Underwriting Guidelines and Access to Homeowners Insurance

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ABSTRACT

This study attempted to identify the problems that homeowners and home buyers encounter in obtaining homeowners insurance, and the extent of these problems in the California market. This study was limited to California multi-peril (line 4 per NAIC reporting) homeowners insurance companies. Data was obtained from six primary sources: a survey of all homeowner insurance companies regarding their underwriting practices; a manual review of a large sample of insurers' actual underwriting guidelines; a review of the Department's complaint database; zip code summary data on exposure and claims from the top 13 companies; individual claims data from Fair Plan; and a homeowner insurance roundtable meeting attended by prominent experts representing a variety of interests.

Among the important findings:

- The market has tightened, as evidenced by marked increases in written complaints, though complaints are still at a relatively low level.
- Refusal to insure complaints were justified (company not in compliance with the California Insurance Code) 38 percent of the time, cancellation complaints 25 percent of the time and non-renewal complaints 17 percent of the time.
- The large companies do not have a disproportionately high percentage of complaints.
- Two-thirds of the companies changed their underwriting guidelines in the last three years.
- There has been no significant exodus by consumers from the larger companies to smaller companies, FAIR Plan or fire insurance only policies.
- Many homeowners insurance companies, especially the big companies, use CLUE and claims history in their underwriting. Thirty-five percent of the companies count non-chargeable claims and 16 percent count inquiries, such as a question about whether a loss is covered, as claims.
- As of April 29, 2004 three insurance groups continue to use some form of credit scoring for underwriting purposes. The department continues to investigate the basis for all use of credit scoring in underwriting.
- The average cost per claim is up 20 percent over the last two years. Although average water claim costs are up almost 50 percent over the last two years, companies rarely penalize specifically for water or mold claims. This is probably because 41 percent of the companies use water loss exclusions and limits, and 70 percent use mold exclusions and limits.
- Both the average loss and the average earned premium per exposure year have risen about $40 from 2001 to 2003.
- Many insurers (21 percent) use tiers or referrals to other companies in their group.
- In contrast to media reports in late 2002, little evidence was found to support the contention that residential escrows are being routinely delayed because buyers are unable to find homeowner's insurance.

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APPENDIXES

I. Introduction

Since September 11, 2001, insurance markets have hardened, with higher premiums and tighter underwriting criteria for new business and renewals. The homeowners insurance market has been no exception. With home sales averaging 550,000 per year in California, acquiring homeowners insurance is not a trivial issue. Even after subtracting the 150,000 sales of brand new homes, the remaining 400,000 transactions represent eight percent of the total housing stock of 7 million in California.

In response to consumer complaints, the Legislature and the Commissioner have been concerned about possible unfair practices in the homeowner's market. The Haunted Houses briefing paper for the Senate Insurance Committee, dated December 4, 2002, contains a list of the Legislature's concerns and a good overview of the homeowners insurance environment in California at that time. The Commissioner's major concerns are summarized in the Homeowner's Bill of Rights, which addresses such topics as:

- Non-renewals as a result of filing a claim or making an inquiry about coverage (the so called "use it and lose it" issue)
- The potential misuse of claims history in the decision whether to write a new policy or renew an existing one
- Electronic claims databases such as CLUE (Coordinated Loss Underwriting Exchange)
- Potentially discriminatory impacts from use of insurance credit scores
- Availability and affordability of homeowner's insurance.

This study identifies the problems prior to the southern California wildfires that homeowners and home buyers encountered in obtaining homeowners insurance, and the extent of these problems in the California market. Particular emphasis was placed on reviewing the underwriting guidelines of homeowners insurance companies because the guidelines determine whether the insurer issues a new policy or renews an existing policy.

This study will describe the multiple data sources and data files used, followed by a discussion of how they were combined. Next, company replies to a comprehensive industry wide survey on underwriting practices is presented and then compared to the major complaint reasons tallied on the Department's complaint data base. Detailed analysis is then presented regarding water and mold claims. This includes a discussion of the threat of market flight and industry concerns.

II. Scope of Study

This major focus of this study is California multi-peril (line 4 per NAIC reporting) homeowners insurance. The analysis briefly considers renters insurance. Commercial insurance is not analyzed. Earthquake insurance was also excluded. Fire insurance was looked at only for comparison purposes. The study did not look at surplus lines or out of state lines. This study did not analyze risk of loss, and correlations between rating factors and premiums. This study deals with availability, not affordability. Because of the period studied and when the analysis was conducted the study does not address availability issues arising after the recent southern California wildfires.

III. Data Sources Used

This study combines data from six important files and sources:

A. *The California Personal Real Property Availability Survey (PRPA-2003)*

This survey consists of voluntary replies from 107 homeowners insurance companies representing 96 percent of the homeowners market. Replies were received from April through July of 2003 and contained a notarized affidavit. Despite the comprehensiveness of the survey, one qualification dictates caution in using the data: the survey was self-administered. See Appendix A for a copy of the instructions and Appendix B for a copy of the survey form with response values tallied.

B. Copies of the actual company underwriting guidelines

Copies of the company underwriting guidelines on file with the Department were obtained from a sample consisting of the thirteen largest homeowners insurance companies, as well as one-third of the homeowners insurance companies with over a million dollars in written premiums annually. Manual inspection of these confidential guidelines served as a major basis for constructing the PRPA-2003 survey form and for testing the validity of the survey replies.

C. The CDI automated complaint data base

This internal data base contains the history file of each individual written complaint received by the Department. The data base is searchable on numerous fields such as complaint reason code and line of coverage. This study used six major reason codes associated with homeowners insurance availability and covered the period from January 1, 2001 to November 21, 2003.

D. The Earthquake and Fire Experience (EF-2002) data call

Loss and exposure summary data by zip code was collected from each of the thirteen largest homeowners insurance companies (again based on written premiums). Considerable effort was employed to edit check and combine the files received from the thirteen companies into one file with a consistent record format. Both accident year data and calendar year data were collected for years 2000 to 2002. This study used accident year when available, but substituted calendar year data when accident year data was unavailable. See Appendix C for copies of the original data call for 2000-2001 data. A follow-up data request was sent out to add a field for total water loss reserves, and for a handful of fields to capture accident year data, in addition to calendar year data. Finally, an addendum request for 2002 data (accident year only) was sent out.

E. FAIR Plan Loss and Exposure Files

FAIR Plan, an insurer of last resort, supplied files containing individual policy data for loss and exposure experience covering the years 2000-2002. Unfortunately, while all claims for the period were reported, only policies with start dates in years 2000 to 2002 were reported. This results in an awkward matching of loss and exposure data. See Appendix D for a list of the data fields submitted. Of special interest, one of the fields contains comments which sometimes refer to mold damage (information which otherwise has been hard to obtain). In addition to the exposure and loss files, a small sample of hardcopy policy applications with prior claims history was provided.

F. A Homeowners Insurance Availability Roundtable

Information was gathered during a March 27, 2003 meeting with knowledgeable parties representing the Homeowners Insurance Industry, Insurance Agents, Realtors, and Consumer groups. The information was supplemented by discussions with other knowledgeable parties. See Appendix E for a list of these sources. The Roundtable input contributed toward constructing and interpreting the California Personal Real Property Availability Survey (PRPA-2003).

IV. Findings

The study findings are arranged by a combination of both data sources and topical areas.

A. In-Depth Analysis of PRPA-2003, the California Personal Real Property Availability and Eligibility Survey

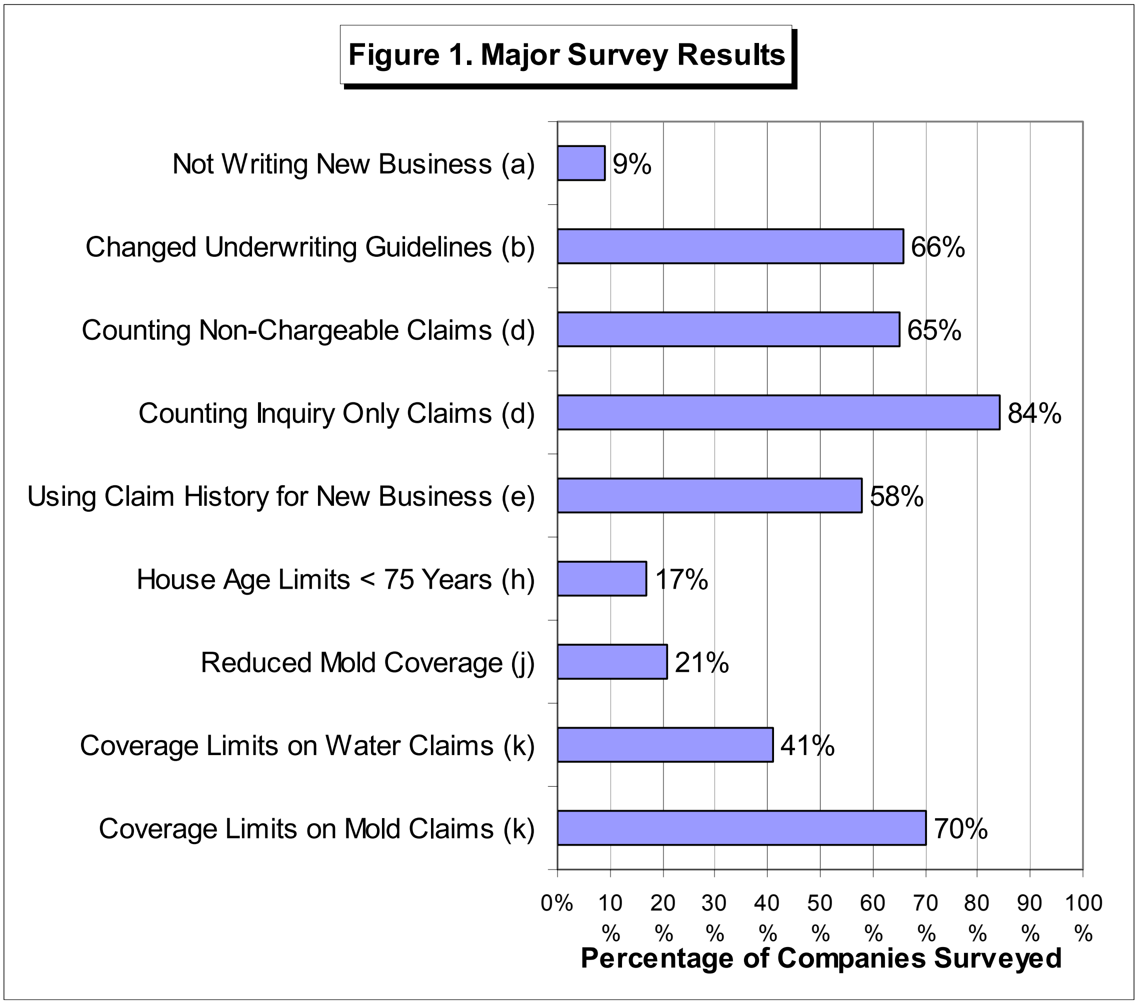
Possibly the best indicator of whether a homeowners insurance availability problem exists is to identify changes that have occurred in company underwriting guidelines that might have caused consumers greater difficulty in obtaining coverage. The next best measure is to inspect the guidelines on file with the Department. Because the companies cannot legally deviate from their current guidelines, they should give a good indication of whether specific consumer concerns are well-founded. However, no regulations prohibit an insurance company from changing its guidelines after its rates are approved. The company need only submit its most current guidelines with the Department when it next applies for a rate change, or is specifically requested to do so by the Department. The PRPA-2003 survey addresses current guidelines and has one question addressing changes in the guidelines

What follows are a list of important findings from the survey and then an analysis of each question on the survey, in the order they appeared. The reader is strongly advised to follow along with the results in Appendix B (p. 39) while reading the narrative regarding the survey questions.

1. Contradictory Indications to Consumer Complaints and Industry Retorts

Major survey results are summarized in this section and in Figure 1. Based on the survey, some common beliefs are contradicted (see report page numbers for more information):

a) Only nine percent of the homeowners insurance companies stated that they would not offer new business for homeowners as of June 1, 2003 and only three percent would not offer renewal business. As an example of the importance of market share, only one of the top thirteen companies stated that it planned not to offer new homeowners business, but it represents 22 percent of the market share. The company began accepting new business again in late 2003. (pg.9)
b) Two-thirds (66%) of the companies changed their underwriting guidelines in the last three years. (pg. 9)
c) Only one percent of the companies was considering a moratorium on new business because of water/mold losses. (pg.9)
d) Not all companies *count* non-chargeable claims or inquiry only claims when considering claims history; 65 percent and 84 percent, respectively, stated that they do not include these types of claims. (pg.10)
e) Not all companies use the claims history of a newly purchased residence for underwriting purposes; 42 percent stated that they do not. (pg.10)
f) Initially 11 percent of the companies reported using insurance or credit scores. Contact with these companies revealed that most of them misunderstood the question. As of April 29, 2004 companies from three insurance groups were still using some form of credit scores for underwriting purposes. The department continues to investigate the basis for all use of credit scores in underwriting. (pg.11)
g) The average time to close escrow is 30 days, and only six percent of the homeowners insurance companies reported having a median average greater than that for issuing a written binder. Escrow delays should not be common. (pg.11)
h) Only 17 percent of the companies have house age limits under 75 years for coverage purposes.(pg. 12)
i) Rate tiers are used by 21 percent of the companies, and 21 percent refer customers to other companies in the group. (pg.12)
j) Excluding mold and terrorism coverages, 21 percent of the companies reduced coverage in the last three years. (pg.13)
k) Limits and exclusions are used by 41 percent of the companies on water claims, and by 70 percent of the companies on mold claims. (pg. 13)
l) Although some companies have water and mold claim criteria for underwriting new and renewal business, differences in the consideration given to water and mold claims as compared to non-water claims appears to be minor. Therefore, if the company responses to the survey are accurate, there would appear to be no substantive reason for consumers to fear making water or mold claims versus other types of claims. (pg. 13)



2. Comprehensive Survey Results

The following subheadings relate directly to, and are in the same order as, the survey form subtitles. Again, see Appendix B for the survey form and questions, with the corresponding answer tallies.

<u>AVAILABILITY</u>

Only nine percent of the companies will not offer new business on personal real property coverage for homeowners as of June 1, 2003. However, the analogous figures for not offering new business to renters/tenants, condo unit owners, and dwelling fire are 33 percent, 33 percent, and 30 percent, respectively. Only one of the top 13 companies will not offer new business on homeowners or renters/tenants. Because of this top 13 company, those companies not offering new business represented over 23 percent of the market share. (See survey question #1)

The number of companies stating that they will not write renewal policies is even lower. Only three percent of the companies (representing only 0.2 percent of the market share) reported that they would not offer renewal business on personal real property coverage for homeowners as of June 1, 2003. The analogous figures for not offering renewal business to renters/tenants, condo unit owners, and dwelling fire are 28 percent, 26 percent, and 26 percent, respectively. All of the top 13 companies will continue to offer renewal business for homeowners, renter/tenants, and condo unit owners. Two of the top 13 will not offer renewal business for dwelling/fire. (See #2a)

Thus, with one major exception, there does not appear to be much danger of flight with companies no longer offering homeowners insurance. The one major exception involved a company with 22 percent of the market share which did not plan on offering new business, but began accepting new business again in late 2003. Previous industry levels of renewal for renters, condo unit owners and dwelling fire are unknown, so there is no way to judge whether June 1 plans for California companies are high or low.

Among the more common reasons for non-renewal are claims history, increase in hazard, poor maintenance and vacant property. Among the more common reasons for cancellation are nonpayment of premiums, material misrepresentation, and vacant property. Claims history is not a reason for cancellation before a normal policy end date. (#3)

Two-thirds (66%) of the companies changed their underwriting guidelines in the last three years. This is a reflection of the hardening of the market. (#4)

Only one percent of the companies are considering a moratorium on writing new homeowners insurance policies in California because of potential water/mold losses. Apparently, through mold exclusions and limitations or by screening applications for claims history, insurers keep down water/mold losses. (#5)

Counting only non-water loss claims in the last three years, 21 percent of the companies refuse new homeowners insurance applicants based on just one claim, 19 percent on two claims, four percent on three claims and five percent on four or more claims. This means 40 percent of the companies refused new applicants if they had one or two claims in the last three years. These companies represent at least a 49 percent share of the market. These figures are also probably understated because an additional 12 percent of the companies offered an explanation rather than delineate the precise number of requisite claims for a refusal.

The number of claims in the last three years is more important to the top 13 companies than to all surveyed companies. Five of them use one claim, and three more use two claims, as sufficient reason to refuse new applicants. Thus, 62 percent of the top 13 companies refused applicants with only one or two claims in the last three years. While refusal of new business can cause availability problems, it might conceivably be beneficial in forcing consumers to shop around and in dispersing market concentration and thus spreading the risk. (#6a)

Only 14 percent of the companies used a five year period of claims history for refusals of new applicants. Only one percent used a period over five years, probably because CLUE histories only go back five years. (#6a)

Non-renewals typically had more lenient criteria. Counting only non-water loss claims in the last three years, four percent of the companies non-renewed applicants based on just one claim, 21 percent on two claims, 13 percent on three claims and four percent on four or more claims. However, those companies using criteria of only one or two claims for non-renewal represent only a five percent share of the market. Again, these figures are probably understated because an additional 17 percent of the companies offered an explanation rather than delineate the number of requisite claims for a non-renewal. The figures are not much different for the top 13 companies. (#6a)

At least 17 percent of the companies used a five year period for non-renewals versus the previously cited figure of 14 percent for new applicants. Counting claims for a longer period of time indicates slightly less leniency toward renewal business than for new applicants. At least six percent of the companies used a period over five years for non-renewals. (#6a)

Looking at all the above, the overall fact is that between 59 to 76 percent of the companies used claims history for refusals and non-renewals. (#6a)

Furthermore, 35 percent of the companies included non-chargeable claims, that is, claims for which the insurance company paid nothing, when counting claims. Six of the top thirteen companies include them. Moreover, 16 percent of the companies included non-filed/inquiry only claims. Only one of the top 13 companies included such claims. (#6b, #6c)

As to whether the claimant's history or the residence's history of claims was counted, 80% of the companies said yes to the former and 58% said yes to the latter. Obviously, many companies count both claimant and residence. All but one of the top 13 companies uses history of the claimant. The exception uses history of residence as do eight of the other top 13 companies. (#6d,#6e)

Choicepoint's CLUE reports were used by 68% of the companies in underwriting a new risk. (CLUE reports are rarely used for non-renewals.) The fact that 64 percent of the companies automatically submit all claims to CLUE tends to indicate that little screening of claims submitted to CLUE is occurring. (#7a,#7c)

Adjusting for overlap, a surprisingly high twelve out of the 107 companies (11 percent) reported using insurance or credit scores for underwriting purposes. However, after contacting these companies on this practice, they provided plausible explanations which revealed they misunderstood the question. Typical explanations were that they used them for billing credit, used Choicepoint CLUE reports, used them in another state, or after the commissioner's advisory they no longer used them. As of April 29, 2004 three insurance groups continue to use some form of credit scoring for underwriting purposes. The department continues to investigate the basis for all use of credit scores in underwriting.

Realtor associations have complained about real estate transactions falling apart because of homeowner insurance problems blocking close of escrow. Sometimes, oral binders were rescinded after a house's claims history was discovered by the insurance company. In light of this anecdotal data, it is surprising that the survey results show only 6 percent of the companies have a median average of over 30 days for issuance of a written binder. None of the top 13 has an average over 30 days. By comparison the average time to close escrow is 30 days. Hence it appears that escrow delays resulting from a lack of homeowners insurance are not widespread. It is likely that realtors and buyers have adjusted their behavior in response to a tighter homeowners market. (#9)

LIMITATIONS/RESTRICTIONS (question numbers now refer to this section of the PRPA – 2003 survey)

Various factors besides claims history can result in non-renewal or application refusal. Some factors are company limits. Others are strict exclusionary criteria. Still other factors are required inclusive characteristics.

Limits

Regarding limits, nine percent of the companies limit overall concentration by either zip code or county. Moreover, 15 percent of the companies use other concentration capacity measures. Possibly because earthquakes are covered separately, most companies either do not feel a need to limit risk geographically or feel their risk is sufficiently spread out. (#1)

Sixty-seven percent of the companies have dollar coverage limits. Maximum limits for homeowners (coverage A) range widely among companies. While 21 percent of the companies have a maximum coverage between $100,000 and $500,000, another 27 percent have a maximum between $500,000 and $1,000,000, eight percent have a maximum of $1,000,000 and another seven percent have a maximum over $1,000,000. Of the six top 13 companies with maximums, four had maximums of two million dollars or over. This means that owners of more expensive homes have fewer insurance options than owners of less expensive homes.

Only seven percent of the companies had a maximum coverage limit over $200,000 for renters/tenants (coverage C). Only nine percent of the companies had a maximum coverage limit over $250,000 for condo unit owners (coverage C). For Dwelling Fire (structure), 11 percent of the companies had a maximum coverage of $1,000,000 or over. All four of the top 13 companies with maximums had high limits for renters/tenants, condo unit owners and dwelling fire. In other words, maximum coverage limits was not a problem with top 13 companies.

With regard to age of construction, 32 percent of the companies placed limits on the age of at least one of the four types of residential insurance covered in this survey. For homeowners, eight percent had a maximum age limit less than 50 years, nine percent between 50 and 75 years, and four percent above 75 years. For dwelling fire, there were four percent in each of those three age ranges. For renters or condo owners, few companies used property age limits. Only one top 13 company had an age limitation and it was for 60 year old buildings.

Inclusion Requirements

With regard to inclusion requirements, seven percent of the companies dealt only with mobile homes. Supporting business was required by three percent of the companies, and package policies were required by four percent. Two percent of the companies dealt only with existing customers, while 11 percent dealt only with specialty markets.

Exclusionary Criteria

Many companies use similar exclusionary underwriting factors. The following factors, in order of common usage, are used to refuse applications by at least one half of the companies according to the SAD survey: vacant properties, signs of poor maintenance, proximity to brush areas, too far from fire station or fire hydrant, presence of specified dogs, building located on hillside, slope or piling over water, an unconventional structure and presence of boarded horses. The same is pretty much true for the top 13 companies. (Dogs are an issue with only six of the top 13 companies.) Obviously, a house with any of these factors present may seem like an uninsurable house. In fact, it just means more work for the customer or his insurance agent to find a company that does not use that factor as an underwriting criteria. According to industry representatives, insurance agents are adept at knowing which companies insure which type of risks.

Coverage tiers and referrals to other companies in the group are used by many companies. According to the survey, more than one-fifth (21%) of the insurance companies offer tiered coverage plans and, again, more than one-fifth (21%) refer clients to other companies in their group. Only one of the top 13 companies uses tiered coverage, and only two refer clients to other companies in the group. (#2, #3)

By coincidence, 21 percent of the companies reduced coverages (besides terrorism and mold coverages) in the last three years. Four of the top 13 companies (31 percent) reduced non-mold, non-terror coverages. Obviously, this allows companies to either avoid or lessen premium increases in a hardening market.(#4)

<u>WATER RELATED</u> (question numbers refer to the water claims section of the survey)

Twenty-five percent of the companies ask about water losses in their applications. Only one of the top 13 companies does. Furthermore, 41 percent of the companies put limitations or exclusions on water damages. Over half (7) of the top 13 companies use them. Eight percent of all companies limit the amount of coverage; 36 percent have exclusions for water losses. Two of the top 13 use limits; six use exclusions (with one using both). (#1, #2a,#2b)

Counting only water loss claims in the last three years, 25 percent of the companies refuse new homeowners insurance applicants based on just one claim, 17 percent on two claims, and 5 percent on three or more claims. This means 42 percent of the companies refused new applicants if they had one or two water claims in the last three years. These figures are only a little higher than for non-water claims, where 40 percent of the companies refused an applicant with one or two claims. (#3)

Only 17 percent of the companies used a five year period for refusals. None of the companies used a period over five years, probably because CLUE histories only go back five years. (#3)

Non-renewals had more lenient criteria than for new applicants. Counting only water loss claims in the last three years, seven percent of the companies non-renewed applicants based on just one claim, 25 percent on two claims, and 16 percent on three or more claims. Again, after factoring in explanations, these figures are only a little higher than for non-water losses. (#3)

Eighteen percent of the companies used a five year period for non-renewals. This is only slightly more than for new applicants. Four percent of the companies used a period over five years. (#3)

Looking at all the above, use of water claims is only slightly more restrictive than for non-water claims. Using claims over the last three years for non-renewals is the only instance where company practices are different between water claims and non-water claims. For top 13 companies, the differences between practices for water and non-water claims are very slight.

Nevertheless, water claims have indeed become an issue for insurance companies. This is seen by the fact that 61 percent of the companies have changed their procedures related to investigation and settlement of water losses as a result of the increased frequency and/or severity of water related claims. Furthermore, 61 percent of the companies are currently reserving more for water losses per claim compared to year 2000. Ten of the top 13 companies are reserving more. While 16 percent of all companies are reserving less than 25% more, 37 percent of the companies are reserving between 25 and 50% more, and eight percent of the companies are increasing reserves by over 50%. (#4,#5a,#5b)

MOLD RELATED

Mold, of course, is the reason why water claims have become of greater interest to insurance companies. Applications ask about mold losses for 15 percent of the companies (none of the top 13). However, 70 percent of the companies (all of the top 13) put limitations or exclusions on mold coverage. While 52 percent of the companies (all of the top 13) put dollar limits on mold coverage, 47% of the companies (seven of the top 13) use exclusions on mold coverage. These figures are not additive; much overlap exists, with many companies using both limitations and exclusions. The Commissioner, in testimony before the Legislature, has stated that ensuing mold losses are covered if predominantly caused by a covered peril. (See next #1, #2a, #2b)

Counting only mold loss claims in the last three years, 23 percent of the companies refuse new homeowner insurance applicants based on just one claim, 19 percent on two claims, and three percent on three or more claims. This means 42 percent of the companies refused new applicants if they had one or two mold claims in the last three years. Again, these figures are not much different than for non-water claims. This is also true of the top 13 companies. (#3)

Only 16 percent of the companies used a five year period for refusals. A single mold claim in a five year period is grounds for refusal by 10 percent of the companies versus only five percent of the companies when using non-water claims. Only one percent of the companies used a period over five years, probably because CLUE histories only go back five years. (#3)

Again, non-renewals typically had more lenient criteria. Counting only mold loss claims in the last three years, six percent of the companies non-renewed applicants based on just one claim, 24 percent on two claims, and 10 percent on three or more claims. After factoring in explanations, these figures are also not much different than for non-water claims. Again, this is true of the top 13 companies. (#3)

For mold claims, 16 percent of the companies used a five year period for non-renewals. Two percent of the companies used a period over five years. (#3)

Looking at all the above, the use of mold claims is only slightly more restrictive than for non-water claims. The use of claims over the last five years for new applicants is the only instance where company practices are different between mold claims and non-water claims. The top 13 companies show little difference for number of non-water claims versus mold claims. Only three of them specifically counted mold claims for new business purposes and only four for renewals.

Although some companies have water and mold claim criteria for underwriting new and renewal business, differences in the usage of water and mold claims compared to non-water claims appears minor. Therefore, if the companies filled out their surveys correctly, there would appear to be no substantive reason for consumers to fear making water or mold claims versus other types of claims.

A possible reason for the industry's lowered concern about water and mold claims may be attributable to exclusions and sub-limits for mold. However, per Section 530 of the insurance code, the Department maintains that ensuing mold losses are covered if predominantly caused by a covered peril. Twenty percent of the companies exclude mold that ensues from a covered loss, and 55 percent of the companies sub-limit mold coverages ensuing from a covered loss. One of the top 13 companies used a mold exclusion, and the other twelve used sub-limits. (#4a, #4b)

Further proof that mold is of major concern to homeowner insurance companies is that 72 percent of the companies have changed their procedures related to investigation and settlements as a result of the increased frequency and/or severity of mold related claims. Only one top 13 company has not changed its mold claim procedures. All of the top 13 companies and 73 percent of all companies implemented coding changes to identify mold claims. Similarly, all of the top 13 companies and 72 percent of all companies established guidelines for adjusting mold claims. (#5, #6, #7a)

Except with regard to the use of credit scores, which is discussed later, the results of the survey did not differ greatly from a manual inspection of the actual company underwriting guidelines. When differences were identified, the top 13 companies had four times as many inconsistencies as those from the other 26 companies sampled for the manual review. Also, the manual inspection revealed that very few companies explicitly listed their guidelines for renewals. Because most companies are apparently more lenient with renewing customers than with new applicants, this omission may not be of great importance. The fact that credit score answers had to be changed after follow-up contacts and clarifications with the companies suggests that answers to other questions may also have suffered in accuracy.

B. CDI Complaint Data Base

One way to check the validity of the survey replies is to compare them with customer experience. Customer complaints are an indicator of this experience and tie in nicely with many of the survey questions.

CDI receives both written and phone complaints regarding homeowners insurance. However, a database for phone complaints is a recent development. For this reason, the Department's automated Oracle data base, which contains all written complaints, was used to compile complaint statistics.

As Table 1 indicates, the number of pertinent written homeowner insurance complaints rose sharply from 469 to 1464 between 2001 and 2002. The year to date total (thru November 21) of 1,405 for 2003 is a still slightly higher pace. While written complaints are only a subset, and just an indication, of all those with homeowners availability problems, the overall totals do not seem large in relation to the millions of homes insured in California. As a further comparison, the sum of all phoned-in homeowners insurance complaints is estimated at about 10,000 a year.

The six reason codes appearing in Table 1 represent only about a third of all homeowners insurer complaints, but were selected because they are the reason codes most relevant to homeowners insurance availability. Of the six reasons for refusal to insure, cancellation and non-renewal have the most direct connection to availability. It should also be pointed out that the number of complaints relating to the availability of homeowners insurance is relatively small when compared to the total number of all written complaints. Over all lines of coverage, these complaints total around 10,000 a year for rating and underwriting issues.

1. Refusal to Insure (Complaint code # 810)

"Refusal to insure" refers to new customers turned away. This may be the clearest indication of a hardening of the market and increased availability problems. Between 2001 and 2002 these complaints rose rapidly from 22 to 105. Again, 2003 is proceeding at a slightly faster pace than 2002. Usually the refusals stem from claims history.

a) Claims History

Homeowners insurance companies maintain that past claims are associated with risk of loss in the future, both because of the home's susceptibility and because of the owner's propensity to file a claim. The Department maintains that there must be a provable causal connection between the past claims and future risk of loss. For instance, claims resulting in roof repairs may indicate a deteriorating roof and susceptibility to water damage. However, a claim resulting in replacement with a brand new roof should imply less risk of loss of future roof-related claims.

b) CLUE

As observed from the PRPA-2003 survey results, most companies use a centralized claims history file, such as CLUE (the Comprehensive Loss Underwriting Exchange), during the insurance application process. Many of the refusal to insure complaints stem from the use of the CLUE data base.

CLUE is maintained by ChoicePoint and serves as a central repository of claims information submitted by participating insurance companies. These companies then have access to each other's claims data, representing 90 percent of the national homeowners market. In addition to helping to prevent fraud, such data sharing also helps companies in their underwriting process. Homeowners can obtain a copy for their home address and challenge the correctness of entries. Sometimes the entry is corrected or the consumer's comment is added to the file. Potential home purchasers rely on the seller to provide a copy of the CLUE report for the residential real estate being purchased. See Appendix F for more general information on CLUE and examples of reports.

A major problem with CLUE is that errors exist within the data base. Often, simple customer inquiries are treated as a "claim." Little or no distinction is made between claims that fully remedy a problem and those which may indicate a risk of future problems. Also bothersome to consumers is that all claims against a specific consumer, regardless of address, as well as all claims against the current address, regardless of who owned the home at the time of the claim, are shown. Thus, a consumer could be penalized not only for his own propensity to file, but also the propensity of previous owners to file. CLUE reports cover only the last five years so it would only be for previous owners over the last five years.

Table 1
Number of Written Homeowner Insurance Availability Complaints
by Reason Code, Size of Company and Justification Level
2001-2003

	Premium Rating/ Misquotes #805	Refusal to Insure #810	Cancellation #815	Nonrenewal #816	Credit Report #818	Surcharge #829	Total
All HO companies 2001	89	22	150	202	5	1	469
All HO companies 2002	357	105	367	540	35	60	1464
All HO companies 1/1/03 to 11/21/03	270	112	324	593	20	86	1405
Total	716	239	841	1335	60	147	3338
Top 13 HO companies 1/1/01 to 11/21/03	513	145	385	817	47	100	2007
Top 13 percentage of total	72%	61%	46%	61%	78%	68%	60%
Justified complaints for all HO	115	90	207	221	45	14	692
Justified complaints percentage	16%	38%	25%	17%	75%	10%	21%

Note: Justified complaints refer to customer complaints where the company is found out of compliance with the California Insurance Code.

c) Water and Mold Claims

Another reason that insurance companies refuse to insure is the presence of water claims and mold claims. As previously mentioned in the report section on the PRPA-2003 survey, 25 percent of the companies ask applicants about water losses and 15 percent ask about mold losses. This means that a mold claim will not necessarily make a home uninsurable for all companies. Moreover, the survey did not indicate a significant difference between number of water/mold claims, and claims in general, for refusing to insure. For an analysis of water/mold claims costs see the report section on EF2000 data and Fair Plan data.

d) Credit Scores

Still another reason that insurance companies refuse to insure is the industry use of credit reports. The Department does not allow use of credit or insurance scores in underwriting homeowners insurance. This is because the insurance companies have failed to demonstrate that credit scores are not discriminatory toward protected classes such as women, the elderly, the poor and racial/ethnic groups. Credit score complaints have a separate complaint reason code and are analyzed later at the end of the complaints section of this report.

2. Cancellation (Complaint code # 815)

"Cancellation" means policies terminated before the normal policy period ends. Cancellations usually stem from nonpayment or material misrepresentation, such as incorrect information or major changed conditions (e.g., vacant property) from that stated on the application form. Between 2001 and 2002, cancellation complaints more than doubled, from 150 to 367, and then leveled off for 2003. A cancellation because of the filing of a claim is not justified.

3. Non-renewal (Complaint Code # 816)

Most "non-renewal" complaints usually result from claims activity, although other factors may result in non-renewals. Because claims reports like CLUE reports are not used with renewal decisions, apparently only claims on the residence by the current insured with the current company are used. Between 2001 and 2002, non-renewal complaints increased over 150%, from 202 to 540. The 2003 year to date total of 593 indicates the market is hardening further for existing customers. However, as noted from the PRPA-2003 survey results above, renewal criteria are in general less strict than those for new applicants.

4. Premium Rating/Misquotes (Complaint Code # 805)

"Premium Rating/Misquotes" is most often a complaint about a sharp rise in premiums, which is usually the result of rate filings by the company that have been approved by the Department. It is not surprising in the hardening market that these complaints increased almost fourfold between 2001 and 2002, from 89 to 357. The sticker shock phenomenon may have subsided somewhat because the 2003 year to date total is only 270.

Some of the subsidence in premium rating complaints may stem from companies reducing coverages rather than raising premiums. As seen above in the PRPA-2003 survey, 21 percent of the companies indicated they had reduced their coverages in the last three years. Companies can also mask price increases by steering customers to other tiers or other companies in the group. Again, 21 percent of the companies indicated they make use of these types of referrals.

5. Surcharges (Complaint Code # 829)

"Surcharges" refers to additional fees, and as they usually don't appear in the rate filing, the company is usually not justified in using them. While complaints of this nature are relatively rare, the recent increases bear a close watch in the future. From only one complaint in 2001, the number has risen to 60 in 2002 and 86 in the first 11 months in 2003.

6. Credit Report (Complaint Code #818)

"Credit report" refers to any use of credit reports such as Choicepoint reports with homeowners insurance scores. For the 2001 to 2003 period, there were only 60 written credit report complaints, and three company groups accounted for 44 of them. No other company group had more than a single credit report complaint. As of April 29, 2004 three homeowners insurance groups (companies under the same ownership) were undergoing investigation by the Department for use of credit scores.

7. Complaint Justification Rates

Table 1 also shows what percent of consumer complaints are justified, with the company found at fault (that is, the company is not in compliance with the California Insurance Code). While 75 percent of the credit report complaints are justified, and 38 percent of the "refusal to insure" complaints are justified, only 25 percent of the cancellation complaints are justified. The justification rates for the other three reasons are all below 20 percent: "non-renewals", "premium rating" and "surcharge" at 17, 16, and 10 percent, respectively.

8. Complaints with Top 13 Companies

Some experts contend that the perceived availability problems in the homeowners insurance industry are due to consumers failing to look beyond the big insurance companies. According to independent agents, if the customers expanded their homeowners insurance search to some of the smaller insurance companies, they would not experience significant availability difficulties. However, the combined market share of the top 13 companies and the lack of change in market concentration indicates that consumers are not looking beyond the top 13 companies and switching to a non-top 13 company. The top 13 homeowners insurance companies in 2001 comprised a 77.2 percent share of the total market. In both the preceding year (2000) and the following year (2002), the market share for these companies was slightly less, at 76.9 percent. Of course if consumers are choosing to stick with their top 13 company, despite higher premiums or less coverage, this is not an availability issue.

Furthermore, the top 13 company complaint ratios in Table 1 do not appear to support the contention that consumers have proportionately more problems with top 13 companies. None of the six reason codes register a disproportionately high percentage of complaints for the top 13 companies. Only with regard to the "surcharge" reason does the percentage of top 13 company complaints (78 percent) exceed their 77 percent market share. In fact, only 46 percent of the cancellation complaints came from the top 13 companies.

In summary, written complaints regarding availability of homeowners insurance have increased markedly between 2001 and 2002, but the increase has slowed significantly in 2003. Even with the higher 2003 rates, the numbers are still relatively small when compared to all lines of coverage or the total number of homeowners policies. These written complaints are justified roughly a fifth of the time, with "refusal to insure" complaints justified almost twice as frequently.

C. Water Claim Data from EF2002 and FAIR Plan

Because increased losses from water and mold claims have been used to explain increased homeowners insurance premiums, considerable effort was expended to collect relevant water claims data. Mold claim data is still relatively unavailable because insurance companies have just started collecting this type of data. This study collected water claim data from two sources: the EF-2002 data call, and loss and exposure files from FAIR Plan. While the former gives a statewide and by zip code picture using data from the top 13 homeowner insurance companies, the latter gives individual claim data from the homeowners with ostensibly the greatest availability problems.

1. Water Claim Hotspots

Although the EF-2002 data is by zip code, this study uses the statewide total. However, a separate Policy Research study on water claim frequency and severity uses the zip code summary data and sophisticated geo-mapping of zip codes to identify water claim hotspots in California. "Hotspots" are zip codes with a high frequency or severity of loss. Surprisingly, few hotspots border the ocean. Most are in Southern California.

2. Description of FAIR Plan

FAIR Plan serves as an insurer of last resort to those who have an exceedingly difficult time finding homeowners insurance. It is available only for properties in urban or designated brush hazard areas. FAIR Plan members have only fire coverage and optional coverage for wind, hail, aircraft damage, riot, vehicle damage, explosion and smoke, as well as optional coverage for Vandalism & Malicious Mischief (V&MM). Unlike typical homeowners insurance, FAIR Plan does not offer coverage for theft, liability, or damage from leaking pipes. Because it offers less coverage than a standard multi-peril homeowners insurance policy, it is less expensive. The consumer can supplement FAIR Plan coverage with insurance from other companies to fill in the gaps. However, this piecemeal approach to insurance coverage will typically be much more expensive than standard homeowners insurance.

3. Comparison of Water Claims to All Claims

Table 2 compares water claims to total claims using statewide summary data from the two sources. For purposes of this study the designation "nonFP" refers to totals from the EF-2002 data base for top 13 homeowners insurance companies, which comprise 77 percent of the market. FAIR Plan (FP) business is small compared to non-FP. For the period 2000-2002, FP exposure months totaled four million while nonFP totaled over 166 million. Correspondingly, FP earned premiums totaled $112 million compared to $8,468 million for non-FP.

For this time period, the adjusted total of 444 FP water claims compares to the 434,000 nonFP water claims, with corresponding dollar amounts of $878,000 and $1,716,000,000 respectively. This works out to an average of $1,977 per FP water claim and $3,954 per nonFP water claim. In large measure the FP average is smaller because water damage is limited to storm damage. While the size of the annual average FP water claim has fallen from the year 2000, the nonFP water claim average has risen sharply from $3,342 to $4,739 in 2002. Thus, increasing water claim severity is a problem for homeowners insurance companies. Still, the 2002 average nonFP water claim ($4,739) is below the average ($4,826) of all nonFP claims. For FP water claims, the three year average ($1,977) is much lower than for all FP claims ($10,928).

Table 2
Comparison of FAIR Plan with Non-FAIR Plan Water Claim Data
2000-2002
(Using Policy Start Date)

	WATER CLAIMS						ALL CLAIMS					
	FP	nonFP	FP	nonFP	FP Avg.	nonFP Avg.	FP	nonFP	FP	nonFP	FP Avg.	nonFP Avg.
YEAR	N	n	$	$	$	$	n	n	$	$	$	$
2000	277	161,000	$653,679	$538,000,000	$2,360	$3,342	1,588	359,000	$15,926,426	$1,442,000,000	$10,029	$4,017
2001	105	158,000	$172,043	$633,000,000	$1,639	$4,006	1,088	383,000	$11,295,565	$1,673,000,000	$10,382	$4,368
2002	31	115,000	$26,008	$545,000,000	$839	$4,739	593	327,000	$7,490,253	$1,578,000,000	$12,631	$4,826
adj. 2002	62		$52,016		$839		1,186		$14,980,506		$12,631	
2000-2002	444	434,000	$877,738	$1,716,000,000	$1,977	$3,954	3,862	1,069,000	$42,202,497	$4,693,000,000	$10,928	$4,390

FP stands for FAIR Plan.
nonFP stands for nonFAIR Plan and refers to the multi-peril (NAIC line 4) data from the top 13 homeowner insurance companies

Note: The FAIR Plan claims data were adjusted in 2002 to compensate for the missing average 6 months of claims that occurred in 2003 for the policies with 2002 start dates.

Note: The FAIR Plan claims data for 2000 need no adjustment because they include only claims from policies with a 2000 start date.

The $839 figure for average FP water claim damage in 2002 may be misleading because it's based on just 31 claims. Also in 2002, nonFP claim figures may appear low because only accident year data was used. By comparison, in 2000 and 2001 calendar years, when accident year data was missing but the number of claims was non-zero, calendar year loss data was substituted.

The difference between accident year claims data and calendar year claims data is important. Accident year losses for year X are calculated by summing all payments made to date (as of time of evaluation/calculation) for loss occurrences in year X (even if reported later) *plus* the change in reserves between December 31 of year X and the time of valuation / calculation (or the last previously reported level of reserve). Calendar year losses for year X are calculated by including any payments made in year X regardless of when the actual loss occurred (or was reported) *plus* the change in reserves between December 31 of year X and December 31 of year X-1.

FAIR Plan application forms have a spot for listing prior claims. An examination of those forms listing prior claims showed only five percent with water-related claims listed. This rate, however, is based on a small sample of approximately 300 applications with claims listed.

4. Comparison of FAIR Plan and non-FAIR Plan Exposure and Premium Data

Any analysis of loss and claims data would be incomplete without relating it to exposure and earned premiums, as in Table 3. The average FP loss per exposure year was $99, declining from $125 to $73 for the period 2000-2002. By comparison, the average nonFP loss per exposure year was $338, increasing from $316 to $356 during the period. For the same period, the average nonFP earned premium per exposure year was $610, increasing from $599 to $638. The FP annual average of $321 dropped from $330 to $307 over the three years. Basically this means that FP earned premiums exceed losses per exposure year by about $225 and the overage for nonFP is about $300.

5. Water Pure Premium

One reason to study both the homeowner insurance claim data and the FAIR Plan data together is to test the hypothesis that consumers having difficulty in obtaining homeowners insurance are turning to FAIR Plan. In order to test this hypothesis, this study identified the zip codes with the top 50, 100 and 150 highest water pure premiums. A pure premium is an insurance term meaning total losses divided by total exposures, or average loss cost. By extension it is the multiplicative product of the severity ratio and the frequency ratio. In other words, the cost per claim times the number of claims per exposure year yields the average loss cost per exposure year. It thus accounts for not only how frequently water claims occur in a zip code, but also how severe or expensive those claims are.

Table 3.
Comparison of FAIR Plan With Non-FAIR Plan Exposure and Premium Data
2000-2002

	EXPOSURE						EARNED PREMIUMS			
	FP	nonFP	FP	nonFP	FP Avg. Loss Per Exp. Yr.	nonFP Avg. Loss Per Exposure Yr.	FP	nonFP	FP Avg.Per ExposureYr.	nonFP Avg. Per Exp. Yr.
YEAR	n	n	Exposure Months	Exposure Months	$	$	$	$	$	$
2000	114,402	4,547,403	1,529,940	54,759,289	$125	$316	$42,055,857	$2,733,530,738	$330	$599
2001	106,485	4,772,750	1,427,124	58,545,945	$95	$343	$38,526,659	$2,903,684,674	$324	$595
2002	109,875	4,955,469	1,230,611	53,241,831	$73	$356	$31,460,016	$2,830,439,156	$307	$638
Total	330,762	14,275,622	4,187,675	166,547,065	$99	$338	$112,042,532	$8,467,654,568	$321	$610

FP stands for FAIR Plan.
nonFP stands for nonFAIR Plan and refers to the multiperil data from the top 13 homeowner insurance companies

Table 4 illustrates that a somewhat disproportionately high percentage of FAIR Plan business (as measured by earned exposure months) is concentrated in the zip codes where homeowners insurance companies have the highest water pure premiums. The most marked level of disproportion is for the zip codes with the top 100 water pure premiums that account for 6.9 percent of FAIR Plan business but only 2.5 percent of homeowners insurance business. This implies that in this select area of zip codes (i.e., where water losses are high) that a small to moderate effect exists where consumers seek Fair Plan coverage in lieu of homeowners insurance.

Table 4

Zip Code Groups with Highest Water Pure Premiums and Corresponding Earned Exposure Months (EEM) 2000-2002

Zip Codes with High Pure Premiums	FP EEM #	nonFP EEM #	FP EEM %	nonFP EEM %
Top 50	56,314	294,978	1.3%	0.2%
Top 100	289,422	4,245,845	6.9%	2.5%
Top 150	377,196	10,486,257	9.0%	6.3%
All zip codes	4,187,675	166,547,065	100.0%	100.0%
FP stands for FAIR Plan.				
nonFP stands for nonFAIR Plan and refers to the multiperil				
data from the top 13 homeowner insurance companies.				
EEM stands for earned exposure months.				

6. Flight to Alternative Forms of Insurance

Similarly, if consumers having difficulty obtaining homeowners insurance seek out less expensive and less protective fire insurance as a substitute, one might expect a decline in homeowners insurance business and an increase in fire insurance business. Statistics from the Department's website, however, show steady growth in both annual written and earned premiums for multiple peril (NAIC line 04) homeowners insurance going back to 1991. Fire insurance (NAIC line 01), a much smaller line of business, has a less clear pattern. After peaking in 1996, industry premiums declined steadily until rebounding somewhat in 2001 and reaching a new peak in 2002.

It is unclear whether the recent increase in total fire insurance premiums is attributable to some flight from the multiperil market by consumers, or is just the result of increased premiums after the hardening of all insurance markets in 2001 due to the decline in the investment market. This demonstrates that changes in average premiums over time can make premium totals a poor gauge of business level. In other words, an increase in total premiums can result from more exposures, higher average premiums, or both. When available, number of policies or number of exposure years is a better indicator of the level of flight from the market.

This leads back to the exposure month totals for FAIR Plan, which declined from 1.5 million in 2000 to 1.4 million in 2001 and 1.2 million in 2002. The number of FAIR Plan applications picked up only recently. As was mentioned above, the market share of the top 13 insurance companies has remained stable during this time period. Putting all the clues together, it appears that for those with homeowners insurance availability problems there has been little flight to fire insurance or FAIR Plan.

7. Other EF2002 Summary Data

See Appendix H for a year by year accounting of statewide homeowners insurance summaries for premium amounts, coverage amounts, total insured value, exposure months, incurred property loss, claim count, number of policies, and water loss reserves. These figures use the EF2002 data and are limited to multi peril homeowners insurance for the top 13 companies during the 2000-2002 time period. Figures from 2002 may not be directly comparable to the two prior years because unlike the other two years no substitution of calendar year was made when accident year data was missing for a zip code.

8. Mold Claims

Fair Plan data offer a small bit of information on mold claims. Using the comment field on the loss file, claims involving mold were identified. It is unclear what percentage of FAIR Plan mold claims they encompass. Nonetheless, they give some indication that for FAIR Plan, at least, mold claims are not expensive. From 2000-2002, only 17 homeowners claims containing a reference to mold were identified, and those claims totaled only $7,855. Again, water damage coverage is limited under FAIR Plan and consequently so is mold coverage. Of possible interest is the fact that three zip codes accounted for 8 of the 17 sample mold claims.

V. SUMMARY

This study has confirmed many of the Commissioner’s concerns expressed before the Senate Insurance Committee and addressed in the proposed Homeowners Bill of Rights. Among the findings of this study are:

Filing a claim may result in the non-renewal of a homeowner’s policy. Even after excluding water claims and limiting claims to those in the last three years, at least four percent of the companies non-renewed applicants based on just one claim, 21 percent on two claims, 13 percent on three claims, and an additional four percent on four or more claims.

A simple inquiry by a homeowner about whether a loss is covered may have the same negative effect. Sixteen percent of the companies, including one of the top 13 companies, count them as claims. Furthermore, 35 percent of the companies count as claims submissions where the homeowner received no payment.

Because credit scoring has the potential to be discriminatory and unfair, the use of credit information in rating and underwriting homeowner insurance is a major concern. Despite the Department's efforts to prohibit this practice, as of April 29,2004 three large insurance groups were being investigated for the use of credit scores.

Further underscoring the homeowners insurance availability problem are the statistics on homeowner written complaints to the Consumer Services Division. The Department often found written homeowner complaints justified; their insurance companies were not complying with the California Insurance Code. Refusal to insure complaints were justified 38 percent of the time, cancellation complaints 25 percent of the time, and non-renewal complaints 17 percent of the time.

These figures were found in spite of the fact that some insurance companies deflect customer criticism by using tiers or referrals to other companies in the group. In fact, 21 percent of the companies use such tiers and referrals.

The companies have also reacted to the hardening market by changing their underwriting guidelines. Two-thirds of the companies have changed their guidelines in the last three years alone. The Department only finds out about these changes if there is a new rate filing or happens to ask the company for its latest underwriting guidelines.

The hardening of the market is evidenced by higher earned premiums, due in part to rising losses. Both the average loss and the average earned premium per exposure year have risen about $40 from 2001 to 2003.

The average cost per claim is up 20 percent over the last two years. Although average water claim costs are up almost 50 percent over the last two years, companies rarely penalize specifically for water or mold claims. This is probably because 41 percent of the companies use water exclusions and limits, and 70 percent use mold exclusions and limits. The Department cannot prevent a company from excluding coverage, though an exclusion must be accompanied by a lower premium. Thus, a tradeoff exists between limiting exclusions and affordability, as fewer exclusions could mean higher insurance premiums.

Just as concern about water claims may have been an over-reaction, other concerns about the availability of homeowners insurance may be as well. This study found that while complaints are up markedly, they still represent a very small proportion of all policies. Furthermore, the large companies do not have a disproportionately high percentage of complaints. Moreover, there has been no significant exodus by consumers from large companies to smaller companies, FAIR Plan or fire insurance only policies.

Also, little evidence was found to support the contention that residential escrows are being routinely delayed because buyers are unable to find suitable homeowner's insurance.

Realtors are aware of the importance of having purchasers obtain homeowners insurance and the CLUE report for the property early in the purchase process.

The use of CLUE and A-PLUS presents another set of potential problems. These databases are proprietary and so were not available for this study. However, this study determined that 68 percent of the homeowners insurance companies use CLUE. Another study is needed to determine what proportion of claims on CLUE are for minor claims, no pay claims, claims based on erroneous information, claims stemming from inquiries about coverage, claims bearing no substantial relationship to an insured's loss exposure, claims where repairs have been fully remedied, and claims where the homeowner has corrected erroneous information or has appended a comment or explanation.

In conclusion, the focus of this report is on underwriting practices by insurers. Access to homeowner's insurance is also determined by the corresponding level of premiums and coverage provided. An analysis of premiums and coverage is properly the subject of another study.

APPENDIX A

PRPA-2003 INSTRUCTIONS

PRPA-2003

STATISTICAL PLAN

TO: All Insurers issuing Homeowners Insurance Policies in California

DATE: April 14, 2003

SUBJECT: Personal Real Property Availability in California.

The Commissioner is requesting your cooperation in responding to the enclosed ***California Personal Real Property Availability Survey.*** Completed Workbook **PRPA-2003** is due on or before **May 5, 2003**.

IMPORTANT NOTES:
Report **BY COMPANY only**. Group submissions are not acceptable.

Use June 1, 2003 as the effective date for the questions that apply on the questionnaire.

Important dates and instructions:

1. The electronic data submission of **Workbook PRPA-2003**, via e-mail, is due no later than **May 5, 2003**.
2. Submission of notarized **Affidavit** is also due no later than **May 5, 2003** and may be faxed in accompaniment with the electronic submission or the workbook.

PRPA-2003 forms are available on the Internet

To retrieve the **2003 California Personal Real Property Availability Survey**:

- Go to the CDI's Public Website at: ***http://www.insurance.ca.gov***
- CLICK on the item entitled "INSURERS" - This item is located in the middle of the screen.
- FIND the heading entitled "POLICY & RESEARCH"
- Under the "POLICY & RESEARCH" section, CLICK on the "STATISTICAL PLANS" link.
- CLICK on the item entitled "STATISTICAL PLANS - REPORTING YEAR 2003"
- You will be asked for a user name and password. Enter the following:

  USER NAME: ***GOTOSAB*** (case sensitive)
  PASSWORD: ***STAT2003*** (case sensitive)

- CLICK on ***"*PRPA-2003*"*** under the section entitled Personal Real Property Availability Survey

IMPORTANT NOTE – Save Availability Worksheet from Internet to Diskette or hard drive:

OPENING THE PRPA-2003 EXCEL FILE

From the PRPA-2003 website, click on the *Availability Workbook* link to bring up the PRPA-2003 workbook.

Workbook PRPA-2003 cannot be completed and submitted directly via the Internet. You must save the Excel file to either a diskette or your local hard drive. You can save either from the menu bar by selecting File – Save As or by using the "SAVE AS" button located at the top of the worksheet.

ENTERING DATA ON TRANSMITTAL FORMS:

- Using Microsoft Excel 97, open the PRPA-2003 file you have just saved.
- A message will be displayed informing you that . . . *The workbook you are opening contains Macros...*
- Select the ENABLE MACROS button.
- Once the macro has been enabled, an Excel workbook will be opened containing three worksheets.
- To select the forms (worksheets), click on the three tabs on the lower left corner of the page.
- Begin entering data in the appropriate cells and checking the appropriate boxes. Move from cell to cell using the Arrow key, Enter keys or the mouse.

SAVING THE FILE:

When finished entering the information, save it by selecting FILE and SAVE from the menu or by simply pressing the SAVE or SAVE AS button. This file can be saved to a local drive or a diskette.

Technical Questions:

Any technical questions regarding the Workbook PRPA-2003 or on the website may be addressed to the below listed contact person:

Gary Quan
Research Analyst II
CALIFORNIA DEPARTMENT OF INSURANCE
Statistical Analysis Division
300 South Spring Street, 14th floor
Los Angeles, CA 90013
quang@insurance.ca.gov
Tel: (213) 346-6315; Fax: (213) 897-6571

About the PRPA-2003 Workbook:

Workbook **PRPA-2003** is set up as an *Excel workbook* with three separate *worksheets* entitled **Co-Info, Availability-Eligibility,** and **Explanations** (see bottom left hand corner of screen). You can toggle between worksheets by clicking the worksheet folder on the bottom of your screen with your mouse.

"Co-Info" Worksheet:

Using your mouse, click the worksheet entitled **Co-Info** to complete:

1. Company Information.
2. Contact Information.
3. Date Completed.

"Availability-Eligibility" Worksheet:

Using your mouse, click the worksheet entitled **Availability-Eligibility** to complete:

- Personal Lines
- Availability
- Limitations/Restrictions
- Water Related
- Mold Related

"Explanation" Worksheet:

Using your mouse, click the worksheet entitled **Explanations**. Please list any explanations or any additional information on this worksheet.

Moving throughout the workbook:

To move throughout the worksheet, you may:

- Press ***Tab*** to move forward
- Press ***Shift-Tab*** to move backwards
- Use the arrow keys or
- Use your mouse.

SUBMISSION INSTRUCTIONS:

Upon retrieval from the Department website, complete and save **Workbook PRPA-2003 as an Excel workbook**, and submit electronically as an attachment by E-mail. Your completed electronic file should be E-mailed to the below address:

submissions@insurance.ca.gov

Data must be received **by May 5, 2003**. Your notarized ***Affidavit*** should follow the electronic submission of **Workbook PRPA-2003**. The notarized *Affidavit* may be submitted by FAX or by mail.

Any questions should be directed to:

Gary Quan
(213) 346-6315
quang@insurance.ca.gov

Thanks for your cooperation and have a nice day.

Sincerely,

Benjamin J. Gentile
Chief, Statistical Analysis Division

APPENDIX B

PRPA-2003 SURVEY FORM WITH TALLIED RESULTS

CALIFORNIA DEPARTMENT OF INSURANCE

2003 PERSONAL REAL PROPERTY AVAILABILITY SURVEY

Company Information

Send To:
CALIFORNIA DEPARTMENT OF INSURANCE
Statistical Analysis Division
300 South Spring Street, 14th Floor
Los Angeles, CA 90013

For CDI Use Only

Attention: PRPA-2003

Company Name			
NAIC Number		**Group Number**	
Address			
City			
State		**ZIP Code**	
Contact Person			
Title			
E-Mail Address			
Telephone Number		**Ext.**	
Fax Number			
Date			

The experience reported must be in agreement with the company's records. **AT THE DETERMINATION OF THE DEPARTMENT OF INSURANCE, THESE RECORDS MAY BE EXAMINED AT THE COMPANY'S EXPENSE.**

Please check the applicable box :

1. COMPANY DOES NOT OFFER PERSONAL REAL PROPERTY INSURANCE IN CALIFORNIA

2. COMPANY DOES OFFER PERSONAL REAL PROPERTY INSURANCE IN CALIFORNIA

If you have checked box no. 2, please complete the questionnaire below.

PERSONAL LINES COVERAGE

AVAILABILITY

1. As of JUNE 1, 2003 will your company be offering Personal Real Property **NEW** business coverage?

	YES	***NO***
Homeowners	91 %	9 %
Renter/Tenants	67 %	33 %
Condo Unit Owners	67 %	33 %
Dwelling Fire	70 %	30 %

2a. As of JUNE 1, 2003 will your company be offering Personal Real Property **RENEWAL** business coverage?

	YES	***NO***
Homeowners	97 %	3 %
Renter/Tenants	72 %	28 %
Condo Unit Owners	74 %	26 %
Dwelling Fire	74 %	26 %

2b. Provide the five most common reason for non-renewal on the explanation worksheet.

3. Provide the five most common reason for cancellation on the explanation worksheet.

4. Has your company changed its underwriting guidelines in the last three years?

66% Yes 34% No

5a. Is your company considering a moratorium on writing new homeowners insurance polices in California because of potential water/mold losses?

1% Yes 99% No

5b. If yes, when would the moratorium start? mm/dd/yy

6a. How many non-water loss claims result in the following?

	Last 3 years	Last 5 years	More than 5 yrs
Refusal of new applicant	21-19-4-5-40-12%	5-7-2-0-84-2%	0-0-1-0-99-0%
Non- Renewal	4-21-13-4-41-17%	3-5-7-2-76-7%	0-0-4-2-93-2%

(1 claim-2 claims-3 claims-4 or more claims-not applicable-require explanation)

6b. Does this include non-chargeable claims? 35% Yes 65% No

6c. Does this include non-filed/inquiry claims? 16% Yes 84% No

6d. For a new applicant does this include claims history of claimant?

80% Yes 20% No

6e. For a new applicant does this include claims history of residence to be covered?

58% Yes 42% No

7a. Does your company use the CLUE reports in underwriting a new risk?

68% Yes 32% No

7b. If yes, provide how it is used in the Explanation worksheet.

7c. If yes, does your company automatically submit all claims to CLUE?

64% Yes 36% No

8. Does your company currently use any of the following for underwriting purposes?

Choicepoint Insurance scores	8%	Yes	92%	No
Fair Issac Insurance scores	0%	Yes	100%	No
Company Insurance scores	3%	Yes	97%	No
Other Insurance scores/credit rating scores	6%	Yes	94%	No

9. Is the average (median) time for issuance of a written binder for homeowner insurance applications more than 30 days?

6% Yes 94% No

LIMITATIONS/RESTRICTIONS

1. For underwriting acceptability, please indicate below any special limitations and/or restrictions that might apply to any of the policy forms. Effective date June 1, 2003.

	LIMITS
9% yes	On high concentration by zip code or county**
15%	Other concentration capacity measures*

yes			
67% yes	Coverage range: (dollar amount)	Minimum	Maximum
	Homeowners (cov. A)		
	Renter/Tenant (cov. C)		
	Condo Unit Owner (cov. C)		
	Dwelling Fire (structure)		

32%yes	Maximum on age of construction: (number of years)		Years
		Homeowners	
		Renter/Tenant	
		Condo Unit Owner	
		Dwelling Fire	

YES%	**INCLUSION REQUIREMENTS**
7	Mobile homes only
3	Supporting business only
4	Package Policies only
2	Existing customer only
11	Specialty markets only (Specify type on Explanation worksheet: e.g. U.S. Military, affinity groups, etc.)

Yes %	**EXCLUSIONARY CRITERIA**
57	Building located on hillsides, slopes, piling or over water
51	Unconventional construction
76	Proximity to brush areas*
9	Proximity to earthquake fault lines
7	Proximity to flood areas
21	Proximity to commercial areas
62	Too far from fire station or fire hydrant
30	Certain specified roof types
18	Lack of prior insurance
0	Lack of credit history
17	Prior insurance refusals
57	Presence of specified canine types
50	Presence of boarded horses
39	House under renovation or repair
79	Signs of poor maintenance
49	Broken windows

21	Barred windows
22	Presence of wood burning stoves
80	Vacant properties
6	Subjective criteria*
21	OTHERS*

* Provide a brief explanation if necessary on the Explanation worksheet.

** Provide listing of Zip Codes / Counties where restrictions apply.

2. Does your company offer tiered coverage plans?

21% Yes 79% No

3. Does your company refer clients to other companies in your group?

21% Yes 79% No

4. Besides terrorism and mold coverages, has your company reduced coverages in the last three years?

21% Yes 79% No

WATER RELATED

1. Does your application ask about water losses?

25% Yes ***75%*** No

2a. Does your company put any limitations and/or exclusions on water damage?

41% Yes ***59%*** No

2b. If yes, fill out the following:

8% Limit - Amount: $

36% Exclusions. Provide details in Explanation worksheet.

3. How many water loss claims result in the following?

	Last 3 years	Last 5 years	More than 5 yrs
Refusal of new applicant	*25-17-5-53%*	*10-6-1-84%*	*NA*
Non- Renewal	*7-25-16-52%*	*2-7-9-81%*	*0-0-4-96%*

(1 claim-2 claims - more than 2 claims- not applicable)

4. Has your company changed any of its procedures related to investigation and settlements of water losses as a result of the increased frequency and/or severity of related claims?

61% Yes ***39%*** No

5a. Compared to year 2000, are you currently reserving more for water losses per paid claim?

61% Yes ***39%*** No

5b. If yes, indicate one of the following:

16% less than 25%

37% between 25% to 50%

8% more than 50%

MOLD RELATED

1. Does your application ask about mold losses?

15% Yes ***85%*** No

2a. Does your company put any limitations and/or exclusions on mold coverage?

70% Yes ***30%*** No

2b. If yes, fill out the following:

52% Limit - Amount: $

47% Exclusions. Provide details in Explanation worksheet.

3. How many mold loss claims result in the following?

	Last 3 years	Last 5 years	More than 5 yrs
Refusal of new applicant	*23-19-3-50-6%*	*10-6-0-81-3%*	*1-0-0-96-3%*
Non- Renewal	*6-24-10-49-11%*	*0-7-6-81-7%*	*0-1-1-95-3*

(1 claim-2 claims-more than 2 claims-not applicable-explanation)

4a. Does your company exclude mold that ensues from a covered loss?

20%	Yes	***80%***	No
4b. Does your company sublimit mold coverages ensuing from a covered loss?			
55%	Yes	***45%***	No
5. Has your company changed any of its procedures related to investigation and settlements of mold losses as a result of the increase frequency and/or severity of related claims?			
72%	Yes	***28%***	No
6. Has your company implemented coding changes to identify mold claims?			
73%	Yes	***27%***	No
7a. Has your company established guidelines for adjusting mold claims?			
72%	Yes	***28%***	No
7b. If yes, please provide a brief explanation of the explanation worksheet.			

APPENDIX C

EF2002 INSTRUCTIONS

Original Data Call

DEPARTMENT OF INSURANCE
POLICY RESEARCH
300 CAPITOL MALL, SUITE 1300
SACRAMENTO, CA 95814
(916) 492-3529
(916) 327-2734 FAX

July 24, 2002

CIRCULAR – EF-2002

TO: Insurers Licensed to Write Earthquake and Fire in California

SUBJECT: Earthquake and Fire Experience (EF-2002)

This special data call covers Earthquake and Fire coverage written in California during the calendar years 2000 and 2001. This special data call requires the data for items aggregated at ZIP code level.

Pursuant to CCR Section 2307, all insurers transacting property insurance in this State must record earthquake liabilities written in this State and develop statistics in accordance with the instructions contained in the Insurance Department, California Earthquake Liability Report Form. We are concerned with obtaining accurate data that can be used for modeling a concentration index at the ZIP code level. Accurate and timely data are essential to develop and test proposed and potential changes.

This special data call is made under the authority of Sections 923, 923.5, 1857-1857.4 and 12926 of the California Insurance Code. **All data collected pursuant to this special data call will be confidential.** However, summary data and results of our analysis may be publicly released. Such information will not identify any individual or company.

The following rules apply to the EF files:

1. Data should be written on a CD or submitted via e-mail.
2. Data may not be submitted on compacted cartridge tape nor on reel tape.
3. Data must be in ASCII, in a fixed length format.
4. All files and fields must be clearly identified.
5. The Department should receive data no later than September 24, 2002.

All questions concerning this data call should be directed to Gurbhag Singh or Max Tang of the Policy Research Division. Gurbhag Singh can be reached at (916) 492-3467 and singhg@insurance.ca.gov. Max Tang can be reached at (916) 492-3479 and tangm@insurance.ca.gov. Thank you for your assistance in this important matter.

Sincerely,

Lyn Hunstad, Chief
Policy Research Division

CALIFORNIA DEPARTMENT OF INSURANCE

2002 EARTHQUAKE AND FIRE CONCENTRATION ANALYSIS

EF - 20002

SPECIAL DATA CALL

Policy Research Division
July 24, 2002

2002 EARTHQUAKE AND FIRE
CONCENTRATION ANALYSIS

Scope of the Plan

This special data call is applicable to all insurance groups and companies licensed to write earthquake and fire coverage. For groups that contain multiple companies, a separate data submission for each company is required

The Insurance Commissioner is empowered by Sections 923, 923.5, 1857 - 1857.4, of the California Insurance Code to examine pertinent data from insurers writing earthquake and fire insurance in California. The data collected under this authority will be kept confidential, except for summary results that may be released by the Department.

Data collected under this special data call will be used to analyze the concentration of risk at ZIP code level for the earthquake (EQ) and fire (FI) (including homeowners multiple peril policies) insurance market in California.

This document contains the necessary instructions and specifications for reporting the required data. It is organized as follows:

General Rules and Specific Data Items

I. Affidavit
II. Relevant Formulas (if any)
III. Definitions
IV. EQ and FI File Information

Exhibits:

1. Acknowledgment Receipt of Special Data Call
2. Affidavit of True and Accurate Records
3. EQ and FI – Data Guidelines

Questions regarding the data call should be directed to: Gurbhag Singh at (916) 492-3467, singhg@insurance.ca.gov. Or to Max Tang at (916) 492-3479, tangm@insurance.ca.gov.

All data submissions should be sent via either:

- E-mail: prbdata@insurance.ca.gov
- Mail: Gurbhag Singh – EF2002
  California Department of Insurance
  300 Capitol Mall, Suite 1300
  Sacramento, CA 95814

General Rules and Specific Data Items

Upon receipt of this data call complete the acknowledgment letter, contained in Exhibit 1 and return it to the Department on or before **August 13, 2002.**

The entire submission due **September 24, 2002** consists of:

- Document I: Affidavit of true and accurate data (made under oath before a notary public) - see Exhibit 2
- Document II: Relevant Formulas (if any)
- Document III: Definitions
- Document IV: EQ & FI File Information

All the items mentioned above are due no later than **September 24, 2002**. The following pages describe how the various data will be reported on the transmittal documents. Preferably CD or E-mail may be used. All data will be tested for accuracy and reasonability. Submissions that do not pass the Department's validating tests will be rejected. Any company that has their data rejected must correct and resubmit it. Companies required to resubmit data would be allowed up to, but not more than, 7 working days to resubmit its data to the Department.

Companies should establish their own validating programs and procedures to detect errors such as invalid ZIP codes and inaccurate statistical data. There will only be two (2) re-submissions of data allowed per company. On the second and final re-submission, if the re-submitted data does not meet the EF-2002 reporting requirements set forth in this plan or, if the data fails the Department's validation tests, the company will be identified as being in NON-COMPLIANCE. This non-compliance status will be referred to the Department of Insurance's Legal Enforcement Bureau for appropriate punitive action. In addition, the Department may initiate an examination of the company's data compilation systems.

AFFIDAVIT (Transmittal Document I)

Each submission shall contain a verification of an executive officer of the insurer, under penalty of perjury under the laws of the State of California, that the information contained therein is true and correct. Any insurer subject to EF-2002 which fails to file a submission when due, or which files an incorrect submission, shall be subject to all applicable penalties set forth in the California Insurance Code. The form to use for this verification is in the attached Exhibit 2. The affidavit form shown in Exhibit 2 should be completed by an officer of the company and stamped by a notary public.

General Rules and Specific Data Items (continue…)

FORMULAS (Transmittal Document II)

Include the formulas and an example as to how concentration index and probable maximum loss (PML) are calculated for ZIP code level and for an individual policy. The formulas should be provided on a hard copy and submitted with the other transmittal documents and data.

The relevant formula (if any) is to be written out in a basic mathematical method, *using appropriate parentheses*, with the following terms:

*	= Multiplication
/	= Division
+	= Addition
-	= Subtraction
**	= Exponent

DEFINITIONS (Transmittal Document III)

Specific definitions of each variable used for determining the concentration index and PML (Probable Maximum Loss) must be supplied on a hard copy and submitted with the other transmittal documents and data.

EF FILE INFORMATION (Transmittal Document IV)

Document IV identifies the company representative to contact regarding questions dealing with the EF data. This individual should be someone who is very knowledgeable about the creation and maintenance of the EF data files. The following information should be provided:

- Group Code and NAIC #

- Group Name and Company
- Name of Company Representative:
- Title:
- Unit or Section of Company:
- Mailing Address:
- Phone:
- E-mail address

Exhibit 1

Acknowledgment Receipt of Special Data Call

ACKNOWLEDGMENT RECEIPT OF SPECIAL DATA CALL

2002 Earthquakes and Fire Concentration Analysis

Mail this form by **August 13, 2002** to:

Gurbhag Singh
California Department of Insurance
300 Capitol Mall, Suite 1300
Sacramento, CA 95814

This will acknowledge receipt of the Special Data Call for reporting earthquake and fire data.

Company/Group Name:____

Group Code: ____

NAIC #:____

Company Officer responsible for filing this report:

Name: ____

Title: ____

Mailing Address: ______________________________________

____

Signature: ______________________________Date: ___________

Phone No: _____________________________________

Exhibit 2
Affidavit of True and Accurate Records

TO: CALIFORNIA DEPARTMENT OF INSURANCE

RE: 2002 Earthquake and Fire Concentration Analysis

AFFIDAVIT

STATE OF ______________________________)

COUNTY OF ______________________________)

____, being duly sworn, deposes and says that he/she is the ______________________________________* of the

____

_____Company, _________________________________Group & NAIC Number;

that the statistical data reported on the accompanying documents and output medium are a true and accurate record of the company's experience for earthquake and fire coverage for the period covered in the State of California to the best of his/her knowledge, information and belief.

____

Affiant

Notary Public:

____

Subscribed and sworn to before me this

______ day of ______________, 20______

at ________________________________

* Signatory must be the company official responsible for compilation of data.

Exhibit 3

EF – Data Guidelines

Exhibit 3

Formatting Specifications:

- Output Medium: CD or e-mail

- Field Format:
  - All numeric or monetary fields are without commas.
  - All numeric fields are right justified. Use zeros as leaders to fill in the blanks if the number of characters for numeric fields is less than what's specified.
  - All monetary fields are in whole dollars (no cents) and without $ sign.
  - Negative Numbers: All negative numbers will have a "-" sign in the left most position. Positive amounts are to be left unsigned.

Data Call variables for EQ (Earthquake) & FI (Fire – including homeonwers multiple peril) for Concentration Index

- All the data must be at ZIP code level.
- Total or aggregate is the sum of all the values in the ZIP code, for example, the sum of earned premium for all policies within a given ZIP code.
- The company submitting the data is responsible for verifying the accuracy of their ZIP codes.

Details of the Items to be Collected

	Field Name	Field Type	Field Length
1.	NAIC Group Code	A	4

Enter the group code assigned by NAIC

2.	NAIC Company Code	A	5

Enter the company code assigned by NAIC.

Details of the Items to be Collected (continue…)

Field Name   Field Type   Field

Length

3.	ZIP Code	A	5

Provide **VALID California ZIP codes** as designated by the United States Postal Service for the location of property being covered. Companies are required to check their own ZIP code list for validity before submitting their data. The range of California ZIP codes is from 90000 to 96200, ZIP codes out of this range are automatically considered invalid. The Department will investigate invalid ZIP codes within the range.

4.	County Code	A	2

Provide the county code for the ZIP code for the location of the property covered. Use the two digit county code below:

County	Code
Alameda	01
Alpine	02
Amador	03
Butte	04
Calaveras	05
Colusa	06
Contra Costa	07
Del Norte	08
El Dorado	09
Fresno	10
Glenn	11
Humboldt	12
Imperial	13
Inyo	14
Kern	15
Kings	16
Lake	17
Lassen	18

County	Code
Orange	30
Placer	31
Plumas	32
Riverside	33
Sacramento	34
San Benito	35
San Bernardino	36
San Diego	37
San Francisco	38
San Joaquin	39
San Luis Obispo	40
San Mateo	41
Santa Barbara	42
Santa Clara	43
Santa Cruz	44
Shasta	45
Sierra	46
Siskiyou	47

Los Angeles	19
Madera	20
Marin	21
Mariposa	22
Mendocino	23
Merced	24
Modoc	25
Mono	26
Monterey	27
Napa	28
Nevada	29

Solano	48
Sonoma	49
Stanislaus	50
Sutter	51
Tehama	52
Trinity	53
Tulare	54
Tuolumne	55
Ventura	56
Yolo	57
Yuba	58

Details of the Items to be Collected (continue…)

Field Name Field Type Field

Length

5. Experience Year A 2

A summary record is for one experience year only. Enter the last 2 digits of the experience year. *Example*: 2000=00, 2001=01

6. Coverage Type A 2

Use the following code to identify the coverage type being reported: **EQ** (Earthquake – includes commercial residential) and **FI** (Fire – includes homeowners as well as commercial residential).

7. Policy Form A 2

Use the appropriate policy form code:

CF - Commercial Fire Policies (**Commercial Residential Policies Only**)
DO - Dwelling Owner-Occupied Policies
DT - Dwelling Tenant-Occupied Policies
DC - Dwelling Contents Only Policies
XX - Unoccupied Dwelling/Vacant Dwelling
HO - Homeowner (HO) Policies, defined as HO1, HO2, HO3, HO5, HO8 or equivalent
HC - Condominium Unit Owner, defined as HO6 or equivalent
HT - Tenant/Renter, defined as HO4 or equivalent
MO - Mobilehomes

8. Total Earned Premium N 9

It is an aggregate earned premium for one year rounded to the nearest dollar for this ZIP code.

9. Coverage A - Dwelling N 12

The total limit of liability for structure for this ZIP code.

10.	Coverage B - Other Structure	N	12

The total limit of liability that covers other structures on property for this ZIP code.

11.	Coverage C - Personal Property	N	12

The total limit of liability for contents coverage for this ZIP code.

Details of the Items to be Collected (continue…)

Field Name		Field Type	Field Length
12.	Coverage D - Loss of Use	N	12

The total limit of liability that covers loss of use for this ZIP code.

13.	TIV (Total Insured Value)	N	12

It is the Aggregated Total Insured Value in dollar amount for this ZIP code.

14.	Earned Exposure Months	N	10

Earned Exposure months are the number of months the policy was in force. Round partial months to the nearest whole month (round 0.5 to months up).

15.	Total Earned Exposure	N	10

Total Earned Exposure in unit-months insured for this ZIP code. It is the total or sum of unit-months insured for this ZIP code.

For example,

- A single family home written for one year is equal to (=) 12 unit months.
- A dwelling fire with three units written for one year is equal to (=) 36 unit months.

16.	Total Annual Paid Property Loss	N	10

This is the total of all property paid losses in dollars in this ZIP code.

17.	Total Annual Incurred Property Loss	N	10

This is the total of all property incurred losses in dollars in this ZIP code. Incurred Losses should include losses incurred but not reported (IBNR).

18.	Total Incurred Property Loss for Fire	N	10

This is the total incurred property losses resulting from fire in this ZIP code (including IBNR).

19.	Total Incurred Property Loss for Earthquake	N	10

This is the total incurred property losses resulting from earthquake in this ZIP code (including IBNR).

Details of the Items to be Collected (continue…)

	Field Name	Field Type	Field Length
20.	Total Incurred Property Loss for Theft/Vandalism	N	10
	This is the total incurred property losses resulting from theft/vandalism in this ZIP code (including IBNR).		
21.	Total Incurred Property Loss for Water Damage	N	10
	This is the total incurred property losses resulting from water damage in this ZIP code (including IBNR).		
22.	Count of Property Claims Incurred	N	7
	This is the total count of all property incurred claims in this ZIP code (including IBNR claims).		
23.	Count of Claims Incurred for Fire	N	7
	This is the total count of all incurred property claims resulting from fire in this ZIP code (including IBNR claims).		
24.	Count of Claims Incurred for Earthquake	N	7
	This is the total count of all incurred property claims resulting from earthquake in this ZIP code (including IBNR claims).		
25.	Count of Claims Incurred for Theft/Vandalism	N	7
	This is the total count of all incurred property claims resulting from theft/vandalism in this ZIP code (including IBNR claims).		
26.	Count of Claims Incurred for Water Damage	N	7
	This is the total count of all incurred property claims resulting from water damage in this ZIP code (including IBNR claims).		
27.	Total Number of Policies	N	7
	This is the sum of all the policies in-force as of June 30 of that year for this ZIP code.		
28.	Aggregate PML	N	12
	It is the total probable maximum loss for this ZIP code in dollars. (Explain how the PML was computed in Transmittal Document II).		

Format for Data Call Variables for EQ (Earthquake) and FI (Fire) for Concentration Index

All the data must be at ZIP code level.

Aggregate is the same as total - the sum of all the values for the ZIP code.

The dollar amounts such as premium and TIV should be reported as whole numbers (rounded to the nearest dollar**).**

Experience Years: 2000 and 2001.

	Field Name	Start Position	End Position	Length	Type (Alpha or numeric)
1	Group Number	1	4	4	A
2	NAIC Number	5	9	5	A
3	ZIP Code	10	14	5	A
4	County Code	15	16	2	A
5	Experience Year	17	18	2	A
6	Coverage Type	19	20	2	A
7	Policy Form	21	22	2	A
8	Total Earned Premium	23	31	9	N
9	Coverage A – Dwelling	32	43	12	N
10	Coverage B - Other Structure	44	55	12	N
11	Coverage C - Personal Property	56	67	12	N
12	Coverage D - Loss of Use	68	79	12	N
13	Aggregate TIV	80	91	12	N
14	Earned Exposure Months	92	101	10	N
15	Total Earned Exposure	102	111	10	N
16	Total Annual Paid Property Loss	112	121	10	N
17	Total Annual Incurred Property Loss	122	131	10	N
18	Total Incurred Property Loss for Fire	132	141	10	N
19	Total Incurred Property Loss for Earthquake	142	151	10	N
20	Total Incurred Property Loss for Theft/Vand	152	161	10	N
21	Total Incurred Property Loss Water Damage	162	171	10	N
22	Incurred Claim Count	172	178	7	N
23	Incurred Claim Count for Fire	179	185	7	N
24	Incurred Claim Count for Earthquake	186	192	7	N
25	Incurred Claim Count for Theft/Vandalism	193	199	7	N
26	Incurred Claim Count for Water Damages	200	206	7	N
27	Total Number of Policies	207	213	7	N
28	Aggregate PML	214	225	12	N

APPENDIX D

FAIR PLAN DATA FIELDS

Fair Plan Data Files: Entity, Exposure, and Loss Files for 2000-2002

Entity File Data Items

1. Policy Number
2. Renewal Count/Module
3. Replacement Cost
4. Property Zip Code
5. Year of Construction
6. Construction Type
7. Fire Resistant Roof Indicator
8. Brush Area Indicator
9. Property & Casualty (PC) District
10. PC Class
11. Non Renewal Date

Exposure File Data Items

1. Policy Number
2. Renewal Count/Module
3. Deductible
4. Dwelling Coverage
5. Contents Coverage
6. Other Coverage
7. Number of Units
8. Extended Coverage (ECE), including wind, hail, riot, vehicle damage, explosion
9. Vandalism and Malicious Mischief (V_MM)
10. Total Annual Premium
11. Total Earned Premium
12. Premium Building Fire
13. Premium Building ECE VMM
14. Premium Brush Charge
15. Premium Content Fire
16. Premium Content ECE VMM
17. Earned Exposure Months
18. Effective Date
19. Expired Date

Loss File Data Items

1. Claim Number
2. Policy Number
3. Renewal Count
4. Loss Date
5. Report Date
6. Close Date
7. Claim Type
8. Claim Amount
9. Total Loss Paid

10. Current Reserve
11. Claim Description/Comments
12. Water Damage Indicator
13. Mold Indicator

APPENDIX E

HOMEOWNER INSURANCE ROUNDTABLE PARTICIPANTS

AND OTHER PROMINENT SOURCES

Residential Homeowners Insurance Roundtable Participants

March 27, 2003

1. Stan Wieg, California Association of Realtors
2. Lea-Ann Tratten, Consumer Attorneys of California
3. John Norwood, Independent Agents
4. Shari McHugh, Professional Insurance Agents Group
5. Janine Gibford, Association of California Insurance Companies
6. Norma Garcia, Consumers Union of U.S., Inc.
7. Bill Gausewitz, American Insurance Association
8. Brian Kabateck, Consumer Attorneys of California
9. Dan Dunmoyer, Personal Insurance Federation of California
10. Jeanne Cain, American Insurance Association
11. Nanci Kramer, California Department of Insurance
12. Don McNeill, California Department of Insurance

ADDITIONAL PROMINENT SOURCES FOR COMMENTS

1. Douglas Heller, Foundation for Taxpayer and Consumer Rights (FTCR)
2. Amy Bach, United Policy Holders
3. Timothy Coyle, California Building Association
4. John Cribb, Insurance Task Force
5. Sandy McNeel, Department of Health Services

APPENDIX F

SAMPLE CLUE REPORT

ChoiceTRUST™ Date Ordered: **11/05/2003** Expires On: **11/05/2003**

ChoicePoint® C.L.U.E.® Personal Property Report

Reference #: 2818003907

For questions about your report please visit Customer Support and include your reference number.

Account: 303231254 CHOICEPOINT

Date of Order: 11 /05 / 2003

Date of Receipt: 11 /05 / 2003

Recap: RISK - 1 CLAIM(S) REPORTED

SUBJECT - 1 CLAIM(S) REPORTED

SEARCH REQUEST

Subject Name: TOLLIVER, MICHAEL M.

DOB: 10 / 16 / 73 **SSN:** 123-45-6789

Telephone: (404) 555-3363

Risk Address: 246 13TH ST NE, ATLANTA, GA 30309-2013

Former Address: 1592 PEACHTREE ST NE, ATLANTA, GA 30309

REPORTED CLAIM HISTORY FOR RISK

The loss history below is associated with the subject and risk address information listed in the Search Request section of this report. Additional loss history information may be available if additional search information is provided.

CLAIM 1

Claim Date/Age:	08 / 14 / 02, (0yr-02mo)	**CLUE File # :**	0106000039118301
Company:	PIEDMONT PROP & CAS	**AM BEST # :**	97654
Policy # :	45W2220902	**Policy Type:**	HOMEOWNERS
Claim # :	97034902-A	**Additional Info:**	CATASTROPHE
Insured:	TOLLIVER, MICHAEL M.	**Claimant:**	
Address:	246 13TH ST NE ATLANTA, GA 30309-2013		
DOB:	10 / 16 / 73		
Sex:	M		

SSN:	123-45-6789
Telephone:	(404) 555-3363
	Payments by Claim Type:

	$27,000 - FIRE	**Status:**	CLOSED
	$5,000 - WATER DAMAGE	**Status:**	CLOSED

REPORTED CLAIM HISTORY FOR SUBJECT

The reported loss history below is associated with the subject, either at the risk address or at other developed addresses.

CLAIM 1

Claim Date/Age:	06 / 13 / 00, (2yr-04mo)	**CLUE File # :**	0018500332009281
Company:	ATLANTA MUTUAL INS	**AM BEST # :**	99101
Policy # :	579841	**Policy Type:**	HOMEOWNERS
Claim # :	Q0023789122	**Additional Info:**	ON PREMISES
Insured:	TOLLIVER, MICHAEL M.	**Claimant:**	THOMPSON, MERVIN A.
Address:	1592 PEACHTREE ST NE ATLANTA, GA 30309-3045		
Telephone:	(404) 555-3363		
Mortgagee:	FIRST UNION BANK		
	Payments by Claim Type:		
	$6,500 - DOG BITE	**Status:**	CLOSED

Narrative Information Below Refers to Above Claim:	Q0023789122	**Date Filed:**	07 / 31 / 00
By:	MICHAEL TOLLIVER	**Relation:**	INSURED

MR TOLLIVER STATES THAT THIS CLAIM WAS A RESULT OF HIS DOG ATTACKING
A DELIVERY PERSON AND THAT HE NOW NO LONGER OWNS THE DOG THAT ATTACKED.

INQUIRY HISTORY

12 / 15 / 2001	ORANGE STATE MUTUAL

Prepared by:	COMPREHENSIVE LOSS UNDERWRITING EXCHANGE ChoicePoint Inc., Atlanta, GA.
For additional information contact:	ChoicePoint Insurance Consumer Center P.O. Box 105108 Atlanta, Georgia 30348-5108
	"C.L.U.E." is a registered trademark of ChoicePoint Asset Company

Reference #: 2818003907

APPENDIX G

COMPARISON OF CDI WITH IINC WATER CLAIM DATA

Comparison of Insurance Information Network of California (IINC) and California Department of Insurance (CDI) Water Claim Data 2000-2002

	2000		**2001**		**2002**	
	IINC	CDI	IINC	CDI	IINC	CDI
Total HO Water Claims (000)	120	161	108	158	114	115
Total HO Claims (000)	382	359	345	383	331	327
Water claims as % of HO claims	31%	**45%**	31%	**41%**	34%	**35%**
Water pd w/IBNR ($million)		$538		$633		$545
Water loss reserves ($million)		$71		$91		$64
Water Paid ($million)	$442		$496		$562	
Total HO Paid ($million)	$1,349	$1,400	$1,615	$1,599	$1,739	$1,255
Total w/IBNR ($million)		$1,442		$1,673		$1,578
Water claims as % of HO claims	33%	**37%**	31%	**38%**	32%	**35%**

Note: CDI data in 2000 and 2001 may be incompatible with 2002 data because 2002 uses only accident year data.

Note: IINC data encompasses 70 percent market share and CDI encompasses 77 percent market share.

APPENDIX H

EF2002 SUMMARY STATISTICS

ANNUAL EF2002 HOMEOWNER "FI" "HO" INSURANCE SUMARY STATISTICS

2000-2002

		2000	2001	2002	Total
F8	Total Earned Premium	$2,733,530,738	$2,903,684,674	$2,830,439,156	$8,467,654,568
F9	Coverage A - Dwelling	$768,490,696,411	$843,316,952,785	$849,957,266,159	$2,461,764,915,355
F10	Coverage B - Other Structure	$73,833,318,574	$80,513,911,874	$80,660,642,801	$235,007,873,249
F11	Coverage C - Personal Property	$425,979,695,476	$474,831,219,686	$464,415,059,434	$1,365,225,974,596
F12	Coverage D - Loss of Use	$137,942,005,581	$148,152,389,930	$140,513,651,453	$426,608,046,964
F13	Aggregate Total Insured Value (TIV)	$1,500,188,200,000	$1,647,817,600,000	$1,648,671,200,000	$4,796,677,000,000
F14	Earned Exposure Months	53,772,304	57,363,582	52,079,641	163,215,527
F15	Total Earned Exposure	54,759,289	58,545,945	53,241,831	166,547,065
F16	Total Annual Paid Property Loss	$1,400,209,185	$1,599,058,017	$1,254,831,856	$4,254,099,058
F17	Total Annual Incurred Property Loss	$1,442,279,204	$1,673,284,510	$1,577,999,156	$4,693,562,870
F18	Total Incurred Property Loss for Fire	$468,224,545	$530,455,056	$546,294,716	$1,544,974,317
F19	Total Incurred Property Loss for Earthquake	$1,771,438	$6,303,941	$59,778	$8,135,157
F20	Total Incurred Property Loss for Theft/Vand	$183,692,631	$187,923,992	$151,718,543	$523,335,166
F21	Total Incurred Property Loss Water Damage	$538,336,230	$632,759,457	$544,936,874	$1,716,032,561
F22	Incurred Claim Count	358,957	382,965	326,899	1,068,821
F23	Incurred Claim Count for Fire	32,967	40,714	27,981	101,662
F24	Incurred Claim Count for Earthquake	234	215	60	509
F25	Incurred Claim Count for Theft/Vandalism	169,409	175,309	58,607	403,325
F26	Incurred Claim Count for Water Damages	160,531	158,351	114,856	433,738
F27	Total Number of Policies	4,547,403	4,772,750	4,955,469	14,275,622
F28	Aggregate PML	$54,296,560	$68,398,234	$27,886,501	$150,581,295
F29	Total Water Loss Reserves 2000	$71,060,810			
F30	Total Water Loss Reserves 2001		$91,635,491		
F31	Total Water Loss Reserves 2002			$64,416,320	

Note: Data from EF2002 data call for zip code summary data. Data from companies with total of 77 percent HO market share.

Note: Data only for coverage type FI (fire) and policy form HO (homeowner policies HO1, HO2, HO3, HO5, HO8 or equivalent.)

Note: Data for 2000 and 2001 substitutes calendar year data when accident data unavailable for a zip code.