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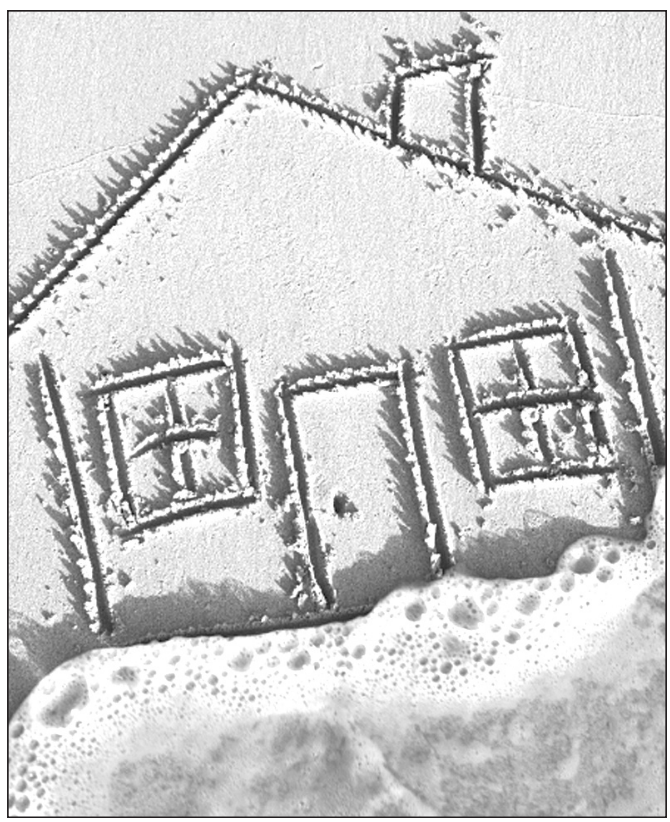
When the big one comes, you may be on your own

Homeowners insurance companies turn their backs on all but luxury homes on LI

By BERNADETTE STARZEE

State Farm Insurance Co. recently announced it would not renew or write new insurance policies for homes within close proximity to the North or South Shore of Long Island. This business decision came on the heels of similar pullouts by Allstate, MetLife and others, leaving many Long Island residents with few options for insuring their homes.

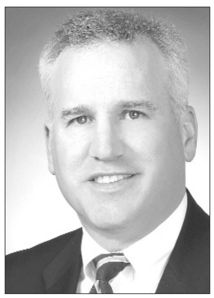


"Statistics show it's not a matter of if but a matter of when a major hurricane will hit Long Island," said Karyn Faggello, a spokesperson for the Bloomington, Ill.-based company, whose 14.5 percent share of the New York homeowners' market is second to Allstate. "Given the density of the population and the value of the homes on Long Island, we have to limit our exposure to make sure we will be there for the rest of our customers."

State Farm plans to cut 1.5 percent of its New York business over the next three to six years, Faggello said. This is well within the company's rights under New York State law, which allows an insurance company to nonrenew up to 4 percent of its business in any given year.

However, there is a push to change the law so that the nonrenewal cap is specific to rating territory, and not the entire state. "If a large company like Allstate applies that 4 percent to a targeted area, such as the coastal areas of Long Island, you will have a disproportionate number of cancellations," said Ellen Kiehl, assistant executive director of the Professional Insurance Agents of New York State, an association of independent insurance agents that supports a bill sponsored by Assemblyman Robert Sweeney and Sen. Kenneth LaValle, both of Suffolk County, to amend the law to apply the nonrenewal cap to rating territory. The bill, which the Assembly passed, is currently in the state Senate.

Rewriting the law will protect consumers from potential abuses, said N. Stephen Ruchman, president of Ruchman Associates, Inc., an insurance agency in Rockville Centre. "An insurance company can get around the law by increasing its business upstate by 20 percent and cutting 20 percent of its business downstate," Ruchman said.



Tim Brenneman

While many carriers are limiting their exposure, "there are still a handful of insurance companies that are writing new property business in an aggressive way on Long Island," said Tim Brenneman, an executive vice president with Cook, Hall & Hyde, Inc., an insurance and risk management company with offices in Melville and East Hampton.

And there is no shortage of carriers in the luxury market. "Insurance companies that target higher-value homes have a somewhat aggressive appetite for new business," Brenneman said. "There's more interest in insuring a $5 million home in the Hamptons than a $500,000 home in the middle of the Island." As there is less of a concentration of these properties, high-end insurers like Chubb and AIG Private Client are able to spread their risk among luxury homes across many geographic areas.

Protection against damage from a hurricane has two components. "Wind-related damage is covered under the homeowners' policy, while rising water falls under the flood policy," Brenneman said.

Many homeowners are unaware that their homeowners' policies contain a hurricane deductible, which typically amounts to 2 to 5 percent of the insured value of a home. "If you have a home worth $700,000, a homeowner with a 5 percent hurricane deductible would be required to pay the first $35,000 in repairs in the event of a hurricane," Kiehl said. "Very few people have $35,000 lying around."

While state law has allowed the hurricane deductible since 1996, the recent climate has resulted in a greater number of carriers adding it to their policies, particularly in coastal areas, Kiehl said.

PIANY is pushing the New York State Insurance Department to create a uniform definition of what type of storm puts the deductible in play. "Depending on the policy, a category I or category II hurricane or greater would trigger the hurricane deductible," Brenneman said. "Lower-grade wind damage is covered by the standard all-perils deductible, which is usually $1,000."

The inconsistency from one policy to another could result in "one homeowner paying thousands of dollars more than his next-door neighbor for the same amount of damage," Kiehl said.

While homeowners may apply for flood insurance through their carrier, it is in most cases administered through the Federal Flood Insurance Program. "Flood insurance is widely available, and it is relatively inexpensive," Brenneman said. "But it is one of the most underpurchased important purchases." While lenders will not give a mortgage for homes in certain areas unless the borrower purchases flood insurance, Kiehl said many homes in those areas nonetheless do not have it. "Not all homes have a mortgage," she pointed out. ■