

Why is my property insurance premium going up?

And what you may be able to do for better rates.
(You may already have some of them done.)

8 Questions you may have and the answers you need:

1. Why has my property insurance increased?
2. What can I do to lower my rates?
3. The value they are insuring my house for seems too much, how are they getting that value? I could not sell my house for that much.
4. I would like to shop insurance is there another market?
5. I got a quote, how do I know if it is a good company?
6. I was told my company is covered by L.I.G.A. what does that mean?
7. This all seems like doom and gloom, is there any good news?
8. Ok, thanks for all this information but I still have insurance questions. Where can I go?

Why has my insurance increased?

These are trying times and some of these challenges have led to higher insurance costs.

Things such as:

- Increased frequency and intensity of natural disasters, especially hurricanes and tornadoes in our area
- Also, recent global and economic turmoil and its resulting instability have made it difficult for investors in insurance securities to make money. When this happens **Reinsurance** prices increase.

Reinsurance - Reinsurance is insurance that an insurance company buys from another insurance company to insulate itself from the risk of a catastrophic claim event.

With reinsurance, the company passes on some part of its own insurance liabilities to the other insurance company.

How does reinsurance affect my policy?

The reinsurance carrier will charge your insurance carrier a premium. When the reinsurance carrier must pay due to a catastrophe - like hurricanes or tornadoes - the next year they will increase the premium that your insurance carrier must pay. This increase in premium then requires your insurance carrier to transfer some of this rate increase to you the policyholder. These rate increases are not automatic, each company must file these rates with the insurance commissioner. They are usually approved.

Well, this is expensive what can I do to lower my rates?

There are several things that you could do to possibly lower your insurance rates such as:

- **Review your current policy for possible savings**
- **Increase your deductible**
- **Upgrade certain systems in your home**

Reviewing your current policy for possible savings-

If your existing carrier is willing to renew your policy that is a good thing. Sometimes upon review, there could be changes to your existing policy that could possibly reduce your insurance costs.

Things such as:

- Making sure your home is insured to a proper value is important.
- Asking if it is possible to lower your rates by increasing your deductible
- Updating certain systems in your house such as: the roof, the water heater, heating, and cooling, adding alarm systems, and or other upgrades to electric or plumbing.

House Insurance Valuation is too high. How are they getting that value? I could not sell my house for that much.

The primary reason there may be a difference is that insurable replacement value can be different from the market value.

What is the insurable replacement value?

The insurable replacement value is the cost to construct your home minus the land value. In some cases, this is less than the market value of your home, and in other cases, it can be more than the market value of the home. It's not news that housing costs have been driven up over the last couple of years. The pandemic has slowed supply chains, lack of workers and two major hurricanes have created a high demand with lower supply. This in turn has led to insurance companies having to reevaluate exactly what the cost of construction is on the houses that they insure. Unfortunately, this has created even higher rates of renewal premiums because as insurance companies' reinsurance rates have gone up, these increases are passed to their insureds. Now, it costs more to rebuild your house, and it must be insured at a higher amount. By having a replacement cost policy, you are protected in case your home suffers a total loss. The courts in Louisiana have held insurance companies to the replacement cost provisions in their policies. This means they could potentially have to pay out more than insured under the policy. To protect you and themselves insurance companies require your home to be insured at the insurable replacement value not lower. Otherwise, they may not collect enough premium to rebuild your house, or higher where they may have to pay out more than your house is worth.

I would like to shop insurance. Is there another market?

Your ability to do this depends on several factors such as claims, market conditions and underwriting restrictions.

- a. **Claims:** Unfortunately, if your house suffered damage from a storm that is still unrepaired or you have a claim that is not closed then most other companies will not write the insurance until those repairs are made and the claim closed.
- b. **Market conditions:** Also, after a storm, reinsurance carriers' rates go higher and they change other conditions of reinsurance such as: number of rooftops they are willing to insure, number of storms they are willing to insure, the distance from the coast they are willing to insure, among other variables. This in turn limits the available insurance companies willing to offer quotes in the marketplace and may limit your choices.
- c. **Underwriting restrictions:** Insurance companies make money by writing profitable property. A newly constructed house is more profitable to insure than one built 30 years ago. Building codes have changed in most cases leading to higher-pitched roofs which are less likely to blow off in a windstorm. Electrical and plumbing codes are designed to have reduced exposure to electrical fires or plumbing leaks. When the market conditions change tougher underwriting restrictions go into effect. Some companies will no longer write a homeowner unless the structure was built within the last 10 years. Other companies require a 10 year or newer water heater. There are many such underwriting conditions and that is why we ask so many questions when we are writing or shopping your policies. We try to navigate the maze of many different underwriting conditions, finding you options where available. In some cases, there are no options even though you and your house are insurable. This is to no fault of yours but just a combination of all the claims, market conditions, and underwriting restrictions.



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I got a quote how do I know if it is a good company?

Insurance companies are only good if they have money to pay claims.

There are two rating organizations that are typically used in the insurance industry:

- AM Best - www.ambest.com
- Demotech - www.demotech.com.

AM Best - oldest and hardest to get a rating from.

To obtain AM Best rating an insurance company typically:

- must have been in business for at least five years before AM Best will even consider giving a rating
- is typically a larger company
- have a long history of carrying enough reserves to pay their claims

Some of our many AM Best companies rated are:

- Progressive Insurance company
- Travelers Insurance company
- Foremost Insurance a Liberty Mutual Company
- NatGen - an Allstate company

The Demotech rating organization was created due to the *wind market conditions* that created smaller regional companies. Consumers, state regulators, and other industry personnel needed an outside company to verify the smaller regional company financials. In most cases, but not all, a Demotech rated company does not have the financial reserves of a larger AM-best rated company.



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I was told my company is covered by L.I.G.A. what does that mean? www.laiga.org

L.I.G.A. Stands for the Louisiana Insurance Guaranty Association. It was created many years ago as a backstop to protect consumers in the state of Louisiana in case their insurance company ran out of money and was put out of business.

L.I.G.A Insurance amounts:

- Personal property up to \$500,000
- Any unearned premiums to \$10,000.

While this may seem like a lot of money, if in the unfortunate situation that your \$250,000 house burns to the ground and you had to cover not only the structure, but the contents, as well as any other structures that were damaged, you could see where this could approach the L.I.G.A. limit fairly quickly.

Other issues and concerns regarding L.I.G.A.:

- **Delay in obtaining information and processing claims from the failed insurance company**

It typically takes a while before L.I.G.A. gets the information from the failed company.

They may even have to get a new adjuster and restart/recreate the claim. Even though L.I.G.A. will pay the insurance company employees including the adjusters, many will look for new jobs rather than stick with a failed company.

- **Delay in processing unearned premiums**

It will also take a while before you can get any unearned premium back on failed policies. This means if your insurance company covered by L.I.G.A. goes out of business you may have to buy a new policy outside of your normal renewal. Something that could cause your mortgage to increase, or you could have to pay the new premium out of pocket and wait for your return premium. L.I.G.A. Is good for Louisiana consumers and even though they will try to run things as smoothly as possible it will not be as smooth as having a company handle and pay your claim from start to finish.

This all seems like doom and gloom is there any good news?

Yes!

Although, like other businesses, insurance companies are out to make a profit, once the re-insurance and market conditions start to correct themselves over the next year or so you may see your insurance rates begin to go down. There are several reasons this may occur:

- New insurance companies may begin to enter the marketplace and existing insurance companies may begin to lower their rates to keep their rates competitive rather than losing good customers to the new insurance companies.
- Also as a result of the competition, existing insurance companies may deepen their discounts for those people who have all their insurance with the company. Because insurance companies are looking for good business, any updates that you must do to your house either from a storm claim or just maintenance can result in discounts.
- If you, unfortunately, suffered a loss and as a result updated your roof and other systems your current company as well as any new quote usually offer you discounts for the upgrades.

OK, thanks for all this information but I still have insurance questions. Where can I go?

The Pappalardo Insurance Agency is here to help!

A 3rd generational, Louisiana-based company with almost 80 years of experience, we are here to answer your questions and help guide your insurance journey to protect your family, home, and other assets!

We have helped good insureds such as yourself for many years. Protecting you and your neighbor's property through Camille, Betsy, Katrina, Laura, Ida, and all the tropical storms in between.

We want to keep our clients safe with financially strong companies so that when they need them the money will be there to pay claims.

We are more than happy to help you with any additional questions. We know it can be confusing and sometimes just having somebody local that understands your needs is important. ***Feel free to give us a call, email, text, or find us on social media and we will be happy to help. Author: Albert S. Pappalardo, Jr. CIC, MBA.***



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