

Report No. 12

REPORT
ON THE
LIMITED INSURANCE MARKET FOR LOW VALUE DWELLINGS

North Carolina
Legislative Research Commission

Raleigh

1967

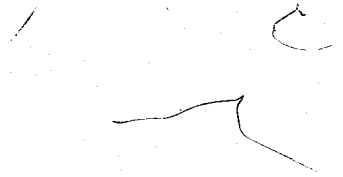
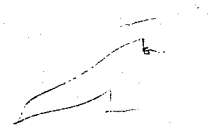
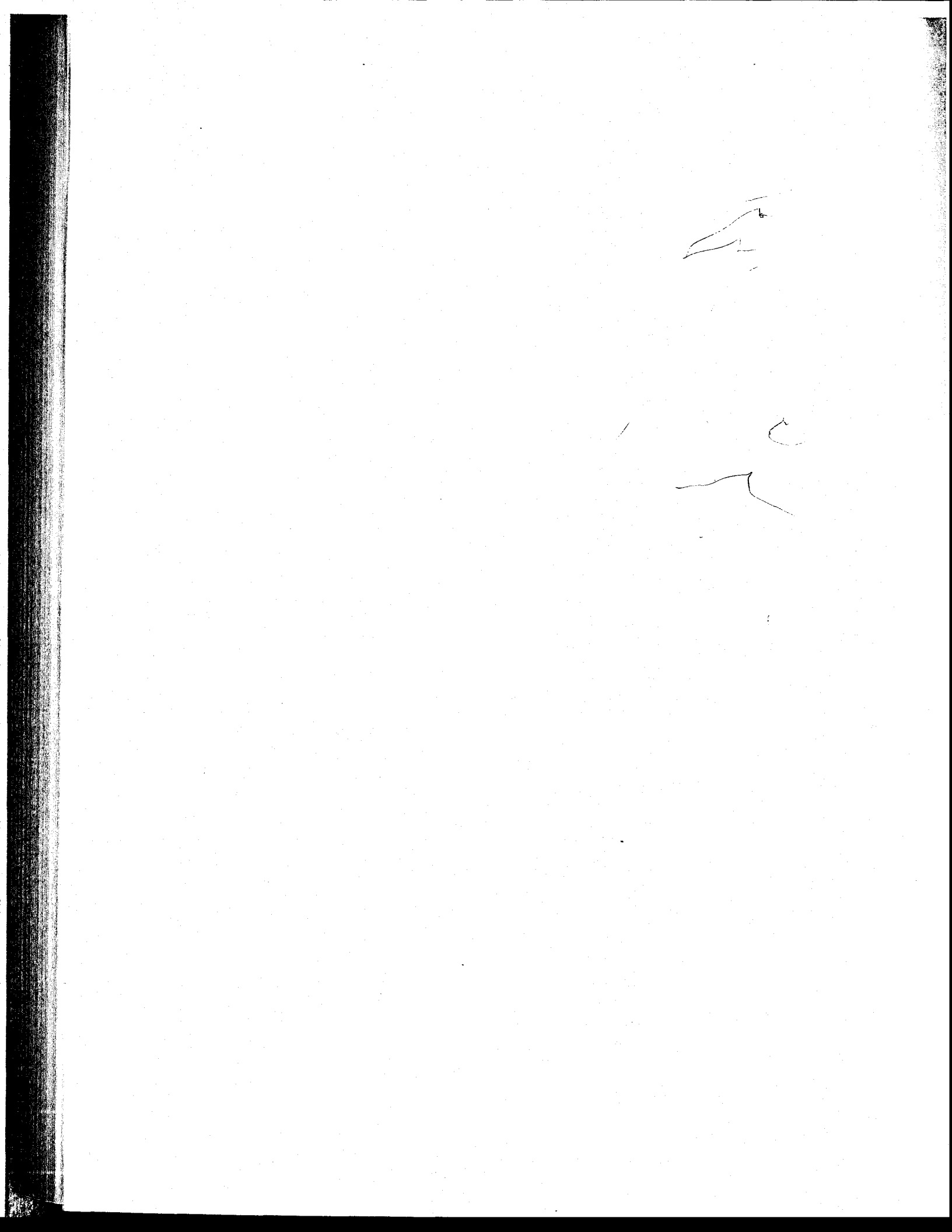


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Introduction

On December 3, 1965, Senator Dallas L. Alford appeared before the Legislative Research Commission with a request that the Commission investigate the problem of obtaining fire and extended coverage insurance on low value or residual dwellings.

On April 1, 1966, the Commission requested the secretary to contact Senator Dallas Alford, members of the insurance industry and others concerned to appear before the Commission at their June meeting and submit data and supporting evidence.

In June, the Commission heard from the following:

Senator Dallas L. Alford

Mr. Herbert Wentworth, Executive Vice President
of the North Carolina Savings & Loan League

Mr. Louis E. Woodberry, Chairman of a special
committee composed of members of the lending
industry, insurance companies and insurance
agents to study the problem

Mr. Edwin S. Lanier, Commissioner of the North
Carolina Insurance Department

Mr. H. Wade Yates, representing the Mutual Fire
Insurance Alliance of North Carolina

Mr. William E. Bizzell, Manager of the North
Carolina Fire Insurance Rating Bureau

Mr. C. D. Arthur, Chairman of the American
Insurance Association Advisory Committee in
North Carolina

Findings

Senator Dallas Alford, in testimony before the Commission, gave an example of the problem facing insurance agents and companies in the State:

The owner of a house valued at \$5,000 desires insurance at 75% of value. The property is kept in good repair but is about 40 years old. The owner will have difficulty securing fire insurance.

The reluctance of insurance companies and agents to write such risks is understandable. The rate that can be charged is low. The agent has the expense of carrying the risk on his books, and the insurance companies have the expense of inspecting such risks, which cuts any profit to them; however, this man is entitled to insurance.

The Savings and Loan Associations of the State have found it increasingly difficult to provide continued protection of property under mortgage and to obtain protection for new loans on dwellings of \$5,000 or less. Mr. Herbert Wentworth, Executive Secretary of the North Carolina Savings and Loan League, presented the Commission with the results of a survey conducted by the League. (Appendix A). Surprisingly, the results of the survey indicated that the situation was not quite as acute as anticipated. Mr. Wentworth said that this pointed to a

willingness on the part of companies and agents to solve this growing problem.

A committee, composed of members of the lending industry, insurance companies, and insurance agents, was formed after Senator Alford first brought this matter to the attention of the Commission in December, 1965. Mr. Louis E. Woodberry, prominent in the insurance industry, chaired this committee. This committee was patterned after a similar group formed several years ago to solve the placing of beach property. Insuring beach property is not the difficult problem it was several years ago because the insurance industry recognized that the need must be met and reached a workable solution. Mr. Woodberry, in testimony before the Commission, informed members that the president of the American Insurance Association recently wrote all member companies in the State asking them to recognize their obligation.

Mr. Edwin S. Lanier, Commissioner of Insurance, believed action in this area could be achieved through private enterprise and voluntary cooperation by insurance companies, insurance agents and the Insurance Commissioner without additional statutory provisions.

The Mutual Fire Insurance Alliance of North Carolina represented the views of the county mutuals. They report

that they could ease this lack of insuring facilities if they were allowed to enlarge their area of operations. Each county mutual is now limited by statute to serving three counties.

Mr. W. E. Bizzell, manager of the North Carolina Fire Insurance Rating Bureau, reported that the chairman of their Governing Board had issued a statement requesting all companies to reorganize their underwriting practices as a result of a recent change in rates and the approval of a \$50 deductible clause; however, Mr. Bizzell said that it must be the inherent right of each company to establish underwriting rules and to judge what is insurable. A recent count of daily reports (duplicates of policies) coming through the Rating Bureau established an average insured value of \$5,000. Since there are an estimated 750,000 dwellings insured in North Carolina, the bulk of dwellings must be insured for somewhat less than \$5,000.

Mr. C. D. Arthur, chairman of the American Insurance Association Advisory Committee in North Carolina, said that the companies were often called on to insure property that was uninsurable. Mr. Arthur showed members pictures of some dwellings his company was asked to insure. These dwellings were clearly uninsurable.

Conclusions

The contention of the insurance industry that many dwellings valued at \$5,000 and less are uninsurable is tenable. Also, it is probably true that experience by insurance companies on this class of property is unprofitable because of inadequate rates; however, the Commission feels the insurance industry has an obligation to the public to provide protection for all insurable property within the State, regardless of value.

We do not feel, at this time, there is any reason to institute legislation placing low value dwellings on an assigned risk basis as in the case of automobile liability insurance. We concur that private industry must be given an opportunity to work out a reasonable solution.

There appears to have been a concerted effort recently by all concerned to solve the problem. It is readily admitted that the recent minimum premium increase of \$10.00 per policy to \$16.00 per policy, effective in April of 1965, is helping to improve the market and even more effective was the approval by the Insurance Department in June, 1966 of the \$50.00 deductible clause and the granting of an increase in the loss constant of \$1.00 per coverage per policy.

Senator Dallas Alford filed a letter with the Commission in December, 1966 (Appendix B), stating that the situation has vastly improved; however, a careful watch should be maintained to see that there is no deterioration of this effort.

In view of the foregoing, we are not recommending any action by the General Assembly on the assumption that the industry will continue to work toward a solution that is fair, non-discriminatory and in the public interest.

Appendix A

RESULTS OF SURVEY CONDUCTED BY THE NORTH CAROLINA
SAVINGS AND LOAN LEAGUE AMONG ITS MEMBERS TO
DETERMINE THE EXTENT OF PROBLEM OF PLACING FIRE AND
EXTENDED COVERAGE INSURANCE ON LOW-VALUED DWELLINGS

We sent out questionnaires to our 182 member associations and had replies from 91 or a total of 50%.

The following summary of the replies should be of some help in pinpointing our insurance problem:

Question #1. Are you having any problems obtaining fire and extended coverage insurance on low-valued dwellings in your area?

41 answered YES; 50 answered NO, although 14 of those replying NO had comments which are listed below. This further breakdown by cities may be of some significance in studying the problem. The 41 associations having trouble placing this insurance, or having cancellations, are located in these cities:

Chapel Hill	Charlotte	China Grove
Concord	Edenton	Elizabeth City
Enfield	Fayetteville	Goldsboro
Greensboro	Hamlet	Henderson
Hendersonville	Hertford	Lumberton
Marion	Monroe	Morganton
Mount Airy	New Bern	Newton
Raleigh	Rockingham	Rocky Mount
Salisbury	Sanford	Star
Tryon	Wallace	Washington
Waynesville	Wilkesboro	Wilmington
Winston-Salem		

The 36 associations who answered NO problem without any comment are located in:

Aberdeen	Albemarle	Burlington
Canton	Cary	Charlotte
Cherryville	Cornelius	Dunn
Durham	Fairmont	Forest City
Greenville	Hendersonville	Hickory
Hillsborough	Kinston	Lexington
Mebane	Mooreville	Mount Airy
Mt. Olive	Raleigh	Randleman
Red Springs	Roanoke Rapids	Rocky Mount
Sanford	Southern Pines	Statesville
Tabor City	Wendell	Whiteville

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The 14 associations who answered NO but added further comments are recorded below:

- Benson - No trouble at moment, but anticipate a problem soon.
 Burlington - Only 2 in 25 years. No trouble anticipated.
 Clinton - No refusals or cancellations, but some resistance on properties under \$5,000.
 Durham - Two substandards which were hard to place.
 Farmville - Nationwide cancelled on commercial building. We placed coverage with another company.
 Franklin - Difficulty on \$1500 to \$2000, but none absolutely turned down.
 High Point - Not too much trouble. A few cancelled, but placed with other companies.
 Lincolnton - Have had a minor amount of trouble.
 Oxford - No real difficulty at present.
 Rocky Mount - Insurance agents currently having a terrific problem placing insurance on low-valued dwellings. Problem progressively worsening.
 Thomasville - Some companies object to low-valued dwellings, but will cover if they receive sufficient volume of business.
 Troy - We have heard of companies refusing low-valued coverage, but we have had no problems as yet.
 Valdese - We have always gotten coverage, but our agent has had difficulty on occasions.
 Wilson - No problem placing insurance, but the burden and expense of dealing with cancellations and reinstatement notices is quite heavy.

Question #2. If so, on what valuations are you experiencing difficulties?

- | | |
|--------------------|--|
| \$5,000 - \$8,000? | 8 Replies indicate a problem in this range. |
| Under \$5,000 | 40 Replies indicate a problem in this range. |

Question #3. How many dwellings on which you have loans are presently uninsured because you are unable to obtain coverage from an insurance company?

Answers indicated approximately 130 units not covered, although the total is inclusive because of the manner in which question was answered.

(i.e., some answered several, others said a great many, etc.)

Question #3A. In fairness to the insurance companies, how many of these same dwellings would you rate as substandard and, therefore, uninsurable?

Approximately 58 units were shown as substandard, although this total, too, is inclusive because of the manner in which question was answered.

Question #4. To bring the problem into sharper focus, will you please check in the spaces below the general location of these problem dwellings:

A. Inside City Limits

- a. In area that was formerly a good residential area, but is now in or bordering a commercial zone? 9 Checked this category.
- b. In good residential area, but the dwelling(s) in question are non conforming? 4 Checked this category.

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Question #4 Con't

- c. Among a group of dwellings that could create special insurance problems such as:

Reconverted mill-type houses?	8 checked here.
Shell houses?	8 checked here.
Row tenant houses in poorer section of city?	16 checked here.
Dwellings which were adequate when loan was made 5-20 years ago, but have become obsolete or are now in a less desirable area?	27 checked here.
Other (2 needing repairs, 1 vacant)	3 checked here.

B. Outside City or Rural Dwellings

- | | |
|---|------------------|
| a. Farm or rural dwellings (Owner occupied)? | 7 checked here. |
| b. Farm or rural dwellings (Tenant occupied)? | 19 checked here. |
| c. Dwellings in average rural community? | 13 checked here. |
| d. Other? (Vacant dwellings) | 3 checked here. |

Question #5. Please list the names of insurance companies which, within the last twelve months:

- A. Have refused to renew fire and extended coverage on low-valued dwellings on which you have loans: (We have listed below all the companies which were mentioned and the numeral in front indicates the number of times they were mentioned.)

6 Aetna Insurance Company
 1 Albany Insurance Company
 5 Allstate
 1 American Druggists
 1 American Motorist Insurance Company
 2 Boston Insurance Company
 1 Carolina Casualty Insurance Company, Jacksonville, Fla.
 1 Cherokee Insurance Company, Nashville, Tennessee
 1 Des Moines
 1 Federated Mutual Casualty Insurance Company, Richmond
 3 Fireman's Fund Insurance Company
 1 Glenn Falk Insurance Company
 1 Great American Insurance Company
 6 Hartford Insurance Company, Hartford, Conn.
 1 Insurance Company of North America, Macon, Ga.
 1 International Insurance Company of New York
 1 Iowa Mutual
 1 Lumbermen's Mutual Casualty Company
 1 Milwaukee Insurance Company
 2 National Insurance Company
 2 Nationwide
 1 New York Underwriters

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Question #5 Con't

- 1 North River Insurance Company
- 4 Northwestern Mutual Company
- 1 Ohio Casualty
- 1 Old Colony
- 1 Pacific Fireman's Fund
- 1 Pennsylvania Lumberman's Insurance Company
- 1 Pennsylvania National Mutual Casualty
- 1 Phoenix Insurance Company
- 2 Queen Insurance Company of America
- 1 Quincy Mutual Fire Insurance Company
- 2 Reliance Insurance Company
- 1 Royal Exchange
- 1 Royal Insurance Company
- 1 Security Fire and Indemnity Company
- 2 Security General
- 1 Security Mutual Insurance Company
- 1 Southeastern Fire Insurance Company
- 1 Springfield
- 6 St. Pauls Fire and Marine
- 1 State Capital Insurance Company
- 1 State Farm
- 1 The London Assurance
- 1 Traders and Mechanics
- 1 Travelers Insurance Company
- 1 Union Mutual Insurance Company of Providence
- 3 United States Fire Insurance Company
- 1 Utica Fire Insurance Company
- 1 Vermont Mutual
- 1 Westcher Insurance Company
- 1 Zurich Insurance Company, Chicago

B. Have cancelled fire and extended coverage on low-valued dwellings on which you have loans: (All companies mentioned are listed - numeral indicates number of times.)

- 5 Aetna Insurance Company
- 5 Allstate Insurance Company
- 1 American Motorist Insurance Company
- 1 Blue Ridge Insurance Company
- 1 Boston Insurance Company
- 1 Central Mutual Insurance Company
- 1 Federated Mutual Implement & Hardware Company
- 1 Fidelity and Casualty Company
- 3 Firemen's Fund Insurance Company
- 2 Glen Falls Insurance Company
- 1 Great American Insurance Company
- 3 Hartford Insurance Company
- 2 Insurance Company of North America
- 1 International Insurance Company
- 1 London and Lancashire
- 1 Lumberman's Mutual Insurance Company

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- 1 Manhattan Insurance Company
- 1 Maryland Insurance Company
- 1 Milwaukee Insurance Company
- 1 Mutual Insurers Inc.
- 2 National Fire Insurance Company
- 1 Nationwide Insurance Company
- 1 New York Central Insurance Company
- 1 North River Insurance Company
- 6 Northwestern Mutual Insurance Company
- 1 Old Colony Insurance Company
- 1 Pawtucket
- 1 Phoenix Insurance Company
- 1 Pennsylvania Lumberman's
- 2 Penn National Mutual Casualty Company
- 1 Queen Insurance Company of America
- 1 Quincy (none under \$5,000)
- 1 Reliable Insurance Company
- 1 Reliance Insurance Company
- 1 Royal Exchange
- 1 Royal Indemnity Company
- 1 Royal Insurance Company
- 1 Security General Insurance Company
- 1 Security Mutual Insurance Company
- 1 Southeastern Fire Insurance Company
- 6 St. Pauls Fire and Marine
- 1 State Farm
- 1 Sterling Insurance Company
- 1 The American Mutual Fire Insurance Company
- 1 The London Assurance Company
- 1 Traders and Mechanics
- 2 Union Mutual Insurance Company
- 1 United States Fire and Guaranty
- 2 Westchester Insurance Company
- 1 Zurich Insurance Company

C. Have withdrawn entirely from insuring low-valued dwellings against perils of fire and extended coverage in your area:

- 1 Aetna
- 1 Allstate
- 1 General Insurance Company
- 1 Iowa Mutual Insurance Company
- 1 New York Central
- 1 North Carolina Farm Bureau
- 2 Northwestern Mutual
- 1 Penn Millers Mutual
- 1 Preferred Mutual Insurance Company
- 1 Reliable Insurance Company
- 1 Security General Insurance Company
- 1 St. Pauls Fire and Marine

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Other comments included (1) several stock companies, (2) too numerous to mention, (3) practically all mutual companies, (4) almost every mutual company writing in North Carolina, (5) several - records not maintained, and (6) yes - we do not recall names but agencies are Craft, Pennisi and Freeman.

Question #6. Are you having similar problems with Homeowner's Policies in your area?
ONLY ONE OR TWO ANSWERED YES.

Question #7. Any further suggestions which you feel might be of help to the Committee in attempting to solve this problem will be appreciated.

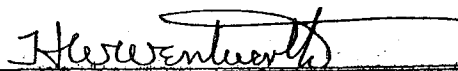
1. (Concord) To get the un-interrupted protection we need, establish a formula to rate houses according to fire hazards. Make the bad houses pay a higher premium. This same formula could apply insofar as the moral or credit risk is concerned. Every effort should be made to get the results needed without being forced to assign the risk.
2. (Elizabeth City) Agents should be fully aware of what risks are acceptable to their companies. Loans are made for long terms usually and when policies are later cancelled by the companies, it jeopardizes a lender's position.
3. (Hamlet) We have been able to keep insurance on all our dwellings, but only through threats of refusing to accept any policies from a company. It is unfair for a company to write only \$8,000 - \$10,000 or \$15,000 minimum which is being done by such as Allstate, Farm Bureau, Nationwide and Travelers. Encourage insurers to accept low-value and on a basis not subject to 5-day cancellation.
4. (Wilmington) Has any consideration been given to issuing single interest policies?
5. (Monroe) We are experiencing more difficulty in this area each day. We are handling approximately \$15,000,000 in loans which are covered by insurance by almost every company operating in this area. We have no particular restriction placed on these companies. However, they are not willing to carry their share of the low-value dwellings.
6. (Mount Airy) We still have a few companies which will renew and write small policies. In cooperation with this, we feel these policies should be written for three to five years with the premium payable in advance.
7. (New Bern) Many homes of \$5,000 or less value are "home" to someone and some insurance company should write coverage at a just rate. If not, the state or federal government will do so.
8. (New Bern) We have been able to get replacements, but the trend has been toward more strict underwriting and higher frequency of cancellations.
9. (Rockingham) I have found that some companies in our area write \$8,000 and above and are able to give better prices on the policy. These companies get the best insurance and leave the other agents all the low-value property. This has caused some concern with the agents. We have no one to take care of and store buildings which are the least bit rundown. Vacant property and low-value tenant dwellings are almost impossible to insure. Let me say that I am well aware of the problems the fire insurance companies face in this matter. It seems that every case we have the fire insurance company has some merit for its action.

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Question #7 Con't

10. (Salisbury) We would suggest the possibility of allowing the company to charge a rate which would be in keeping with the risk involved, thereby making the risk a little more attractive.
11. (Wilmington) Whenever we have a cancellation on a dwelling that has become low-value, usually, the agent tries to place the coverage with another company; however, it's only a matter of short time before that is cancelled and on and on it goes until the agent runs out of companies. We have loan balances on some dwellings that have become not too well located, due to shifting of neighborhoods, but the dwellings are in fair condition and qualify for some insurance. We believe an interior inspection of the property would reveal careful housekeeping and no particular hazards, with the owner being entitled to insurance commensurate to his value. Not being in position to obtain insurance bars us from making him a loan for the purpose of repairs, improvements, etc.
12. (Winston-Salem) By and large, our difficulties have come from the mutuals.
13. (Rocky Mount) The insurance agents currently furnishing us with insurance policies on properties on which we have loans are having a terrific problem placing insurance on low-valued dwellings, but by switching from one company to another, they have been able to furnish us with adequate insurance coverage. The problem seems to be progressively worsening, however.
14. (Troy) So far, we have been able to keep all of our loans insured. We have heard talk about companies not wanting to insure low-value property, but as yet, we have had no problems.
15. (Valdese) We have one independent insurance agent who always has been able to place insurance coverage requested by us. However, the agent has mentioned having difficulty in some cases, but I do not know the circumstances.

Respectfully submitted:


H. W. Wentworth, Executive Vice President
North Carolina Savings and Loan League



North Carolina General Assembly

SENATE CHAMBER

STATE LEGISLATIVE BUILDING

Raleigh

December 7th, 1966

SENATOR DALLAS L. ALFORD, JR.
TWELFTH DISTRICT
HOME ADDRESS:
100 WILDWOOD AVE.
ROCKY MOUNT, N. C.

COMMITTEE ASSIGNMENTS:
INSURANCE, CHAIRMAN
FINANCE, VICE-CHAIRMAN
BANKING
COUNTIES, CITIES AND TOWNS
LOCAL GOVERNMENT
PUBLIC ROADS
PUBLIC WELFARE
RETIREMENT, EMPLOYMENT
SECURITY
SALARIES AND FEES
VETERANS AND MILITARY
AFFAIRS

The Honorable Robert B. Morgan, Co-Chairman
State Legislative Council
State Legislative Building
Raleigh, North Carolina

Re: Fire Insurance coverage for
Low Value Dwellings

Dear Senator Morgan:

It has now been almost one year since you and your associates considered fire insurance coverage for low value dwellings. The picture today, in my opinion, is vastly improved and I would like to commend the Council for its consideration.

Prior to the time your committee was approached on fire insurance coverage for low value dwellings, a great number of our fire insurance companies drew a line regardless of the physical condition of the dwelling to be insured and refused any coverage under \$5,000. I am of the opinion that most of our fire companies are taking a "second look" and I think that in general they are willing to underwrite low value dwellings that are in an insurable condition, and the situation is considerably better.

May I suggest that the State Legislative Council continue this study by keeping an open eye on any changes that might arise from our fire companies concerning the insurance of low value dwellings. Our associates in the General Assembly are continuously being besieged by their constituents with this problem and it has been rumored that legislation will be proposed to place this business in an assigned risk form. I am firmly convinced this would be a mistake if we can continue to secure the cooperation of our fire insurance companies in the low value dwelling field.

Again, I commend you and your associates for a job well done and



North Carolina General Assembly

SENATE CHAMBER

STATE LEGISLATIVE BUILDING

Raleigh

SENATOR DALLAS L. ALFORD, JR.
TWELFTH DISTRICT
HOME ADDRESS:
100 WILDWOOD AVE.
ROCKY MOUNT, N. C.

#2

COMMITTEE ASSIGNMEN
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PUBLIC ROADS
PUBLIC WELFARE
RETIREMENT, EMPLOYMENT
SECURITY
SALARIES AND FEES
VETERANS AND MILITARY
AFFAIRS

hope that you will feel free to call upon me if I can be
of any further assistance.

With best wisnes, I am

Sincerely yours,

Dallas L. Alford, Jr.

DIA jr:m

