

MPR News | Minnesota Now Climate change linked to rising home insurance rates in Minnesota
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CHRIS FARRELL: We are in the middle of severe weather season, and we've already seen what? Hail, wind and damaging storms. And with climate change, these storms just seem to be happening more often. With that comes a worrying trend. It's becoming harder or too expensive to get home insurance. And a recent *New York Times* investigation found that severe weather is hurting the home insurance market here in Minnesota and surrounding states. And Minnesota was the only state to see losses in the industry in six of the last seven years, and that's according to the *Times*. Struggling insurance companies means higher premiums, which means fewer people can afford to own a home.

So joining me to help explain what's happening is Aaron Cocking, President and CEO of the Insurance Federation of Minnesota. Welcome.

AARON Hi, Chris. Good afternoon.

COCKING:

CHRIS So we know that home insurance has been a problem, really, for quite a while now in states like Florida and
FARRELL: California. California is dealing with the wildfires. And Florida is being hit by hurricanes. And they're doing more damage. But how about-- we're now seeing it in the Midwest. So can you start-- break down for us why insurers are losing money in Minnesota?

AARON Yeah, I don't think it's a surprise to anybody that watches the weather or looks outside to see that we are having
COCKING: more severe storms more frequently that are doing more damage. And as this weather comes through, these severe convective storms that deliver large hail and damaging winds, as more of those storms come through and do more damage, that means that insurance companies are paying out more in insured losses. And as insurance companies pay out more in losses, they have to recoup those losses by raising premiums for everyone.

CHRIS So one of the striking economic realities of the past several years has been the increase in home prices. I mean,
FARRELL: it's a pretty dramatic increase. So does that increase in home prices-- does that also affect the home insurance market?

AARON Yeah, absolutely. So you look at the cost of total losses for the value of a of a home-- although most often, absent
COCKING: a tornado, severe hail and wind are not going to lead you to total losses. But the cost to rebuild, even for damaged roofs or damaged sidings, the cost of materials and the cost of labor are going up significantly. And in order for insurers to pay for those losses, those increased costs have to be factored into the rate that insurers are collecting.

CHRIS So when you look at Florida and California, citing those two markets, I mean, insurers are fleeing, right? They're
FARRELL: just-- they're moving out of the market. When we're looking here in Minnesota, I mean, how dire is our current condition?

AARON I don't want to say that it's overly dire. We're doing everything we can to make sure that we keep a competitive
COCKING: market and availability in Minnesota. And you tell people, the only thing worse than really expensive insurance is not being able to have or find insurance at all. And as you mentioned, Florida and California, the policyholders there are certainly seeing those. We haven't got to the point yet in Minnesota that we're seeing insurers flee, as you put it, kind of in the same way that they did in California and Florida. And we're hopeful that some of the changes that the legislature had made this year is going to ease some of those challenges and allow insurers to get back on solid footing.

You had mentioned from *The New York Times* article, insurers had lost money, homeowners insurers in Minnesota, six of the last seven years. And 2022 was the most dire example. Insurers lost \$190-- \$1.92 for every dollar collected. And that just doesn't become sustainable, as insurers are trying to continue to figure out how to do business in Minnesota.

CHRIS OK, so I want to break this down into two questions just off of what you said. First of all, changes in the
FARRELL: legislature, what are the important changes we should be aware of?

AARON Yeah, a couple of things I want to highlight, because one of the biggest challenges, I think, in the insurance
COCKING: marketplace is what we see from contractors. And we'll use the term storm-chasing contractors, or some of these fly-by-night contractors, that come in and get to the point where they use what's called a price-agreeable contract. And they'll tell the homeowner, you just submit this to insurance. And we'll just do it for whatever the insurance company pays you for.

Now, that becomes challenging, because we don't do that in any other realm of life, right? You wouldn't you wouldn't go and say, oh, just, just bill me whatever, and we'll pass it off. So one of the changes that the legislature made-- and big credit to both Zach Stevenson and Matt Klein-- is that they're going to require a good faith estimate from a contractor before you enter into a contract with a homeowner. And I think that really is going to bring to light an example for people as they look at this saying, wow, I'm either going to turn this in or I'm not. I mean, the more information that consumers have as they're filing these claims, the more that we're hopeful that this is going to bring some of these claims pressures down.

CHRIS So for homeowners, I mean, how much have premiums actually gone up in recent years?
FARRELL:

AARON Well, we look back. And this is maybe a little overly aggressive, because we use 1998 as a point of demarcation.
COCKING: It might look like that's a long time back. But up until in 1998, it was kind of the point where all of these storms hit. And we had \$1.5 billion in losses in 1998, which was more than the 40 previous years combined. And we've never turned back or looked away from that. And so since 1998, homeowner's insurance premiums have gone up roughly 400% since then, which, for people that are opening their renewals, I don't think is too surprising.

But it is surprising when you get it, and you think oh, my gosh, this is way more than I paid last year. This is way more than I paid two years ago, five years ago. Where is this going to end?

CHRIS And does this also show up in terms of-- I don't know-- higher deductibles or-- it's tougher to get full replacement-
FARRELL: - how is this also showing up in the actual policies people are dealing with?

AARON Yeah, that's a really good question, Chris, because there are a couple of avenues that insurers take. If you can't
COCKING: get the premium that you need, or you don't want to raise premiums on that side of the ledger, one of the ways that you can look-- companies are looking at how to evaluate their losses is on the losses that they pay out. So they're evaluating, are we giving full replacement on roofs with no end in sight? A lot of companies have said, you know, we're going to go to actual cash value on roofs that are over 10 years of age.

A lot of companies are moving around deductibles and presenting those as options to their policyholders, saying, your premium is going to be X if you had a \$1,000 deductible, for example. But if you raise your deductible, that's going to help bring your premium down. And those are evaluations that-- we encourage policyholders to work with their agents to determine what's best for them. Some people, it's best to have \$1,000 deductible and pay more of that upfront. Others, it makes more sense to have a higher deductible for their chance of loss. It really works to work with an agent to find something that works best for them.

CHRIS FARRELL: OK, so in the minute we have left, *The New York Times* article that I mentioned at the beginning used Marshalltown, Iowa. That is a key example, a community that was hit by some destructive storms in 2018, 2020. And I understand you're from Marshalltown. So what was it like to have your hometown described as the epicenter?

AARON COCKING: Yeah, it was interesting, especially when I've been back there and gone through these areas where these storms have hit and areas-- the tornado that had gone through Marshalltown hit the north part of the town, which is generally more of a lower-income, more of a migrant community. And a lot of those people didn't have insurance. And it really is heartbreaking to go through. And you see the damage caused by the storm and people's inability to recover as a result of not having adequate insurance. And so that's a real challenge as you drive through there and you see some of the repairs that people are trying to make. And you know that insurance isn't present. It really is heartbreaking.

CHRIS FARRELL: Well, thank you so much for your time. I really appreciate it.

AARON COCKING: Thanks for the opportunity, Chris. Have a great day.

CHRIS FARRELL: Aaron Cocking is President and CEO of the Insurance Federation of Minnesota.