

AIA is a national trade association of more than 350 property and casualty insurers. AIA members have a strong commitment to New York State. Last year, they wrote over $1.1 billion dollars in homeowners' premiums in New York representing nearly 31% of statewide homeowners' insurance premiums.

The topic this committee is examining is the increase of homeowner policy terminations in coastal areas of New York City. While these cancellations may certainly be disconcerting for individual policyholders, available data seems to suggest that these policyholders are finding homeowners' coverage *despite being non-renewed by their previous insurance company.* A good measure of what is happening in the private homeowners' insurance market is the size of New York State's residual homeowners' market, the New York Property Insurance Underwriting Association (NYPIUA). For the most part, homeowners who cannot get an insurance policy in the private market will turn to this market of last resort to get the coverage they need. If the number of NYPIUA policies is increasing, this suggests that homeowners are experiencing greater difficulties in obtaining coverage in the private market. Conversely, if NYPIUA policy counts are decreasing, this would suggest the private market is writing more policies.

Looking at NYPIUA statistics would suggest that homeowners' insurance is still readily available in New York City, even with all the non-renewals that have occurred. From September 30, 2005 to September 30, 2007, there are 295 fewer NYPIUA homeowners' policies in the Bronx (2936 v. 2641), 1091 fewer policies in Brooklyn (12,295 v. 11,204), 156 fewer in Manhattan (794 v. 638), a slight uptick in Queens (7593 v.7606) and a slight decrease in Staten Island (1059 v. 1046). These numbers all suggest that the people getting non-renewed are still getting their homeowners' insurance in the private market.

Given the potentially devastating consequences for an insurance company of insuring too many homes in an area at risk for hurricane damage, companies need to very careful manage what in the industry is called their "exposure," or how much money they would lose in the case of a natural (or any other, for that matter) disaster. A company that has too much exposure in any one area can have its solvency at risk should a hurricane hit that area. Lessons learned after Katrina, lessons regarding hurricanes themselves and their potential impact, have lead insurers to reevaluate their exposure in coastal areas. This has lead to companies reducing their exposures in two ways: either by limiting the new business they are willing to write and/or by non-renewing existing policyholders. It is this reduction of exposure that has lead to the non-renewal of the New York City policyholders in question at this hearing. These decisions were made on the individual companies' actuarial and business models. While some policyholders may be upset that their insurance company refused to renew "decades-old existing policies" (as stated in the resolution being considered by this committee), an insurance policy is NOT like a savings account. A policyholder pays an annual premium for insurance protection for the stated policy period. To suggest that an insurance company is acting unethically simply by non-renewing a policy where the policyholder has never filed a claim misstates the fundamental nature of the insurance contract.

AIA believes the market is actually functioning as it should. Some companies reduce the number of homeowners' policies they are willing to write, while others increase their writings. The NYPIUA statistics seem to show that this is what is currently what is happening. However, AIA is aware that being non-renewed can be problematic for individual policyholders, even if everything works out in the end. AIA has worked, and will continue to work, with both the state legislature and the state Insurance Department on ways to increase capacity in the marketplace and on ways to improve the coverage of those policyholders that need to obtain coverage through the residual market. To this end, AIA supported Senate bill 8358 in 2006, legislation that would have strengthened the state's coastal market assistance program (C-MAP) by bringing homeowners', agents, brokers and insurers together in an effort to help the homeowner secure insurance coverage. AIA also supports Senate bill 6266 (2007), legislation that would allow NYPIUA to develop an incentive plan for insurers to write homeowners' insurance in the state's coastal areas, while encouraging more comprehensive coverage for homeowners through an enhanced NYPIUA policy. Both these bills have passed the Senate in previous sessions, but not the Assembly.

While AIA supports mechanisms aimed at improving markets and market participation, it is opposed to any legislation or regulation that restricts choices in the marketplace. The legislation that is the topic of this hearing is such legislation. This so-called "4% legislation" would require an insurance company to get Insurance Department approval prior to non-renewing 4% or more its book of business in any one rating territory. An insurance company's rating territory can be smaller than a county. In fact, one member company told me that 4% of his company's book of business in several rating territories could be as few as a dozen policies. While requiring the Insurance Department's approval for market changes of this small a magnitude would help protect policyholders vis-à-vis their current insurance companies, this type of requirement would be counterproductive for the policyholder community at large. If additional restrictions are placed on how insurance companies may allocate their capital in the New York State marketplace, these companies will be much less willing to commit new capital to the homeowners' insurance market, thereby *decreasing* the overall availability of homeowners' insurance in New York. Such prior restrictions on capital negatively affect future risk-taking appetite because private entities will not be able to freely adjust their exposures after they enter a market. This barrier to exit will act as a barrier to entry and expansion in the market. This "4% legislation" would actually make the situation in the homeowners' insurance market worse.

While you might expect a representative of the insurance industry to make this claim about this type of legislation, Governor Spitzer's own Superintendent of Insurance, Eric Dinallo, has stated publicly (at a state Senate Insurance Committee hearing, October 9, 2007) that, in regard to the 4% legislation, "You should be very careful about unintended consequences. What you don't want to do is create a feeling by the underwriter where they can't go into a market because then they can't manage their risks adequately." The resolution in question also makes reference to a study of insurance companies' actions in "markets less impacted by natural disasters." It is not clear as to what markets are being referenced here, but if the implication is that New York City is less impacted by natural disasters, this is a very misleading comment. While New York City has obviously not seen the same frequency of hurricane activity as the southern United States and the Gulf Coast, meteorological studies predict that the Northeast is overdue for a major hurricane. The effects of a major hurricane could be devastating on New York City, especially in lower Manhattan and the southern parts of Brooklyn and Queens. For the insurance companies NOT to take into consideration these scenarios would be foolhardy.

AIA believes that to focus on policyholder terminations without also looking at whether or not these policyholders got homeowners' coverage with another insurer leads to incorrect conclusions about the state of the homeowners' insurance market in New York City. New York City's homeowners' insurance marketplace is healthy and functioning properly. To intervene in the marketplace with legislation such as the "4% legislation" would have the opposite of the intended effect, that is, it would make it MORE difficult to get homeowners' insurance. While AIA opposes this type of legislation, we stand ready to work with the state legislature, the Governor, the Insurance Department and other stakeholders on market-based measures that increase the availability of homeowners' insurance in New York City and New York State.

Thank you again for the opportunity to present our views to this committee. I'd be happy at this time to answer any questions you might have.

Queens Civic Congress

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FOR IMMEDIATE RELEASE:
TUESDAY, OCTOBER 30, 2007

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QUEENS CIVIC CONGRESS URGES PROTECTIONS FOR HOMEOWNERS FROM INSURANCE CO. CANCELLATIONS

Testimony at Committee On Consumer Affairs
October 30, 2007
Presented and prepared by
Vice President Barbara S. Larkin

Thank you Chairman Comrie for this opportunity to testify; the Queens Civic Congress appreciates the invitation extended by you and Speaker Quinn to share our position on this important matter. My name is Barbara Larkin, Vice President of Queens Civic Congress, an umbrella organization of more than 110 neighborhood based civic organizations representing property owners, including those owning coops and condos, and tenants who reside in every part of Queens County. The Queens Civic Congress urges the City Council to weigh in on an essential issue of consumer fairness and equity faced by many homeowners who live in or near shoreline communities.

The Queens Civic Congress urges the City Council to adopt Resolution. No. 430-A which calls upon the New York State Legislature to pass legislation that would lower the percentage of homeowners insurance policies that a company may cancel or refuse to renew without the approval of the New York State Insurance Department.

In January of last year, Allstate Insurance Company decided to cancel or not renew homeowners insurance policies of approximately 28,000 homeowners residing in coastal communities in New York City, Westchester and Long Island. Although my insurance coverage was not dropped – I live in The Rockaways and am also President of the Belle Harbor Property Owners Association, neighbors have shared their agonizing stories after receiving notification that their homeowners policies were not being renewed.

Since the 28,000 unfortunate policyholders canceled or dropped by Allstate represents less than 4% of Allstate's total policies in NYS, the insurance company slips under that State Insurance Law threshold to notify the NYS Department of Insurance of its plans or take any steps to ensure that the company's rejection of this clientèle is conducted in a manner that minimizes the disruption sure to result when so many homeowners abruptly find themselves having to obtain replacement coverage.

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Additionally, under current law, Allstate faces no requirement to demonstrate any kind of financial rationale for dropping these policyholders. Many of these property owners have had coverage with Allstate for decades, leaving them with no protection.

S.~~7600~~ 2219, introduced by State Senator Klein, would address this quagmire by requiring insurers to demonstrate potential risk or loss to justify such cancellations or non-renewals before approval would be granted by the Department. The Queens Civic Congress finds this legislation would protect consumers and ensure stability in the insurance market and supports its enactment. The Queens Civic Congress has already discussed introducing this legislation in the State Assembly. The City Council's message of support, as demonstrated though the passage of Resolution 430-A, would help this cause greatly.

Thank you.

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[The listing of Queens Civic Congress members appears below]

Queens Civic Congress Members

Association of Old Forest Hills ♦ Auburndale Improvement Association ♦ Bayside Civic Database ♦ Bayside Clear-Spring Council ♦ Bayside Hills Civic Association ♦ Bayswater Civic Association ♦ Bay Terrace Community Alliance, Inc. ♦ Bellaire-BellVill Civic Association ♦ Belle Harbor Property Owners Association ♦ Bellerose Commonwealth Civic Association ♦ Bellerose Hillside Civic Association ♦ Bell Park Manor Terrace Community Council ♦ Bowne Park Civic Association ♦ Briarwood Community Association ♦ Cambria Heights Civic Association ♦ Cherry Robinson Homeowners ♦ Civic Association of Utopia Estates ♦ C.O.M.E.T. (Communities of Maspeth-Elmhurst Together) ♦ Concerned Citizens of Laurelton ♦ Cornucopia Society ♦ Creedmoor Civic Association ♦ Deerfield Area Association ♦ Doug-Bay Manor Civic Association ♦ Douglas Manor Association ♦ Douglaston Civic Association ♦ Dutch Kills Civic Assn. of Long Island City ♦ East Flushing Civic Association ♦ Federated Block Associations of Laurelton ♦ Federation of Civic Associations of Southeast Queens ♦ Floral Park Community Council ♦ Flushing Heights Civic Association ♦ Flushing on the Hill Taxpayers Association ♦ Forest Hills Chamber of Commerce ♦ Forest Hills Crescents Association ♦ Forest Hills-Van Court Association ♦ Fresh Meadows Homeowners Association ♦ Georgetown Mews ♦ Glendale Civic Association of Queens ♦ Glen Oaks Village Owners, Inc. ♦ Greater Astoria Historical Society ♦ Greater Whitestone Taxpayers Civic Association ♦ Harding Heights Civic Association ♦ Hillcrest Estates Civic Association ♦ Hilltop Village Co-Op #1 ♦ Hilltop Village Co-Op #2 ♦ Hilltop Village Co-Op #3 ♦ Hilltop Village Co-Op #4 ♦ Hollis 11423 Block Association ♦ Hollis Hills Civic Association ♦ Holliswood Civic Association ♦ Hollis Park Gardens Civic Association ♦ Holly Civic Association ♦ Hunters Point Community Coalition ♦ Hyde Park Gardens Cooperative ♦ Jackson Heights Beautification Group ♦ Jamaica Estates Association ♦ Jamaica Hill Community Association ♦ Juniper Park Civic Association ♦ Kew Gardens Civic Association ♦ Kew Gardens Hills Homeowners Association ♦ Kissena Park Civic Association ♦ Little Neck Bay Civic Association ♦ Little Neck Pines ♦ Malba Civic Association ♦ Meadowlark Gardens Owners ♦ Middle Village Maspeth Civic Association ♦ Middle Village Property Owners Association ♦ Mitchell Linden Civic Association ♦ Neponsit Property Owners Association ♦ Newtown Civic Association ♦ North Bellerose Civic Association ♦ North Flushing Civic Association ♦ North Hills Estates Civic Association ♦ Northwest Clearview Homeowners Association ♦ Norwood Civic Association ♦ Oakland Terrace/ Gardens Community Council ♦ Off Broadway Homeowners Association ♦ Our Neighborhood Improvement Association ♦ Parkway Village Historical Society ♦ Queensboro Hill Neighborhood Association ♦ Queens Colony Civic Association ♦ Queens Community Civic Corp. ♦ Queens Village Civic Association ♦ Ramblersville-Hawtree Civic Association ♦ Richmond Hill Historical Society ♦ Ridgewood Property Owners and Civic Association ♦ Rockaway Park Homeowners/ Residents ♦ Rocky Hill Civic Association ♦ Rosedale Civic Association ♦ Royal Ranch Association. ♦ Southeast Queens Concerned Neighbors ♦ South Ozone Park West Civic Association ♦ Springfield/Rosedale Community Action Association ♦ Station Road Civic Assoc. of Auburndale ♦ Sunnyside Gardens/Harrison Place Homeowners ♦ Surrey Estates Civic Association ♦ Union Turnpike Merchants Association ♦ United Forties Civic Association ♦ United Neighbors Civic Association ♦ Waldheim Neighborhood Association ♦ Wayanda Civic Association ♦ West Cunningham Park Civic Association ♦ Westmoreland Association ♦ Woodside Community Council