

Neighbors,

BACKGROUND: On December 3, 2011 at the South Coastal Library in Bethany Beach, Mr. Gene Reed (Deputy Commissioner to Delaware Insurance) and Mr. Michael Gould, Esquire (Delaware Insurance Manager of Consumer Services and Investigations) provided a presentation on Delaware Insurance activities on the possible impact of withdrawal insurance coverage in the Delaware coastal areas and towns (www.Delawareinsurance.gov). Mr. Jerry Morris, President of the Canal Association welcomed both speakers. There were about 40 Bethany homeowners in attendance and included three members of the Bethany Beach Council (Mr. Lew Kilmer, Ms. Carol Olmstead, and Ms. Margaret Young representing the town).

ISSUE: This impact of the withdrawal insurance coverage would be houses in an area of 1000/2500 feet of the Atlantic Ocean. As a sidebar, a Delaware Senator representing Bethany Beach immersed in the problem since he is a local agent for this same insurance carrier.

IMPACT AREA: The Canal Association located 1/2 mile north of the Totem Pole, west of Hwy 1, end of Ocean View Parkway, comprise 54 single family homes and 10 vacant lots. All homes in the Canal are located within 2500 feet of the Ocean with the homes on Sandpiper Drive nearest at 1600 feet, Seabreeze Drive at 1900 feet, and Canal Court at 2200 feet from the ocean. An Internet user can check their own distance at Pedometer GPS website on <http://www.gmap-pedometer.com/?r=5019702> to determine the exact distance between their home and the Ocean or two points and convert miles to feet (One mile equals 5280 feet).

WRITER FULL DISCLOSURE: In the interest of full disclosure, the writer has owned two homes in the Canal Association since 1995 and 1999 respectively. The writer has no connection to any insurance agency, association, or government entity. The writer's purpose is to comment on the Delaware Insurance presentation and provide information for homeowners to consider. The writer's insurance carrier is United Services Automobile Association (USAA), San Antonio Texas (<https://www.usaa.com>) for over 45 years and company currently not involved in the issue, withdrawal insurance coverage in the Delaware coastal areas and towns.

DELAWARE INSURANCE ORGANIZATION: The speakers, Mr. Reed has over 23 years experience that includes National Foundation of Insurance Regulatory Examiners Society 2005, Local and National Continuing Education Instructor Delaware insurance laws, rules and regulations 1985 to present and Deputy Commissioner for Delaware Insurance. Mr. Reed has been quoted in articles, saying, "Consumer protection is now."

Mr. Michael Gould is the Senior Manager in Consumer Services and announced that his division handled 5500 complaints the first nine months of this year and recovered almost \$2M for consumers. He leads a staff of seven consumer investigators. His division organized as shown below.

All Consumer Service emails & calls	consumer@state.de.us	1-800-282-8611 toll-free in Delaware or (302) 674-7310
<p>Michael Gould Manager of Consumer Services and Investigations</p> <p>Consumer Services Investigators: Christina Cumpston, Shirley Davis, Susan Jennette, Ann Lockett-Stephens, Jessica Luff, Lucretia Prince, Sally Schaeffer</p> <p>Ombudsman: Vacant</p> <p>Consumer Services Staff: Debbie Hutchins</p>		

STATE INSURANCE COMPARISON: Another fact, Mr. Gould proudly said his division negotiated a 19% discount on insurance for work place safety units. In the handout provided and attached Florida ranked as the 2nd most expensive state for homeowners insurance in 2008, with an average expenditure of \$1,390 and Delaware 6th least expensive, \$535. My cost for Homeowners and Flood Insurance for the past four years average over \$1,300. A copy of Delaware Code 18 (Insurance Code) with Subchapter III Declinations, Renewals, and Cancellation of Property Insurance Contracts attached for those in the cancellation insurance process. Call an investigator in Mr. Gould's office for help.

INSURANCE FACTORS: Mr. Reed discussed homeowner's insurance factors in determining rates; an important factor was proximity of Property to the fire department. In the Canal, we are fortunate to be located ½ mile from the Fire station on Hollywood Street. To calculate your fire station distance, use GPS PEDOMETER, (<http://www.gmap-pedometer.com/?r=5019702>). It was also pointed out some insurance companies use other factors such as Credit Score, Claims History, Type of Occupation, and Educational Level. In addition, the companies are looking at the Social Media Networks, such as Facebook, for unsafe living practices in determining rates.

HURRICANE INSURANCE: Probably the best advice given by Mr. Reed was to discuss with your insurance agent what insurance does the policy **not** cover. An example, mentioned was Hurricane Irene hit the Coastal Towns in August 2011. There was a community in Lewes where the Hurricane destroyed much of the area. What the homeowners did not realize, there was a 2% deductible on the value of the home

on named storms that exceeded 74 mph. It later determined that the wind speed on land peaked at about 55 mph and a buoy several miles in the ocean recorded a speed for about a minute recorded 75 mph and thus the deductible applied. The Delaware Insurance code did not allow that the wind speed had to be recorded on land. The Commissioner is working on getting the legislature change the code, but allowed not easy to do as one might think.

Along the same vein for Delaware to have a hurricane, the water temperature has to have water temperature of 80 degrees. Mr. Wayne Fuller, Canal Homeowner said that the temperature never goes above 77 degrees and thus we seldom hit with hurricanes inland.

GUARANTEED REPLACEMENT COST: Another point addressed is that homeowners should have insurance based on replacement cost, “guaranteed replacement cost”. This cost is always higher than standard replacement cost.

From the Delaware Insurance Website, “Replacement cost is what it would take to repair or rebuild your home should it be damaged or destroyed. However, standard homeowners’ policies contain a limit on the replacement value. If your limit is less than what it would take to rebuild your home at current construction material and labor costs, then you may want to increase your policy limit.

The amount of insurance coverage you buy should be based on the true cost of rebuilding or replacing your home. It should not be based on what you paid for your home or its current market value, because those values do not represent what it would cost to rebuild and also will include the value of your land, which does not need to be replaced. The insurance coverage should not be based on your mortgage, which usually is much less than the cost to rebuild.”

To figure the true cost of rebuilding or replacing your home, the writer contacted his insurance carrier, United Services Automobile Association (USAA) and provided a formula on how to figure the cost. The table summarizes the calculation. The average cost per square foot based on data from a remodeling project in Bethany 2007-2008 actual costs. These costs are estimates and not necessarily the same as your house.

Cost to Rebuild 2009 Provided by United Services Automobile Association Insurance Company (USAA), a military services multiline highest company rated in term of strength to pay losses.

Example Replacement Cost: Different types of construction by variable cost per square foot.

Item	Description	Space Sq '	Average Cost/Sq'	Estimate
1	Screen Porch	264	\$ 100.00	\$ 26,400.00
2	Finished Floor Space	2,960	\$ 188.00	\$ 556,480.00
3	Composite Decking	1,190	\$ 50.00	\$ 59,500.00
4	Garage	1,480	\$ 100.00	\$ 148,000.00
5	Sum	5,894		\$ 790,380.00

QUESTION AND ANSWER: During a question and answer session, Mr. Reed asked, can Delaware Insurance force companies/carriers to write insurance for Coastal Towns. The answer was simply “no” because then we (Delaware) would be stuck with “B & C” companies for coverage. We have to work with them and create legislation with disparate opinions.

Mr. Reed also discussed that a major national insurance provider sent our letter in the past month on non-renewal notices. In a showing of hands in the audience, about half of the homeowners had received the notices, none from the Canal. Delaware Insurance reviewing the notice and asked the company/provider to hold off the action until a review conducted.

Mr. Reed pointed out that there is a listing of companies on the Delaware Insurance Website providing surplus and excess lines carrier. The buyer of this product could expect higher cost with Surplus Lines Carrier than “A” Mainline Company. One such company is Lloyds of London. A complete listing of eligible surplus lines insurers found at http://delawareinsurance.gov/departments/berg/SurplusLines_BERG.shtml.

UNFAIR BUSINESS PRACTICES: Another key regulatory area is unfair business practices. Mr. Reed pointed out that the Insurance Carriers use predictive data instead of historical data, which can be unfair. For example, a consumer penalized because they do not have a high school diploma. Another example, the use of a sump pump installed in the basement to control water damage. This writer installed in 2009 a sump pump in basement for \$1100 to correct storm damage. During Hurricane Irene, one house on Seabreeze Drive in the Canal sustained water damage, and had no sump pump.

To follow the business practice, a sump pump rider attached to the homeowner’s policy giving a discount, but the rider caps the award for damages at \$10,000. However, if the building sustains major damage elsewhere and the award could be \$40,000 inclusive. The carrier says you can only collect \$10,000 because the reading in the rider. Some people believe this practice is unfair.

The point is that you have to work with the carrier and Delaware Insurance Consumer Investigator by calling 1-800-282-8611 toll-free in Delaware or (302) 674-7310, and ask for a consumer investigator, email consumer@state.de.us.

When the insurance carriers ask for a rate change, always upward, they can ask for a profit of 5-8% in the rate, pretty good in my investment world.

Please be free to pass this information to your neighbors. You can call at 703 455-0575 (Northern Virginia) or Fax at 703 455-9778, pat_neary@msn.com

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Other information same as above

On December 5, 2011, Mr. Reed, Deputy Department of Insurance (DOI) Commissioner provided the following information in an email to the President of the Canal Association (Mr. Jerry Morris)

“ADDITIONAL INFORMATION:

A question was also asked by an audience member about Surplus lines (SPL) insurance and what it was exactly. I have several links below that provide additional information and FAQ's. The DOI representative that handles SPL is Ann Fletcher. I have cc'd her on this e-mail. Keep in mind that Insurance Commissioner Karen Weldin Stewart also put forth a bill last session that passed which will ultimately attract and retain Surplus Lines Carriers to the state of Delaware, which ultimately should increase competition and drive down premiums in the SPL market.

The term "surplus lines insurance" means insurance procured by a surplus lines licensee from a surplus lines insurer or other no admitted insurer as permitted under the law of the home state; for purposes of this chapter "surplus lines insurance" shall also mean excess lines insurance as may be defined by applicable state law.

The link to DE Surplus Lines Law:
<http://delcode.delaware.gov/title18/c019/sc01/index.shtml>

National Association for Surplus Lines:
<http://www.napslo.org/imispublic/AM/Template.cfm>
<http://www.aamga.org/faqs#faq01>

Calls concerning Surplus Lines can be directed to Ann Fletcher 302-674-7300”