TESTIMONY of Big I New York
before the
Assembly Insurance Committee
and
Assembly Environmental Protection Committee

Public Hearing: The impact of extreme weather events on the resiliency of the property and casualty insurance market in New York State

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10:00 AM

Delivered by:
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Chairman Weprin and Chairwoman Glick, Ranking Members Blankenbush and Simpson, and members of the committees, thank you for the opportunity to testify before you today on the impact of extreme weather events on the resiliency of the property and casualty insurance market in New York State.

My name is Scott Hobson, and I am the Assistant Vice President of Government Relations for Big I New York. Founded in 1882, Big I New York is a statewide trade association representing independent insurance agents and brokers. Our membership consists of approximately 1,500 independent insurance agencies and some 12,000 employees. We represent agencies of all size, from a single employee to hundreds; our average member is an agency of approximately 7-8 employees. We believe independent insurance agents serve customers best with trusted advice and the right coverage options to protect what matters most.

Put simply, the impact of extreme weather events on the resiliency of the property and casualty insurance market is enormous and far reaching.

The market is increasingly strained, and New York homeowners are facing dual challenges of rising costs and dwindling availability. The challenges are most acute on Long Island and in New York City. Driven by rising claim costs, carriers' appetite to write coverage in New York is diminishing. This reduces competition and leaves consumers and businesses with fewer options. CBS New York recently reported that a study by First Street concluded that 80% of properties in Suffolk County could have trouble finding affordable insurance.[1]

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[1] https://www.cbsnews.com/newyork/news/climate-change-causing-homeowners-insurance-rates-to-skyrocket-across-tri-state-area/

The reasons for the deterioration of New York's insurance market – in both property and auto – are multitude. These include:

Increasing Catastrophic Events: New York has witnessed a surge in catastrophic events in recent years, including hurricanes and flooding. Globally, catastrophic events have strained reserves and taxed the capacity of both the insurance and reinsurance market. 2022 was the eighth year in a row the U.S. suffered at least 10 catastrophes causing over a billion dollars in losses. [2] Natural disaster losses from 2020-2022 in the U.S. exceeded $275 billion in 2022 dollars–the highest ever three-year total for U.S. insurers.[3]

Inadequate Premiums**:** The regulatory environment in New York has been extremely stringent, making it challenging for insurance carriers to adjust their rates and coverage offerings swiftly in response to changing market conditions.

Litigation Costs: The state's legal environment has become increasingly litigious, driving up the cost of claims settlements and legal fees for insurance companies. These rising expenses further erode carriers' profitability.

Reinsurance Cost and Availability: Insurance carriers rely on reinsurance to manage their risk exposure. Reinsurance capacity has dwindled in recent years and costs have skyrocketed, making it harder for them to provide coverage for catastrophic events. Multiple carrier partners report that reinsurance increases of 30% are typical, and indeed preferable to the alternative of being unable to secure coverage at all.

Supply Chain Issues**:** Disruptions in the supply chain have put upward pressure on insurance costs by driving up the expenses associated with replacing damaged or lost assets.

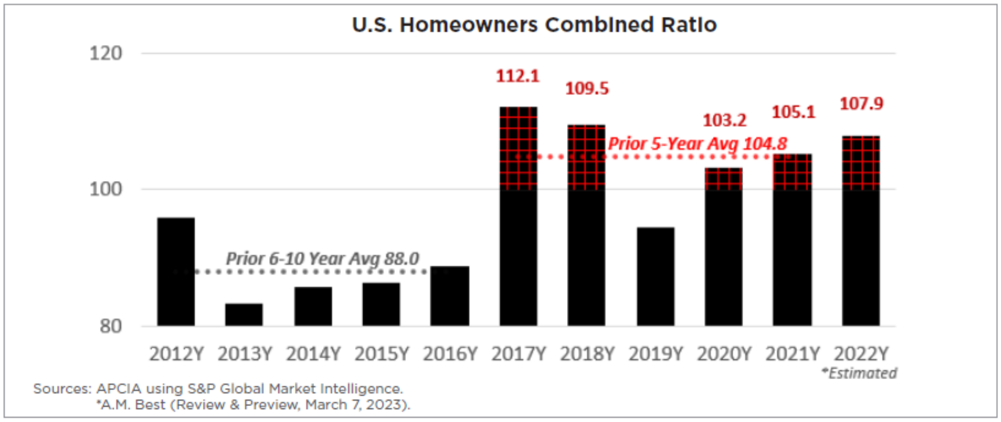
Inflation**:** The cost of goods and services has risen significantly in past years, affecting the cost of materials and labor necessary for repairs or replacements, impacting property and casualty insurance rates.

A key measure of the health of the insurance industry is the "combined ratio", which expresses the degree to which companies are earning or losing money on their underwriting. A combined ratio of 100 is breaking even, below is profitability, and above unprofitability. The U.S. homeowners combined ratio

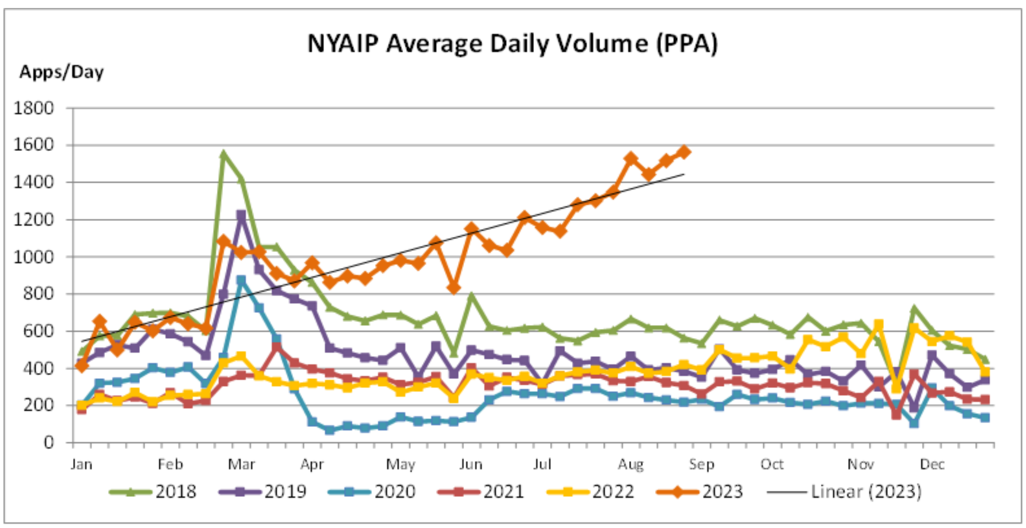
[2] NOAA National Centers for Environmental Information (NCEI) U.S. Billion-Dollar Weather and Climate Disasters (2023), https://www.ncei.noaa.gov/access/billions/time-series

[3] Aon 2023 Weather, Climate and Catastrophe Insight.

has exceeded 100 for five of the past six years.[4]



It is important to understand that extreme weather events, in addition to the other factors identified in this testimony, are impacting not just the property market in New York, but the personal and commercial auto market as well. By all accounts, the state's auto market is in even more dire straits than the property market. The 2022 New York combined ratio for private passenger auto and commercial auto were 111.4 and 112.8 respectively. The NY Auto Insurance Plan (NYAIP) is experiencing a historic surge in applications from consumers unable to obtain coverage in other markets, up 200% from January to August 2023, and on track to hit 300% by the end of the year.[5]



In addition to markets of last resort, business is also increasingly being placed in the excess lines market. 2023 excess lines transactions are on track for a 21% increase since 2020, with premium volume up 57%.[6]

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[4] Source: American Property and Casualty Insurance Association using S&P Global Market Intelligence. *A.M. Best (Review & Preview, March 7, 2023).

[5] AIPSO New Application Reporting

[6] Excess Lines Association of New York. NY Premium and Transactions by Risk Type. https://www.elany.org/ny-premium-and-transactions-by-risk-type *2023 projection assumes July-December 2023 premium and transaction volume is the same as January-June 2023 figures.*

Insurance markets are cyclical, and up and down swings are expected. However, what is unusual, and deeply alarming, is that for the first time New York's insurance market has hardened across all lines of business. We believe what we are seeing is not just a market cycle, but an inflection point.

To address these critical challenges and foster a sustainable insurance market, we propose the following solutions:

First, "Do No Harm": The New York Legislature plays a pivotal role in shaping the insurance market, and it must be extremely mindful of the impact of new laws on the health of the insurance market. For example, expansions of tort liability, coverage mandates, and underwriting restrictions all impose serious costs that are ultimately borne by policyholders. Measures should be taken to foster an environment that encourages stability and growth within the insurance market.

Climate Resiliency: We support risk mitigation efforts that will better protect consumers and property from natural disasters. Multiple studies have shown that for every dollar spent on preventative measures, it saves approximately $4 in future losses. By actively implementing risk mitigation strategies, communities and consumers can help harden property and better protect it. Theoretically, the implementation of risk mitigation strategies should make certain properties more appealing to insure, adequately cover and accurately price.

Promote Innovation to Bend the Claims Curve: Insurers must be empowered with the flexibility to innovate in underwriting practices. This innovation is necessary to bend the loss curve down and, consequently, save policyholders money. Encouraging innovation in risk assessment and underwriting practices can lead to more accurate pricing models, effectively mitigating risks while offering fair premiums to consumers.

Ensure Adequate Rates to Cover Rising Losses: Rate adequacy is essential to cover the heightened risks associated with climate-related events and other factors impacting the market. This step is crucial to ensure the financial stability of insurers while protecting the interests of policyholders.

A collaborative approach involving all stakeholders – legislators, regulators, insurers, and consumer advocates – is essential to address these challenges effectively. We thank the Committees for convening this important hearing, and urge that you consider these recommendations as integral steps toward stabilizing New York's insurance market. Big I New York remains committed to working together with the New York Legislature, Executive, and Financial Services Regulators to achieve a more secure and sustainable insurance market for all New Yorkers.

Respectfully submitted,

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