

RHODE ISLAND INSURANCE DIVISION

The Insurance Climate

Matthew Gendron

May 1, 2025

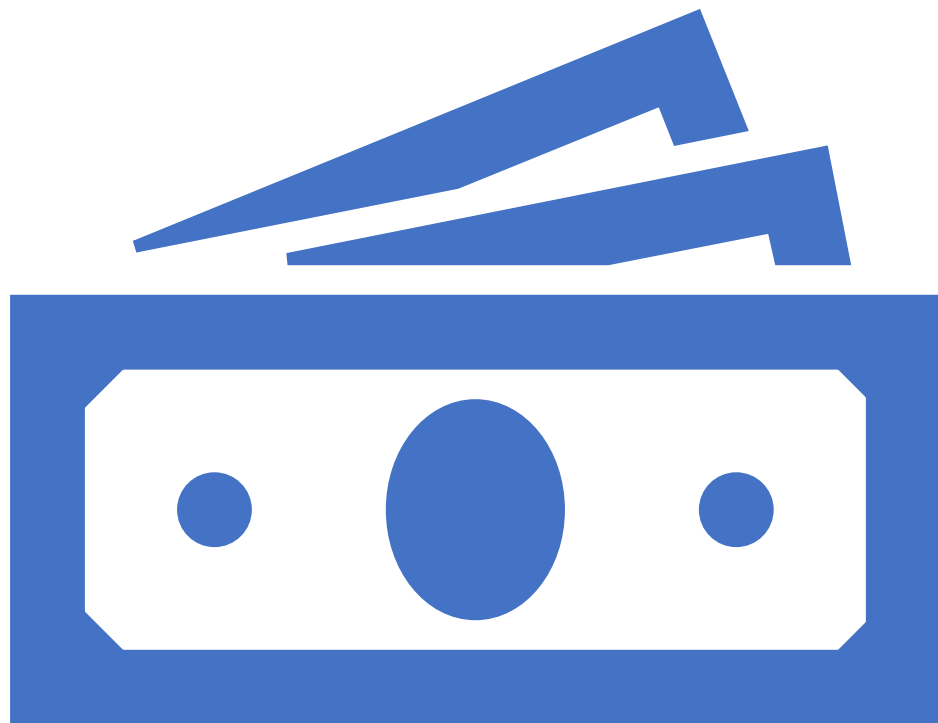




What is DBR?

- The Insurance Division at DBR serves as the primary insurance regulator for the state (for all but Health Insurance)
- Insurance Regulation began in Rhode Island in the 1850s
- Insurance Regulators have two primary goals designed to protect consumers
- 1a) Consumer Protection
 - Rate/Form/Rule Review, Consumer Assistance, Market Conduct, Enforcement
- 1b) Financial Solvency
 - Quarterly financial analysis, regular exams, accounting standards
 - Making sure money is there to pay claims

Insurance 101



- Insurance is designed to spread risk among a large group of people with similar characteristics.
- Insurance is the “transfer” of uncertain financial consequences for a certain financial cost (e.g., premium).
- Insurers need to spread their risk, so they need to understand the risks that they are taking on – they do this by Underwriting their policies.
- Underwriting is where insurers determine how much risk any insured represents, and assign that insured to a risk classification, to set a premium amount.
 - Insurers look at frequency and severity from past losses of similar risks to predict future results.
- Laws limit insurance underwriting, and specifically rating
“Rates shall not be excessive, inadequate, or unfairly discriminatory.”



Heightened climate risks and insurance premiums

- Frequency and Severity of insured events has increased.
- Storms intensify, bringing more rain or wind, increasing severity.
- Sea level rise is taking what had been rare flood events and making them more frequent.
- Insurers have become even more focused on charging the correct premium for each risk.
 - The usage of by-peril rating and catastrophe modeling has become prevalent.
 - By-peril rating is a process by which an insurer develops separate rating values for individual or groups of perils (fire, wind, water damage, hurricane, hail, etc.) and assigns these values to each individual property based on specific characteristics and modelling.
 - The focus of this is to pinpoint risks of each property and charge premium accordingly.

Exhibit 9: Top 10 Global Insured Loss Events in 2024

Date	Event	Location	Deaths	Economic Loss (2024 \$B)	Insured Loss (2024 \$B)
10/08 – 10/11	Hurricane Milton	U.S., Mexico	35	35.0	20.0
09/25 – 09/28	Hurricane Helene	U.S., Mexico, Cuba	243	75.0	17.5
05/06 – 05/10	Severe Convective Storm	United States	6	6.6	5.2
03/12 – 03/16	Severe Convective Storm	United States	3	6.0	4.8
10/27 – 10/30	Valencia Floods	Spain	231	16.1	3.9
05/17 – 05/22	Severe Convective Storm	United States	5	4.9	3.9
08/03 – 08/11	Hurricane Debby	U.S., Canada	6	6.2	3.9
07/01 – 07/11	Hurricane Beryl	U.S., Caribbean, Canada	70	7.7	3.7
05/25 – 05/26	Severe Convective Storm	United States	26	4.5	3.6
01/01 - 12/31	U.S. Drought	United States	N/A	7.1	3.5
All Other Events			~17,500	198.9	75.1
Totals			~18,100	368	145

Aon 2025 Climate and Catastrophe Report, available online at <https://www.aon.com/en/insights/reports/climate-and-catastrophe-report>



Tools or models used by insurers

- Insurers use data from many sources, such as NOAA (weather data), FEMA (impacts and damages from events), ISO (prior loss info), to model and predict future losses.
 - Much of this data is gathered by third-party modelers (who are not insurers) and used to develop models that can then be used across the industry.
 - The reliability of these models can vary with the quality and volume of data used to construct them, as well as the assumptions that are employed to create the calculations.
- DBR requires that any model used by an insurer complies with our rating statutes, is relevant, appropriate for our state, and makes sense.
 - However, there are always some uncertainties when trying to predict the future.
- Insurers around the world are using cutting edge technology and vendors to help identify climate risks.
- Use of newer technology to identify additional risks –drones and/or Artificial Intelligence to note foliage overhang or roof conditions.
- Insurers are also using new and interesting risk analysis techniques.



Reinsurance

- Reinsurance plays a key role in protecting solvency and managing risk by allowing insurers to spread their risk, which in turn allows them to increase capacity and write more and often riskier policies.
 - This includes an insurer's ability to write properties in higher risk geographic areas, like coastal, hail, or even wildfire zones.
 - Several of the insurers who are willing to take on coastal risk in Rhode Island are heavily reliant on reinsurance.
- Reinsurers will, however, have requirements that are imposed on the primary insurer such as limitations on the concentration of risk in certain areas.
 - Might affect the insurers willing to write individual properties.
 - Consumers often hear that the reinsurer is driving a nonrenewal or premium decision without realizing insurance would not exist without the reinsurer

Exclusions and coverage gaps

- In response to weather events, insurers have introduced some endorsements such as roof damage limitation on homes with older roofs, and cosmetic only damage exclusions.
- Note, Rhode Island does **not** allow wind or wildfire exclusions on property coverage.
- Designed for specific areas, some western states have seen Wildfire exclusions, other states have seen Wind or Hail exclusions due to increases in those risks in particular areas.
- RI Fair Plan is the insurer of last resort.
 - Rhode Islanders can always get coverage, but the Fair Plan policies are more expensive and cover less than the traditional insurance market, so it should be a last-resort.
 - We are seeing some increase in Fair Plan policies but still less than 5%.
- DBR has been reviewing zip code level data from 2018-2022 looking for things such as increases of cancellations, reduction of carriers writing, limitations on policy types or policy limits in certain zip codes.
 - We are not seeing wholesale pullouts that some other states have seen.
 - At this point, most insureds have been able to find another carrier.
 - The FAIR Plan has seen some uptick but not as severe as some other states.

Flood Insurance

- Property Insurers have excluded Flood coverage for decades.
 - A 1928 Mississippi River flood caused some insurers to exclude flood risk.
 - Insurers continued to realize they could not predict floods therefore they couldn't appropriately price flood risk.
- By 1968, Congress acted and created the National Flood Insurance Program (NFIP) in response to insurers pullback
 - Consumers tend to focus on whether flood coverage is required for a mortgage, **not** whether they have risk for floods.
 - Private flood market is growing slowly in RI but most of the flood coverage, particularly for homeowners', is still purchased through the NFIP.
 - Uptake for flood coverage in RI is in the 3% - 4% range, which is about the national average.
- 2022 saw NFIP roll out Risk Rating 2.0. By April 2023 it was fully implemented. This was FEMA adopting a more risk-focused approach to rating.



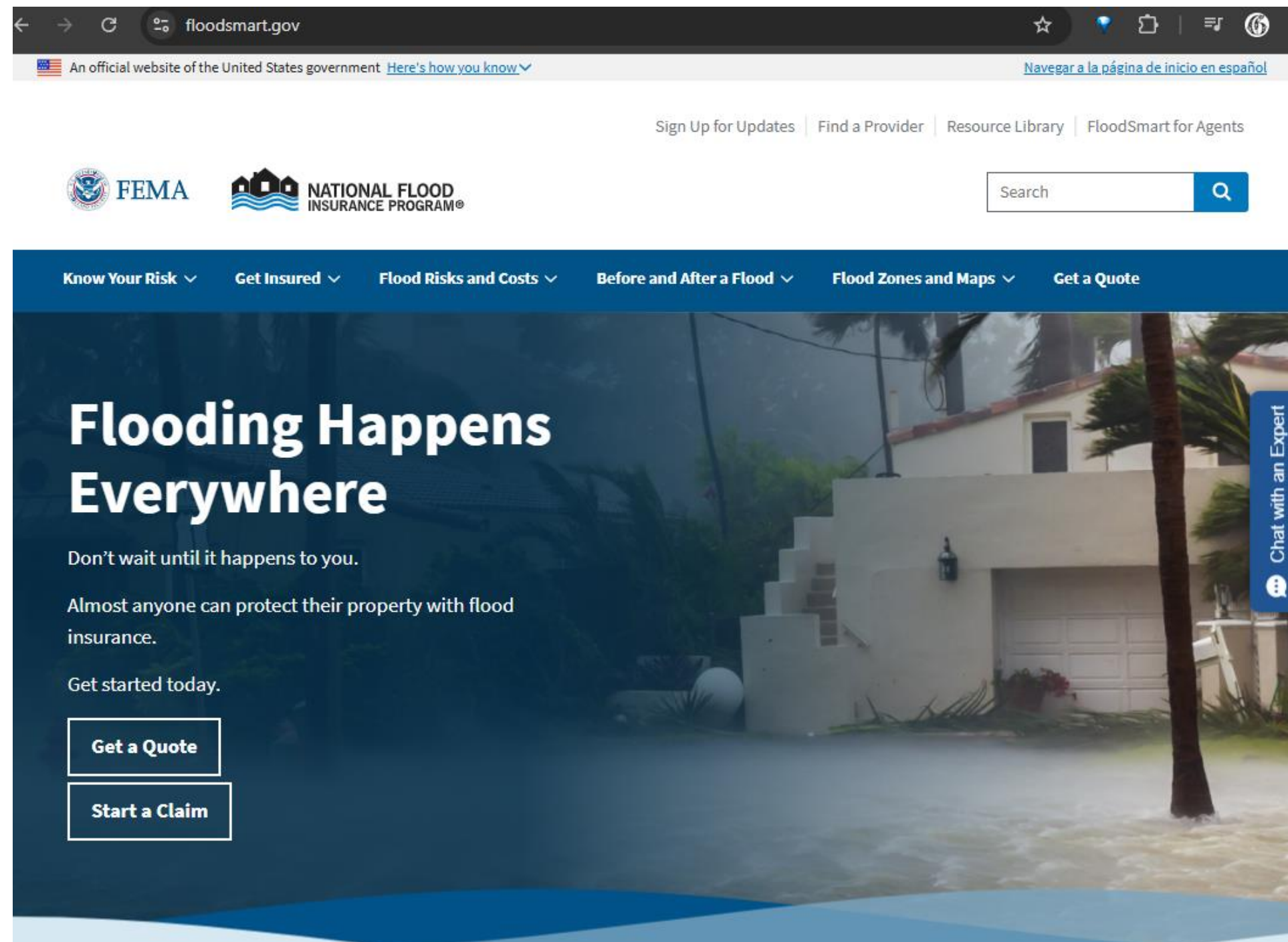
Edgewood Yacht Club, Hurricane Carol 1954



Wickford Brown St Parking Lot, December 2023

Flood Insurance

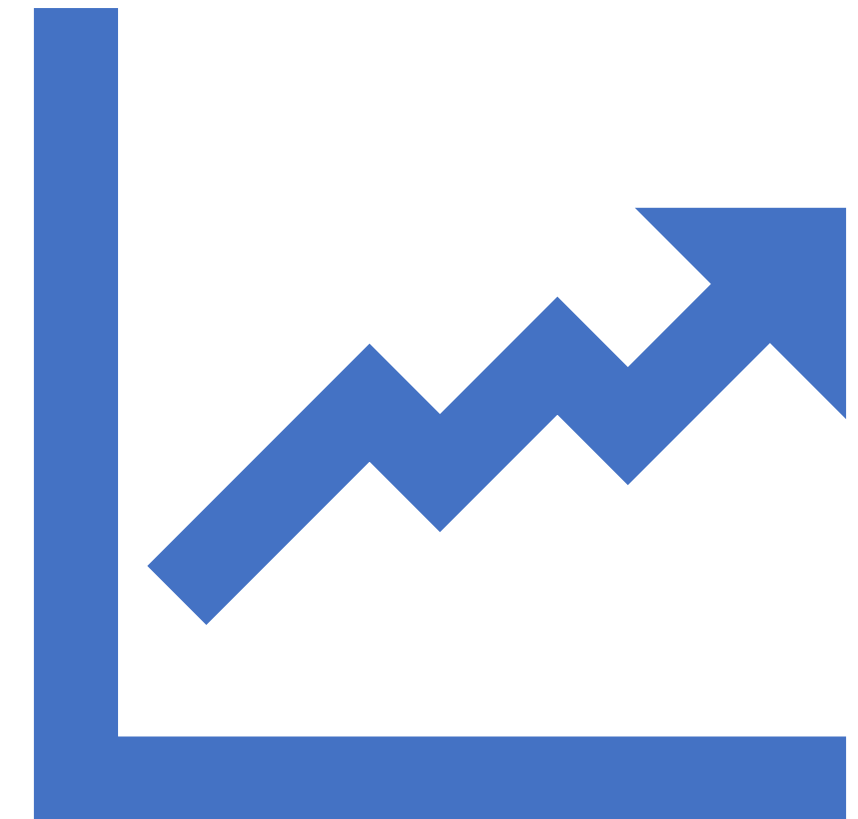
- CRMC and URI offer an incredibly powerful tool in StormTools
 - Not only does it project 1, 3, 5 and 10 year storms, and 25, 50, 100 and 200 year floods, it also can help project flood maps for various levels of sea level rising (1, 2 and up to 7 feet of sea level rise)
- <https://stormtools-mainpage-crc-uri.hub.arcgis.com>
 - In 2025, the NFIP rolled out an easy-to-use Flood Insurance Quoting tool on Floodsmart.gov that can connect you with a local agent in minutes. →



The screenshot shows the homepage of FloodSmart.gov. At the top, there is a navigation bar with the FEMA logo and the National Flood Insurance Program logo. Below the logos is a search bar. The main content area features a large banner with the text "Flooding Happens Everywhere" and a background image of a flooded house. The banner includes the text "Don't wait until it happens to you. Almost anyone can protect their property with flood insurance. Get started today." and two buttons: "Get a Quote" and "Start a Claim". A vertical chat button on the right side of the banner says "Chat with an Expert".

Rising Costs

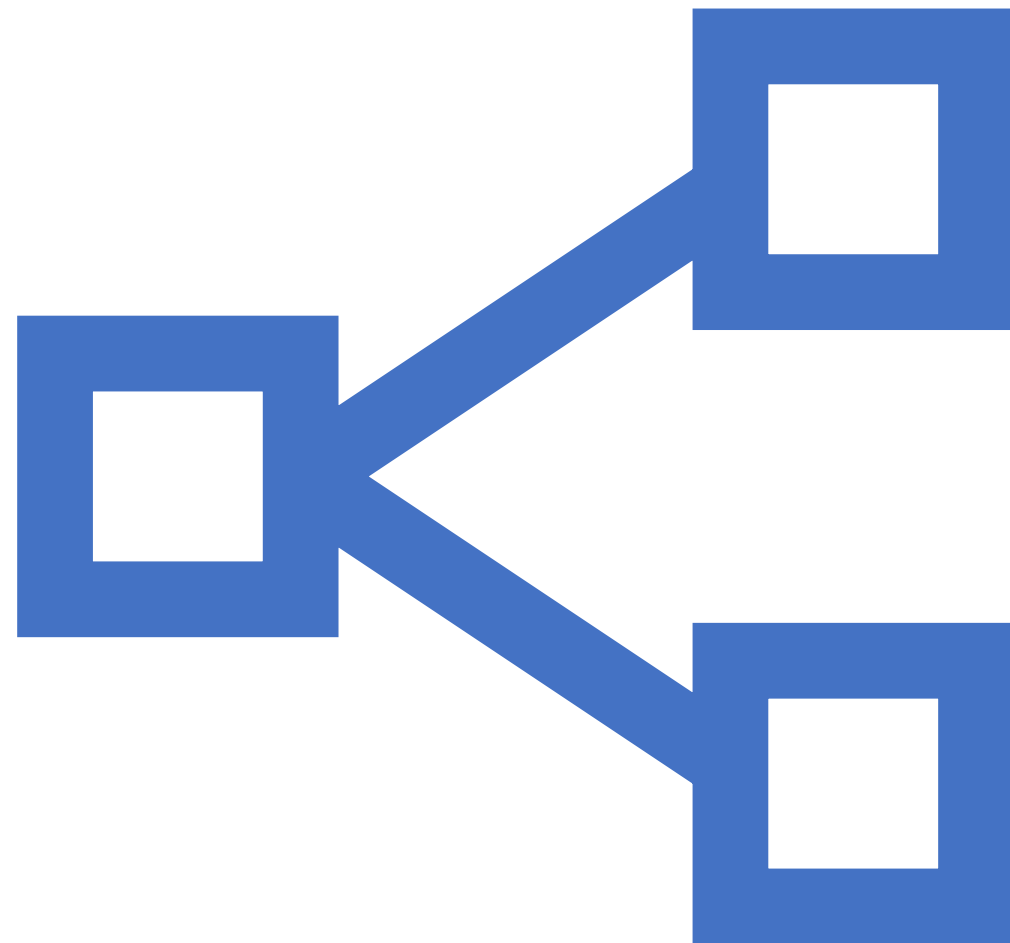
- The rising cost of insurance has multiple causes
 - Climate change - increase in severity and frequency of storms
 - Increased replacement and repair costs
 - Increasingly large liability judgements
- Increasing cost is forcing a change in how those purchasing properties need to think about insurance
 - In the past it was just a small, inconsequential expense that did not warrant much of a consideration in expense calculations.
 - Now it must be factored in as an expense that will likely continue to grow over the years of ownership.
 - Consumers should start to consider the flood risk and the wind risk in the property they are purchasing.
 - Consumers should talk to their insurer to understand the cost of insuring the new property before signing the purchase and sale.



Potential economic consequences of insurance issues

- Fortunately, in Rhode Island we still have a competitive property insurance market.
 - Rhode Island has 22 licensed insurers that each write more than 1% of the market, and dozens more available
 - For individual properties that are unable to secure coverage in the voluntary market we have the FAIR plan and surplus lines market.
 - FAIR Plan policies can be more expensive but do provide the required coverage.
 - Surplus lines policies are not covered by the Guarantee Association in the event of an insolvency
- Increased insurance costs can make it more difficult for homebuyers to qualify for financing.
- Rental properties - higher insurance costs could force an increase in rents impacting the affordability of the rental units.
- Higher premiums could artificially hold down home prices for communities where insurance is harder to obtain.
 - This has anecdotally been noted in Florida in recent years but could exist elsewhere.

Government-Insurer Partnerships



- DBR regularly meets with other states and jurisdictions to share ideas and evaluate the success of government-insurer partnerships.
 - Focus on disaster resilience both from an individual property owner and community basis
 - Examples include hurricane resistant roofing, storm shutters, fire-resistant roofs and siding, clearing of vegetation for fire mitigation.
 - Alabama model where regulators, industry, and the legislature set up a successful program that has helped install 50,000 Fortified roofs.
 - Louisiana, Oklahoma, Kansas, Kentucky, Minnesota and others have also adopted similar laws, and several New England states should be considering such laws this year.
 - Collaboration between states and insurers creates an infrastructure around which consumers become resilient, and insurers collaborate by adjusting rating to reflect actuarially justified discounts.
- As insurers have started using more complex models, we have pooled resources with other states to jointly review complex rating models to save resources and to produce better reviews.




What Can Homeowners Do?

- #1 tip is talk to your agent or insurer!
 - They should be able to help you adjust coverages and/or deductibles.
 - If non-renewed, the insurer may have specific changes you can make to change their mind.
- Review your coverages regularly, at least every few years.
- Understand your policy!
 - Actual Cash Value vs Replacement Cost
 - What are your deductibles; what is covered?
- Shop Around, ask for discounts, but don't always choose the lowest price. Coverage and service matter.
- Work to prevent Hazards before they strike.
 - Proximity of trees to structures,
 - Roof age and condition,
 - Smoke/CO2 Detectors and Fire Extinguishers,
 - Debris in your yard.

What Else Can Homeowners Do?

- When building or remodeling your home, you can make choices that can impact your home’s risk factors, which some insurers will reward with specified discounts.
 - Impact resistant windows,
 - Water leak detection systems,
 - Interlinked Smoke Detectors,
 - Hurricane Shutters may apply to certain properties.
- The Insurance Institute for Business and Home Safety (IBHS) is a research non-profit funded by insurers.
 - IBHS has developed roof standards that are higher than the already high Rhode Island building code – Fortified Roofs. A local NK roof contractor is getting trained this month in how to install a Fortified Roof.
 - IBHS has developed building standards that are higher than the already high international building code – Fortified Gold and Silver.
 - IBHS has Hail and Wildfire certifications as well.

The National Standard for Resilience	
Enhanced Roof Deck Attachment	✓
Sealed Roof Deck	✓
Locked Down Roof Edges	✓
Impact-resistant Shingles Rated by IBHS**	✓
Wind and Rain-Resistant Attic Vents	✓

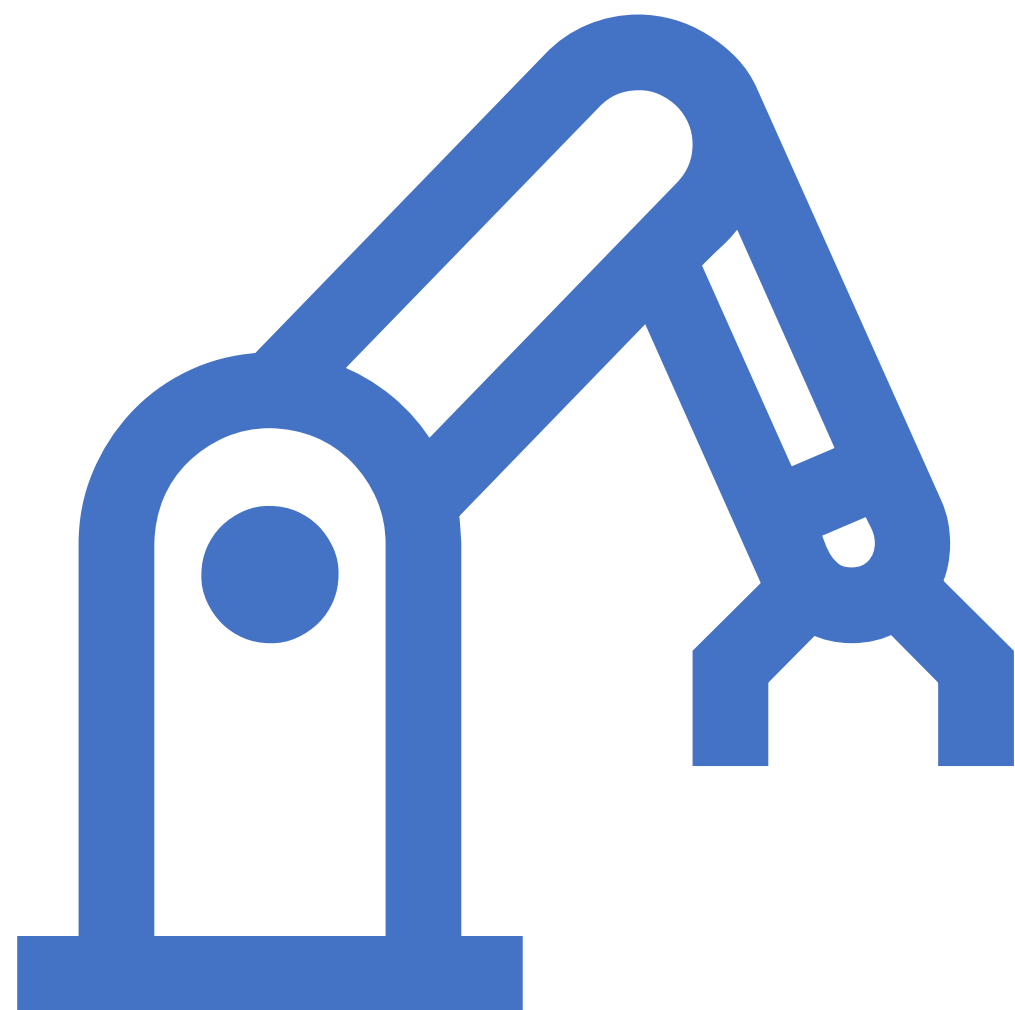


Impact of climate change on Rhode Island's insurance market

- Although we cannot predict the future, with proper mitigation efforts by communities and property owners and DBR working to achieve a balance between consumer protection and allowing insurers to collect sufficient premium to be able to pay claims, RI should continue to have a competitive, robust insurance market.
- Unfortunately, this also means the expectation is that property insurance premiums will continue to rise, which will force us to change the way we think about insurance for our properties.
- Some people automatically price out the cost of insurance before they purchase a new car, we will need to also consider the cost of property insurance as a significant portion of the cost of owning or renting a property.

Regulatory changes or public investments to strengthen insurance markets

- The insurance market in Rhode Island is currently stable, however the funding of programs to assist both communities and individuals in making their properties more resilient to weather related risks would make those properties more appealing to insurers and help to improve the market.
- Rhode Island is not currently seeing an availability of insurance issue, but we are seeing issues with affordability of insurance. Insurance costs are going up, along with everything else in the marketplace.
- Housing costs appreciated greatly in a short time, in part because of limited inventory, costs to build, and heightened demand.
- As replacement costs for insurers paying claims went up premiums have increased.
- DBR has actuaries review rates before insurers can use them on homeowners' policies to assure that premiums are in line with costs.



Innovations and new products

- Discussion at the national and international level about parametric insurance, but DBR has not yet had any products filed for approval in RI.
- There are insurers who offer endorsements to cover the increased cost of rebuilding with “green” products for both homeowners and commercial properties.
- There is also an increasing frequency of insurers offering products like water leak detection systems, alarms systems, and other risk reducing home add-ons to policyholders at reduced or no cost.
- We are seeing funds from the green bank to help the state and municipalities with resiliency efforts, and we’re seeing lots of research in the academic space and the applied engineering areas (IBHS for homeowners’ insurance and Rhode Island’s own FM Global on the commercial side)
- A lot of funds and thought are flowing into the space through Insurtechs, and we do anticipate that some of the disruptors will be able to move our knowledge and data forward.
- Some risk managers are starting to layer parametric insurance in with their risk portfolios, which is a nice innovation to help fund certain cleanups or responses to disasters.
 - A parametric product to help homeowners with hurricane deductibles would be a nice addition but no insurer is offering this currently.

Questions?

<https://dbr.ri.gov/insurance>

(401) 462-9520 - Main Insurance Line

