

Mold and Insurance: Is the Worst Behind Us?

Casualty Actuarial Society
Seminar on Ratemaking
San Antonio, TX

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Presentation Outline

Mold, the Consumer & the Insurance Industry

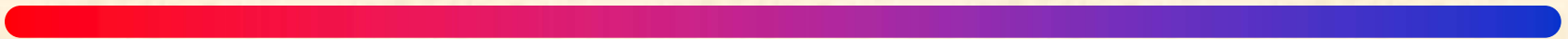
- Overview of Mold Issue
- A Brief History of Mold & Insurance
 - Experience in Texas & California
 - Influence of Legal Environment & Profiteering
- Media Perception of the Mold Issue
- The Economics Of Mold
- Commercial Lines & Mold
- Regulatory/Legislative Considerations
- Q&A



Overview of Mold Issue

- **Complex issue involving**
 - **Homeowners**—fear of mold; hysteria in some areas
 - **Businesses & Workers**—property, construction, WC & liability issues
 - **Science**—taking a back seat to fact; misinformation
 - Astounding array of ailments attributed to mold
 - **Trial Lawyers**—profiting from fear and hype over mold
 - **Remediators**—profiteering?
 - **Media**—media attention increases as mold claims increase
 - **Regulators**—struggling with the issue; options limited

A BRIEF HISTORY OF MOLD & THE INSURANCE INDUSTRY





Great Pyramid of Mold

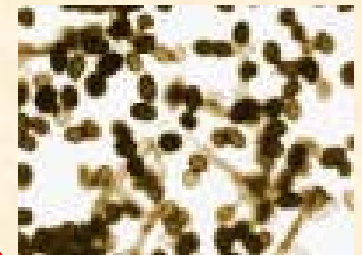
Hysteria



*Trial
Lawyers*

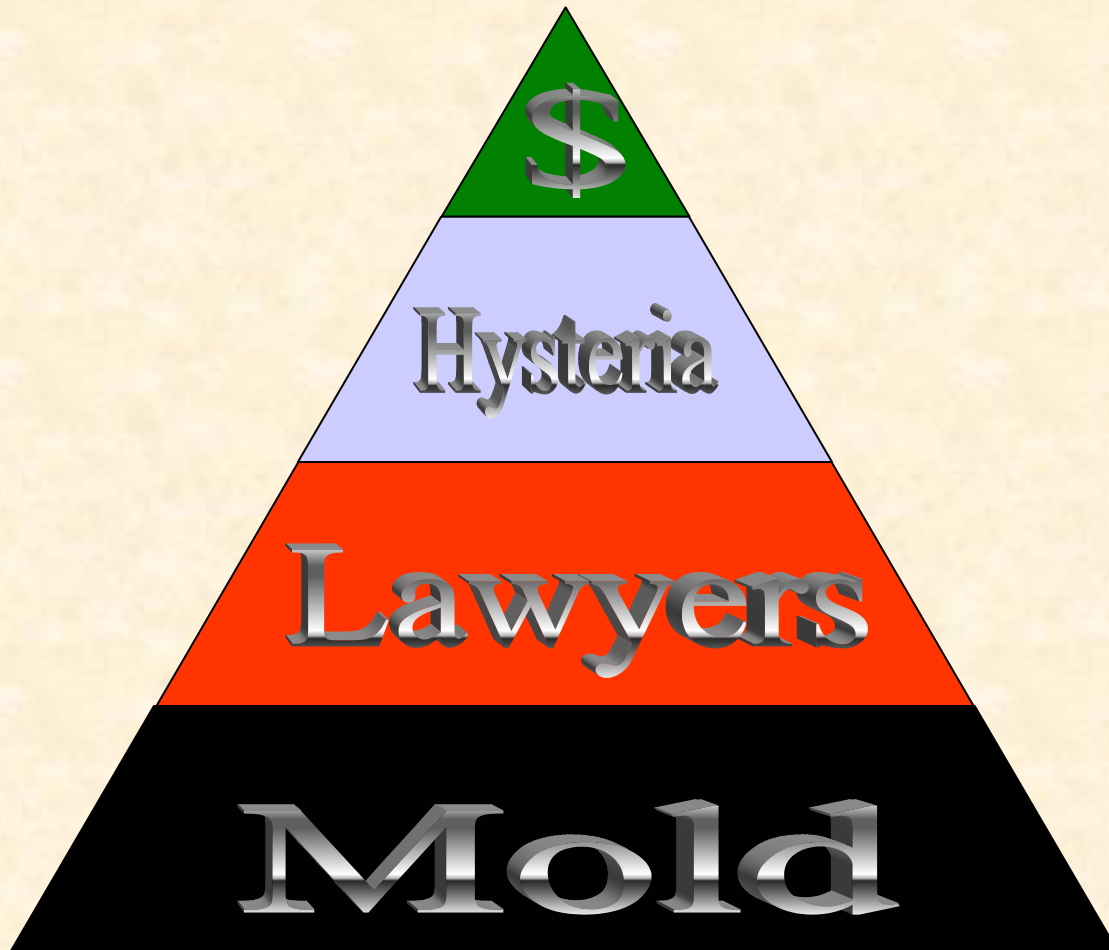


*Toxic
Mold?*



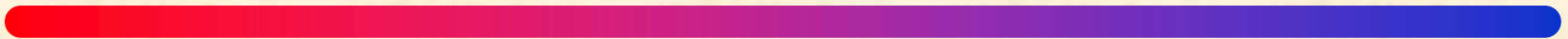
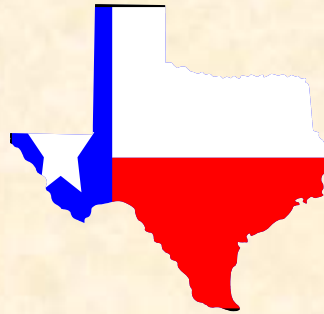


Great Pyramid of Mold



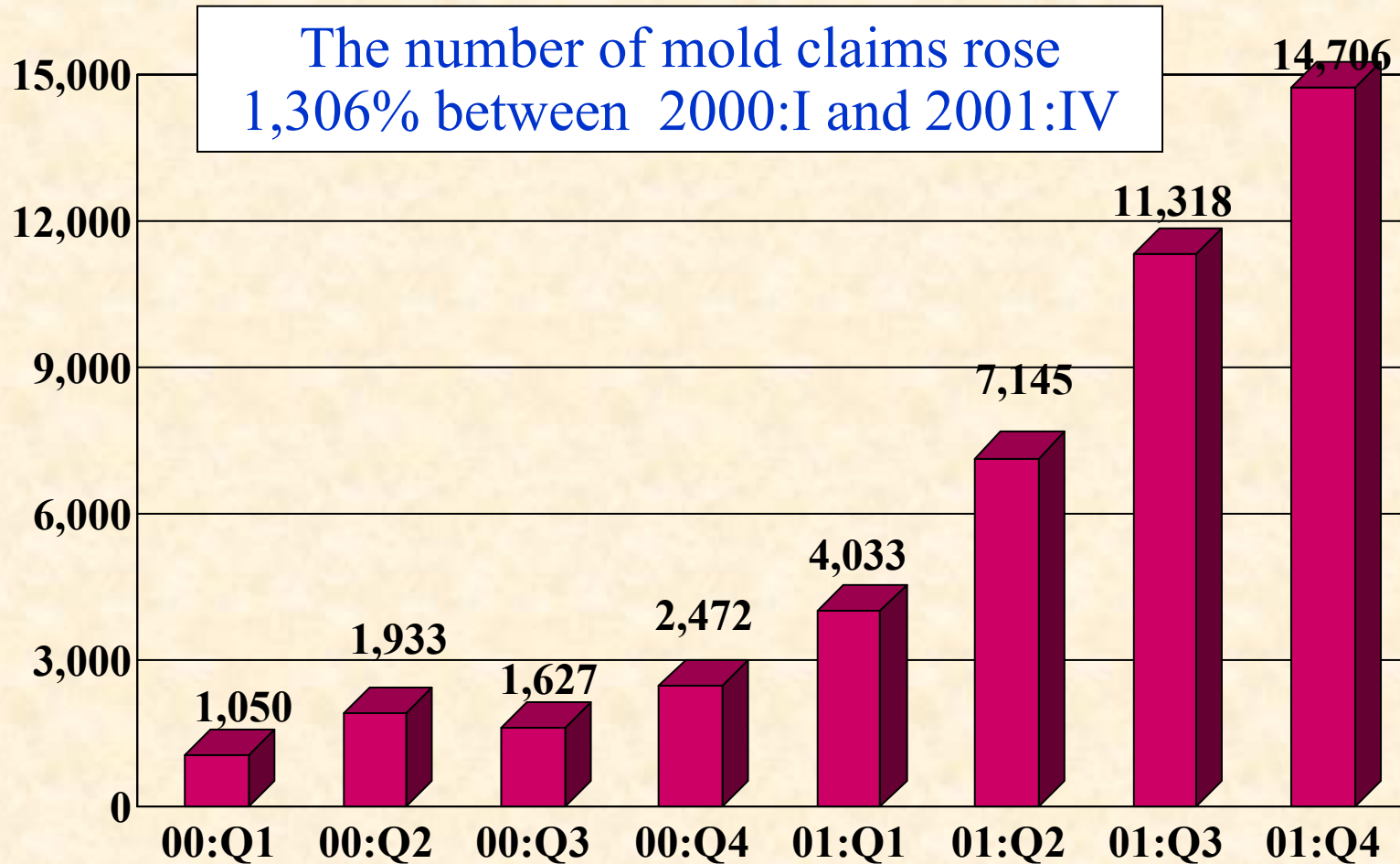
*HOW DID WE GET HERE &
WHERE ARE WE GOING?*

*Texas was Mold's Ground Zero,
but Effects Have Spread*





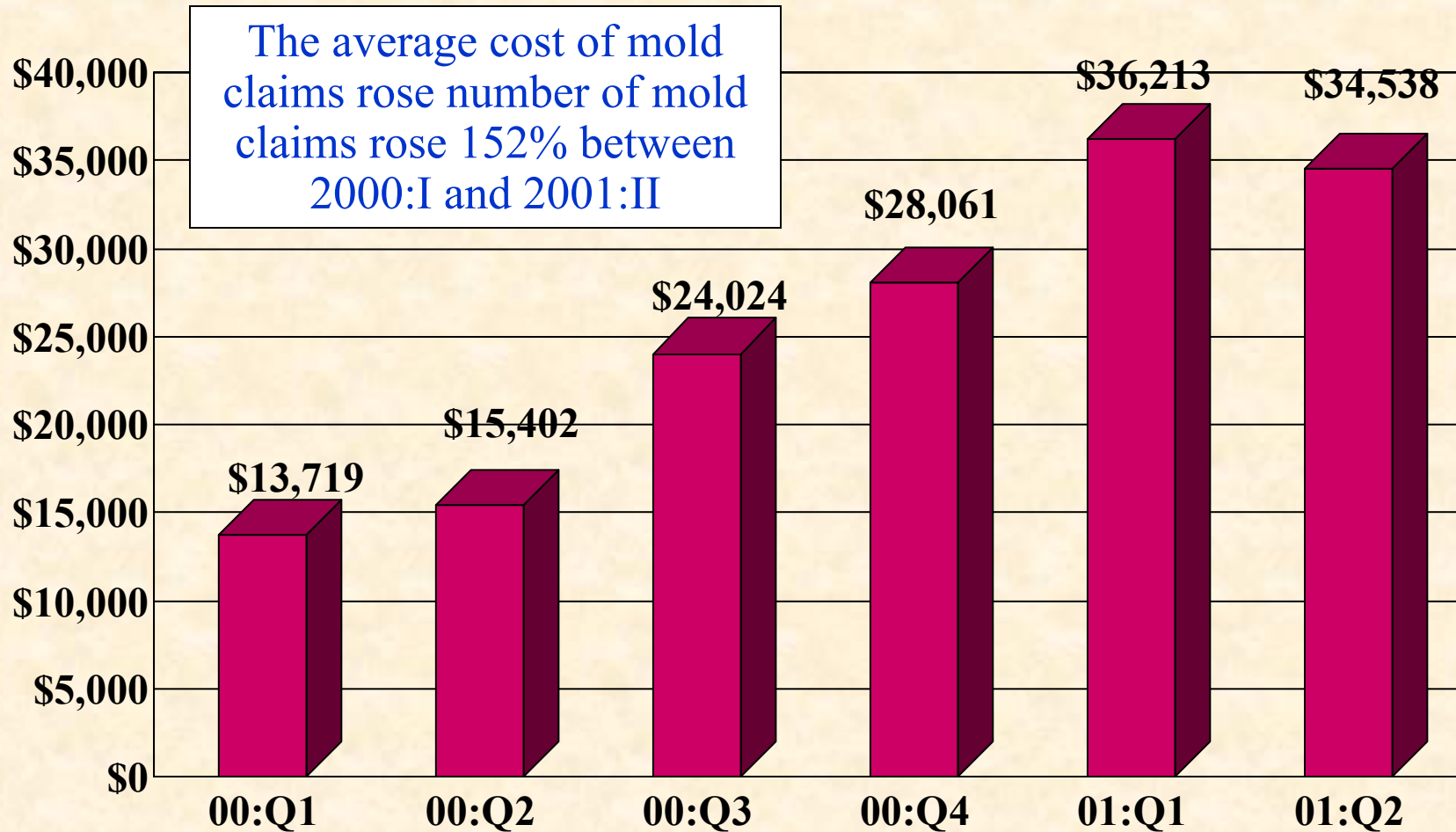
TX: Estimated Total Number of Mold Claims



Source: Texas Department of Insurance.



*TX: Average Cost Per Mold Claim**

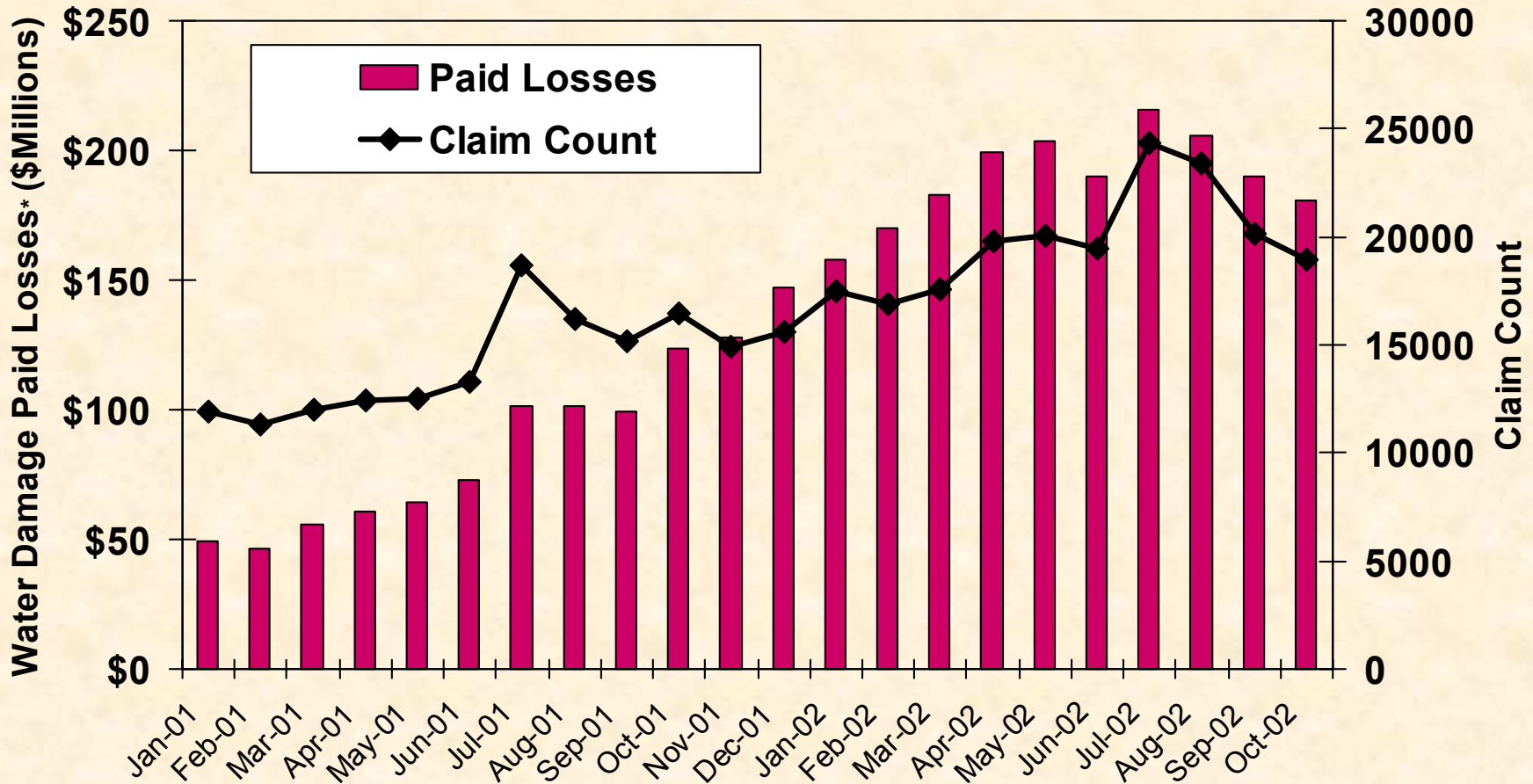


*Includes loss and loss adjustment expenses.

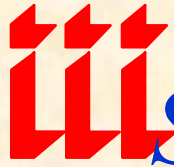
Source: Texas Department of Insurance; Insurance Information Institute estimates.



Texas: Mold Losses/Claims Are Finally Moderating*

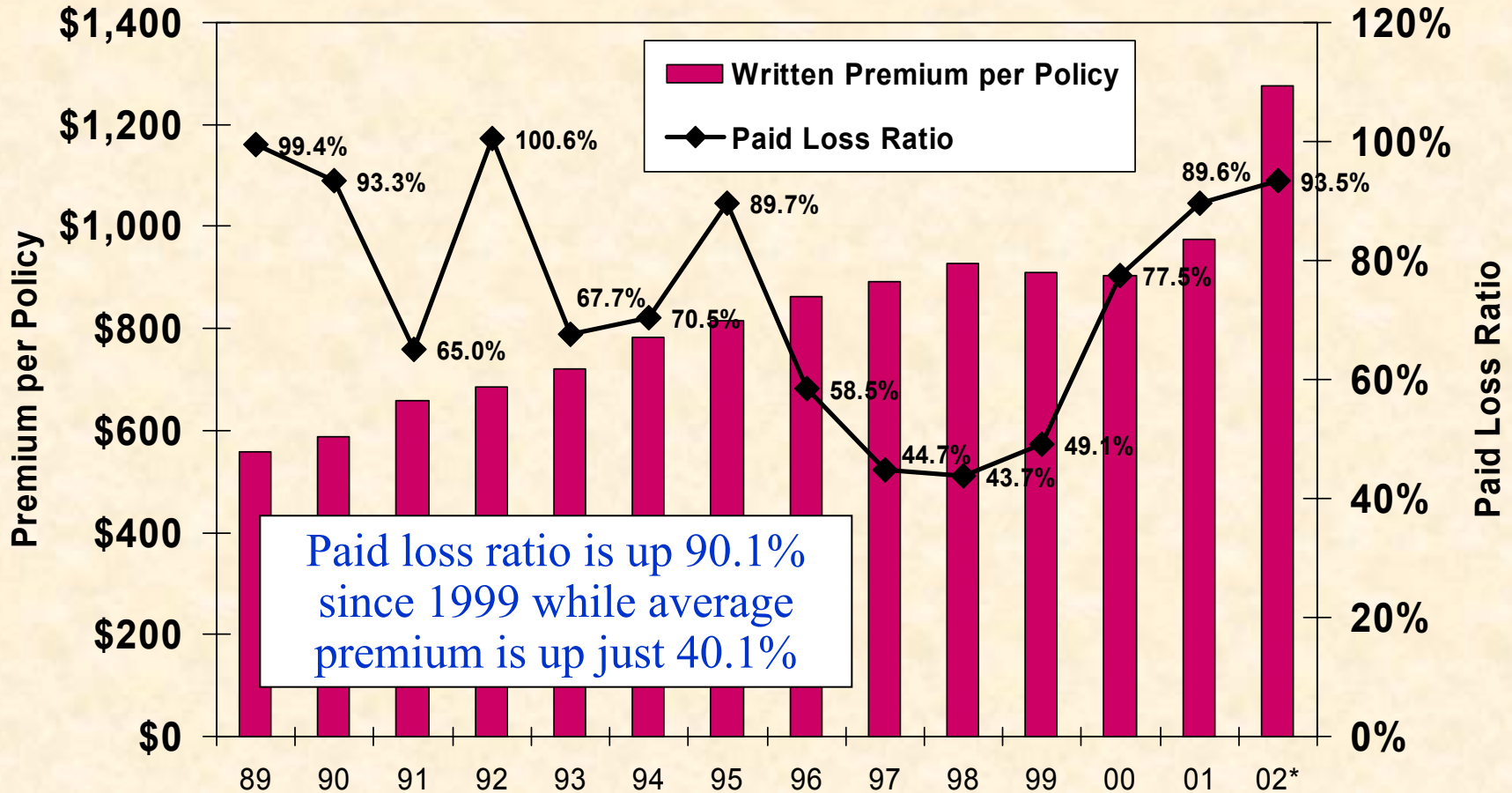


* Data are for TDI Cause 61: Discharge – Other Damage. Not all claims in cause 61 are mold and mold claims may also arise from other (non-water) causes of loss.



Texas HO: Paid Loss Ratio Up

Sharply, Premiums Haven't Kept Pace

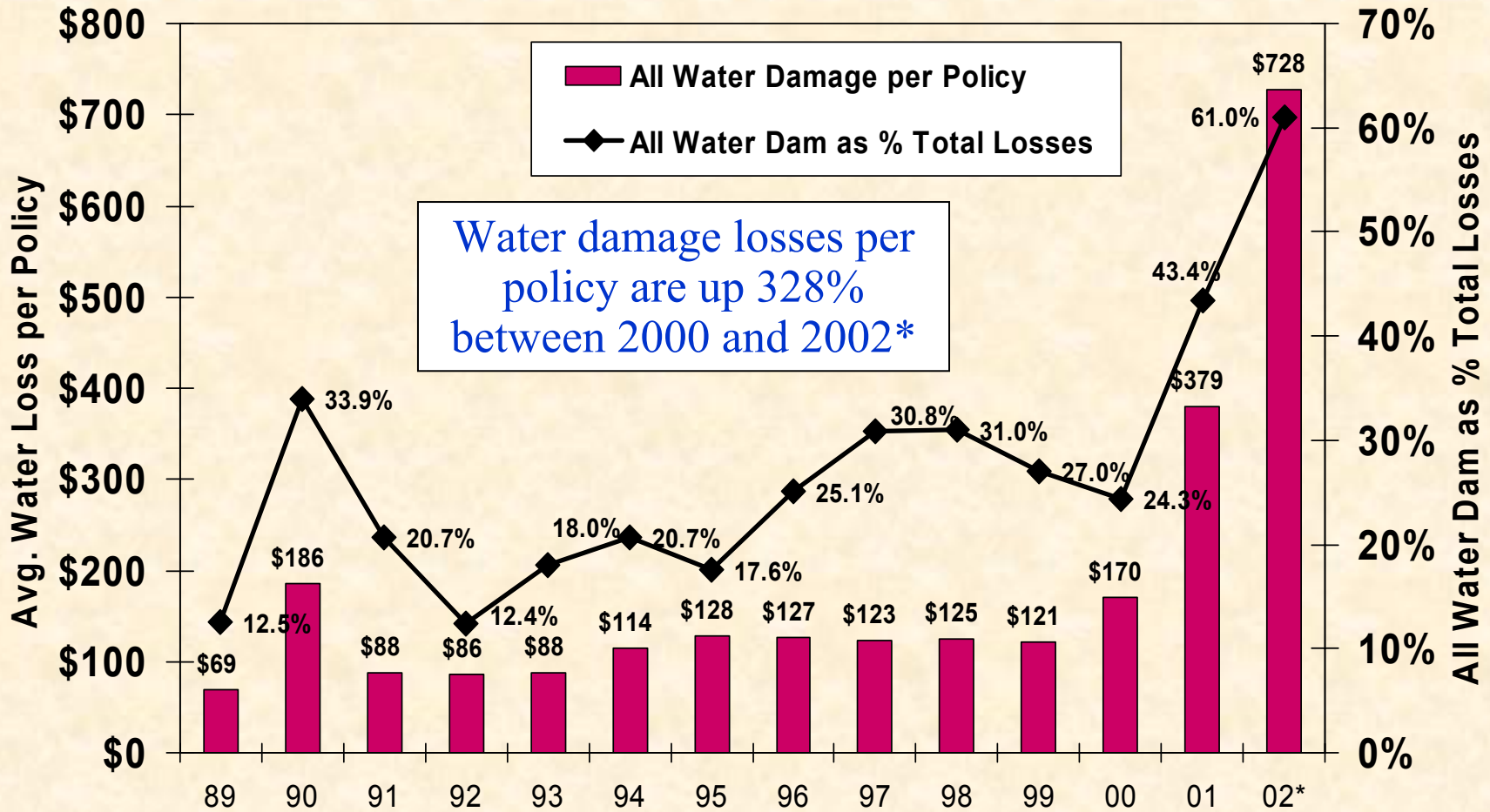


*Through October 2002.

Source: Texas Department of Insurance; Insurance Information Institute



Texas HO: Per Policy Water Losses Have Skyrocketed

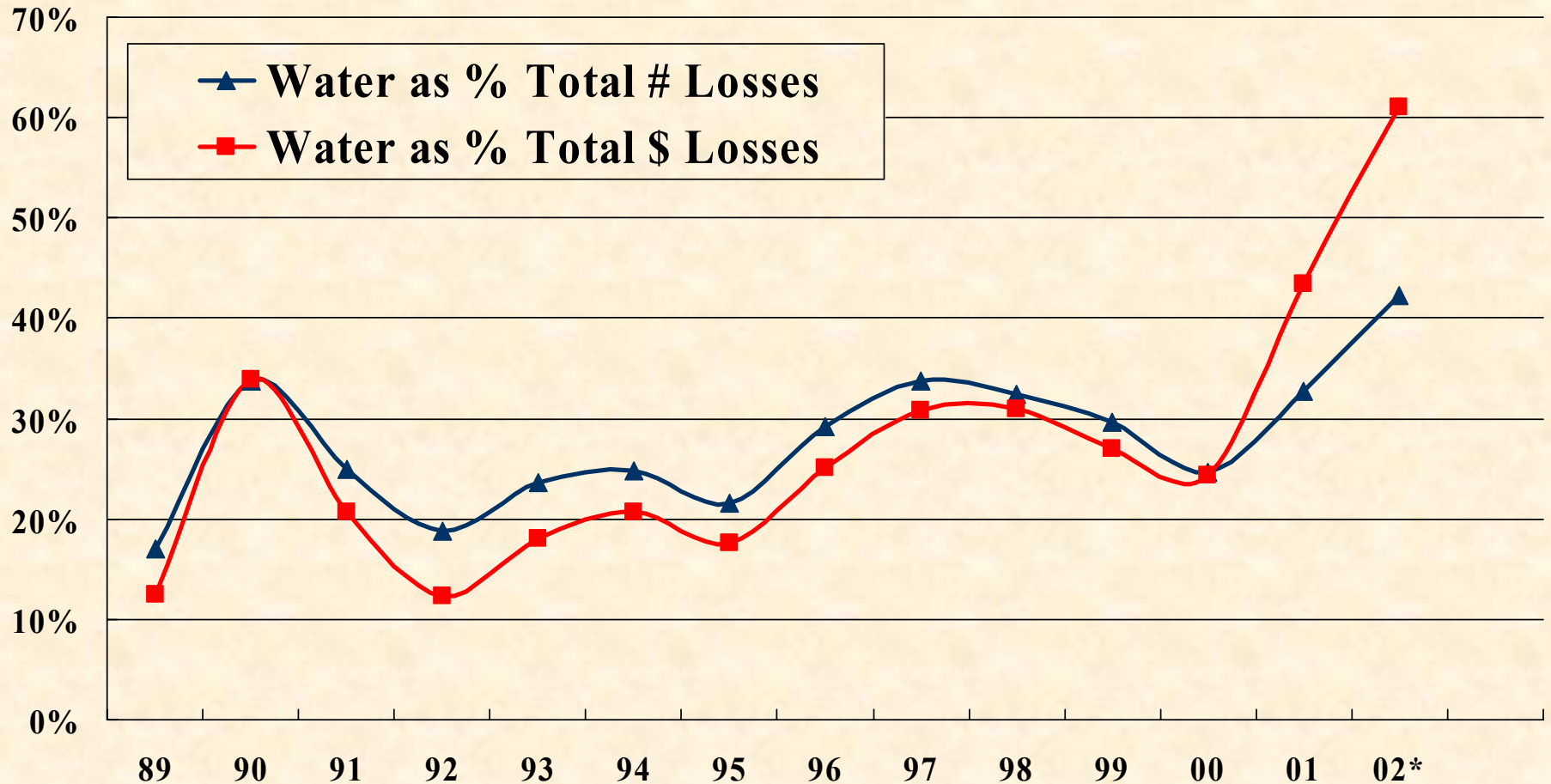


*Through October 2002.

Source: Texas Department of Insurance; Insurance Information Institute



Texas HO: Water Loss and Claim Share Up Sharply

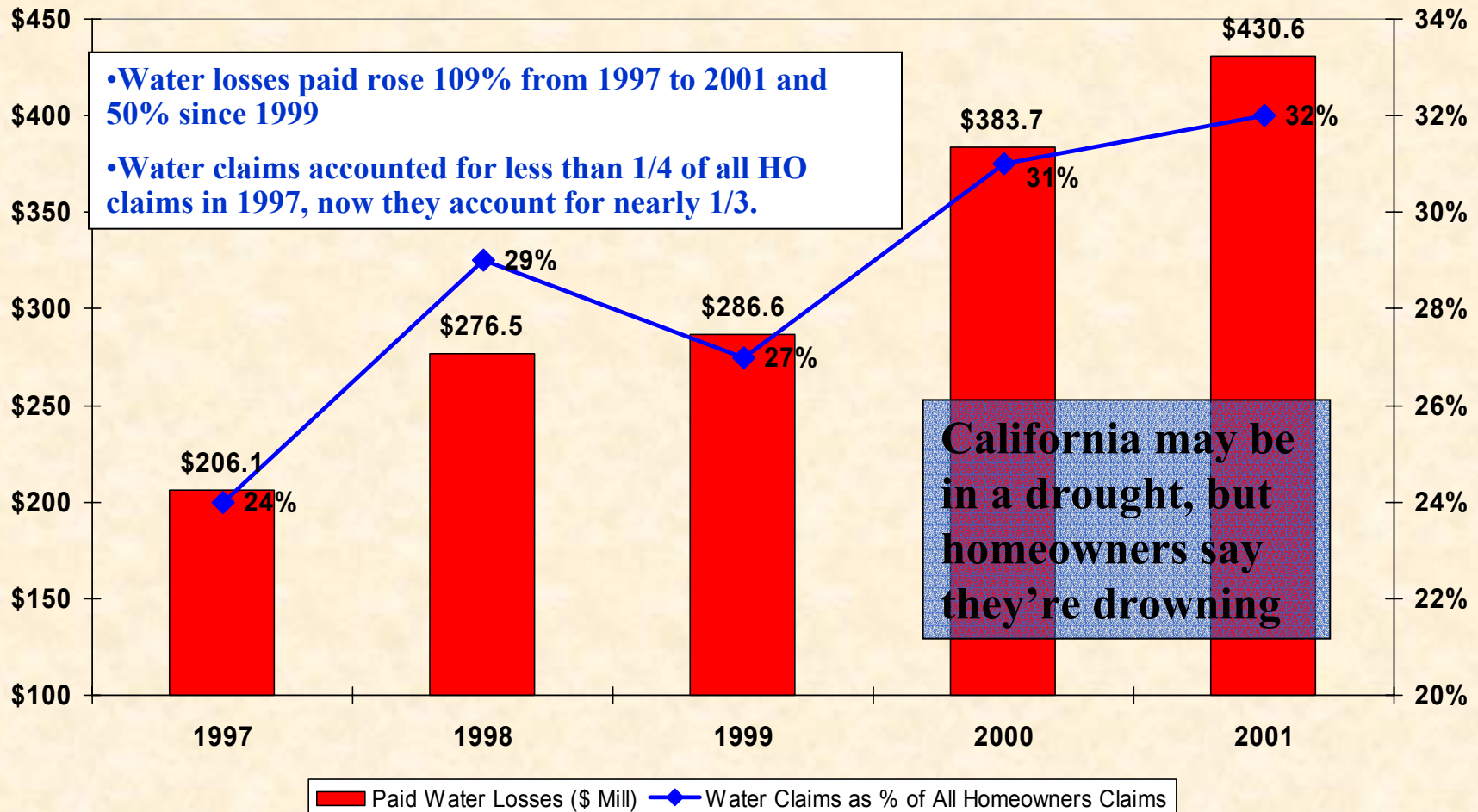


*Through October 2002.

Source: Texas Department of Insurance; Insurance Information Institute

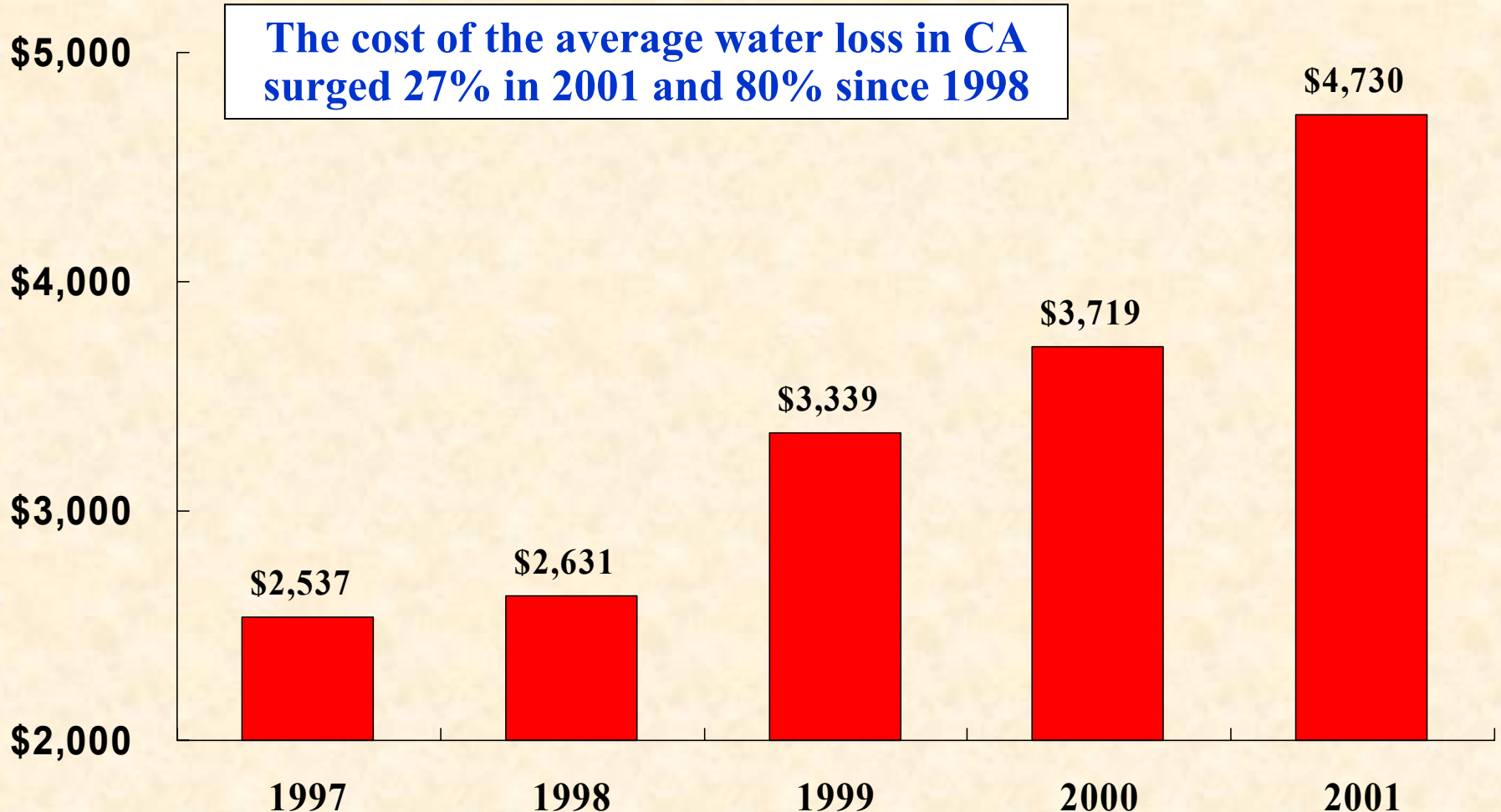


California: Surging Water Claim Frequency and Costs: Symptom of Growing Mold Problem



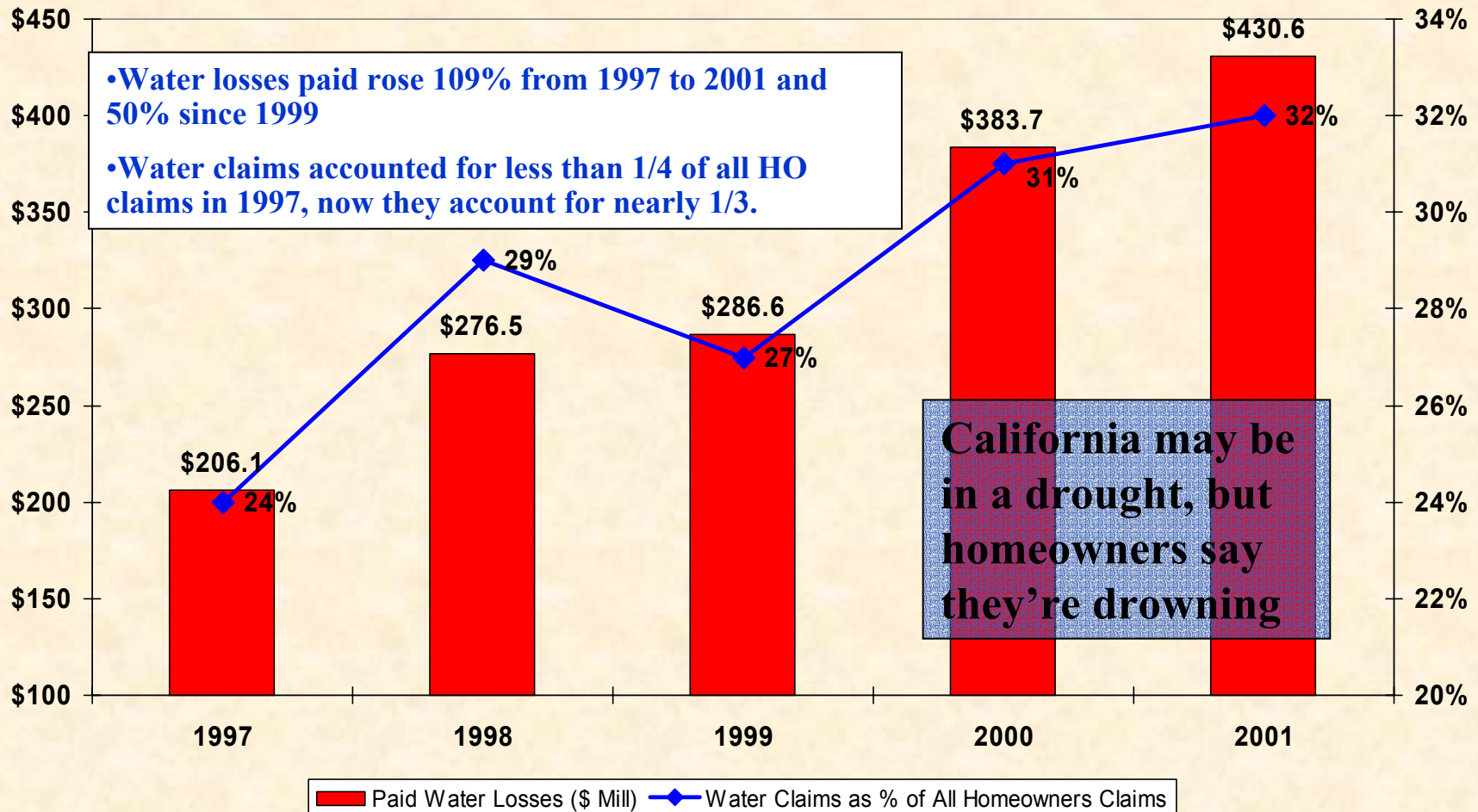


Sharply Rising Average Water Claim Cost in CA: Mold Symptom



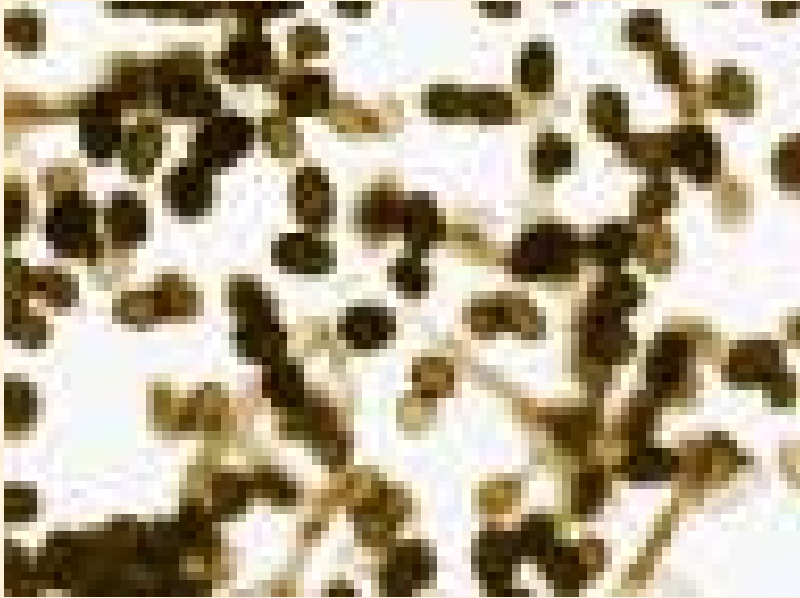


California: Surging Water Claim Frequency and Costs: Symptom of Growing Mold Problem





Wide Variety of Illnesses Alleged to be the Result of Mold Exposure



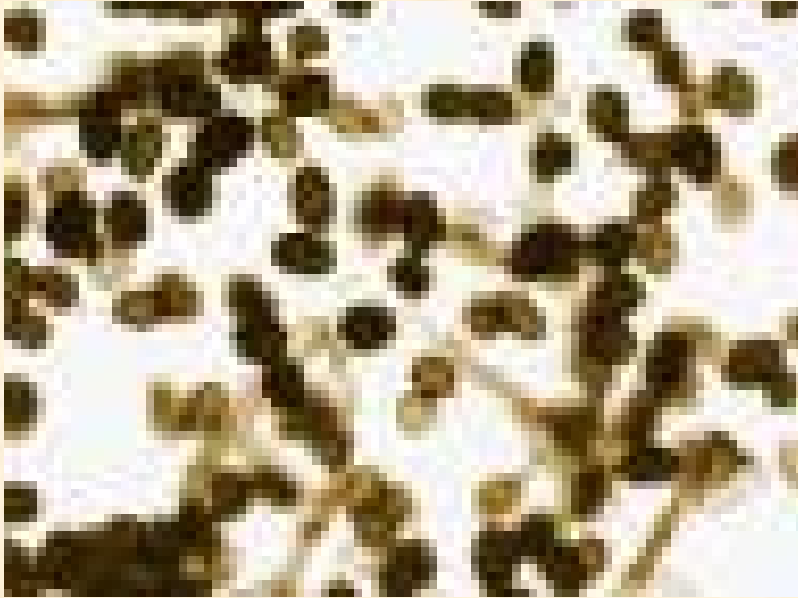
Stachybotrys chartarum

ALLEGED ILL-EFFECTS

- Burning eyes
- Headache
- Nausea
- Nose bleeds
- Allergic Reactions
- Asthma
- Exhaustion
- Sinus infections
- Cognitive disorders
- Pulmonary hemorrhage
- Liver damage
- Central nervous system damage
- Brain damage
- Cancer
- Death



The Science Doesn't Support Those Allegations



Stachybotrys chartarum

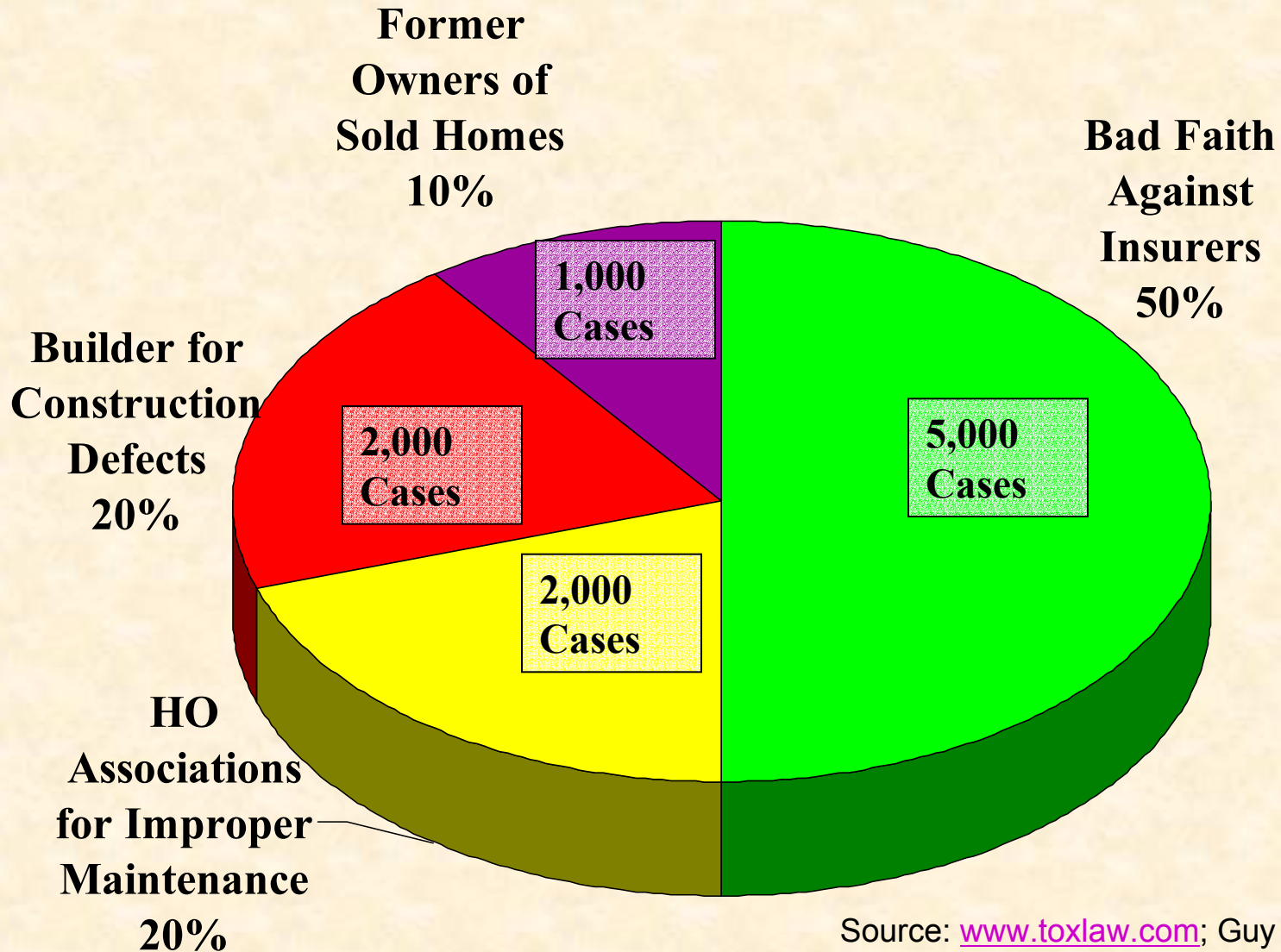
List of Known Maladies

• *“There are very few case reports that toxic molds inside homes can cause unique or rare health conditions...” “The common health concerns from molds include hay-fever like allergic symptoms.”*

➤ Centers for Disease Control and Prevention



Litigiousness in US Society Compounded the Problem *Documented Toxic Mold Suits*



As Did Countless Profiteers...

T O X I C · M O L D ?

What are the real dangers of molds and mildews?
Are there medical risks? Can you sue or be sued? Can you get rid of mold?

Learn the answers to these questions

August 14 - Austin Radisson • August 16 - Cityplace Dallas

“BREAKING THE MOLD”

A One-Day Workshop Sponsored by

The BioSafety Institute

Featuring a team of experts speaking on biomedical issues, legislative interests, remediation and current legal issues (plaintiff and defense perspectives) related to toxic mold

\$225 per person (*including valuable reference materials,
continental breakfast and lunch*)

Register Online www.biosafetyinstitute.com

Or by telephone **972-503-8852** • *Limited Seating*

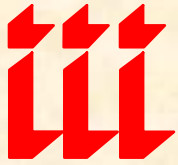
Source: *The Austin Chronicle*, August 10, 2001



The Media & Mold: A Marriage Made in Heaven

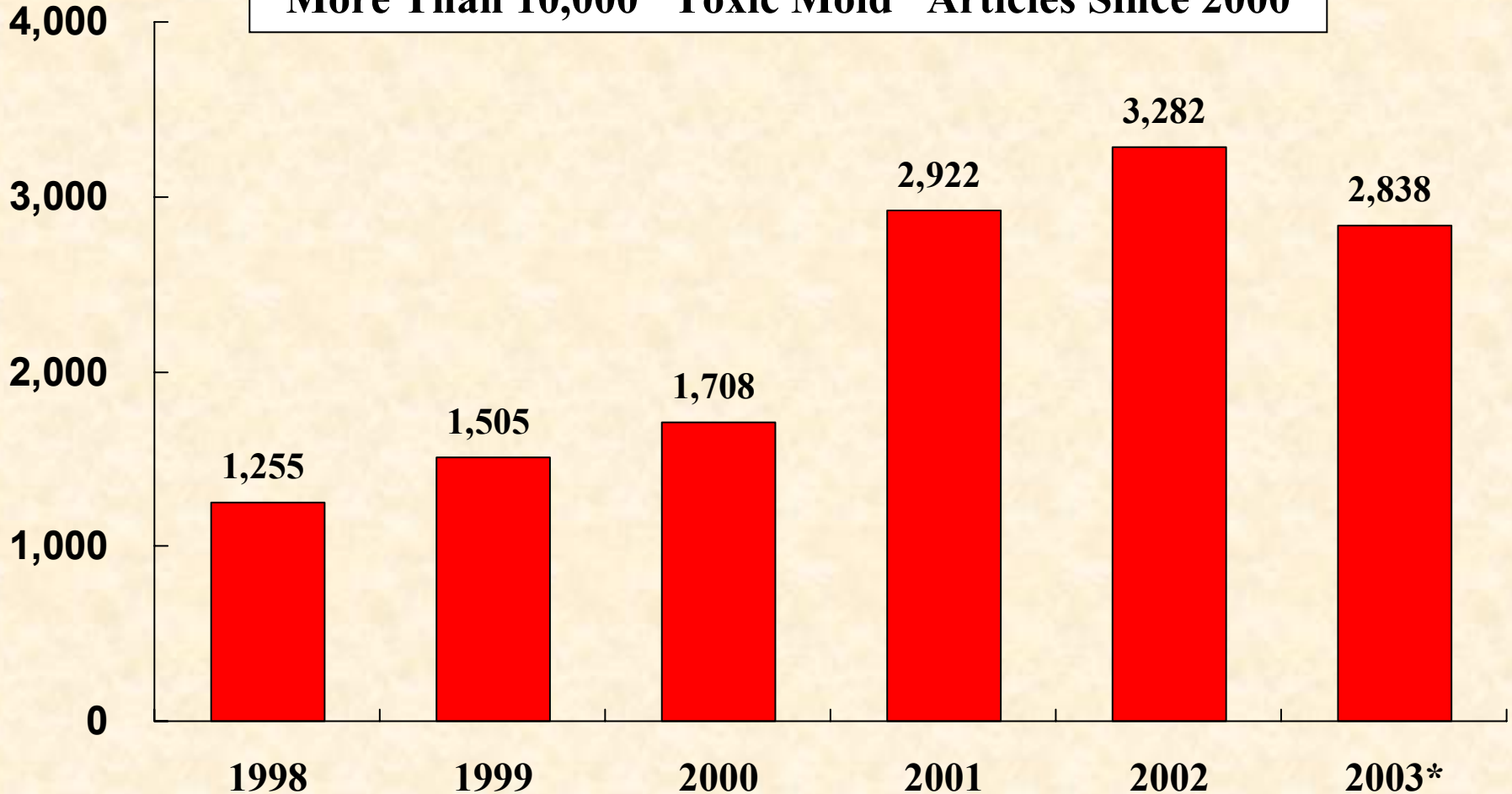
Since January 1, 2000, more than 10,000 articles have been published on the subject of “toxic” mold





Media Attention on the Mold Issue Peaked in 2002

More Than 10,000 “Toxic Mold” Articles Since 2000



Sources: Insurance Information Institute based on Nexis search.

* Estimate.



2001: Increased Media Attention

In the Papers Two Years Ago

“Haunted by Mold”

- *New York Times Magazine*, August 12, 2001

➤ **“Beware: Toxic Mold”**

- *Time Magazine*, July 2, 2001

➤ **“Insurers, Builders Criticized Over Mold”**

- *Austin American Statesman*, June 27, 2001

➤ **“Mold Problems Spur Hearings Across Texas”**

- *Corpus Christi Caller Times*, June 17, 2001

➤ **“Insurers Blanch at Proliferation of Mold Claims”**

- *Wall Street Journal*, June 3, 2001

➤ **“Insurer Must Pay Family \$32 Million”**

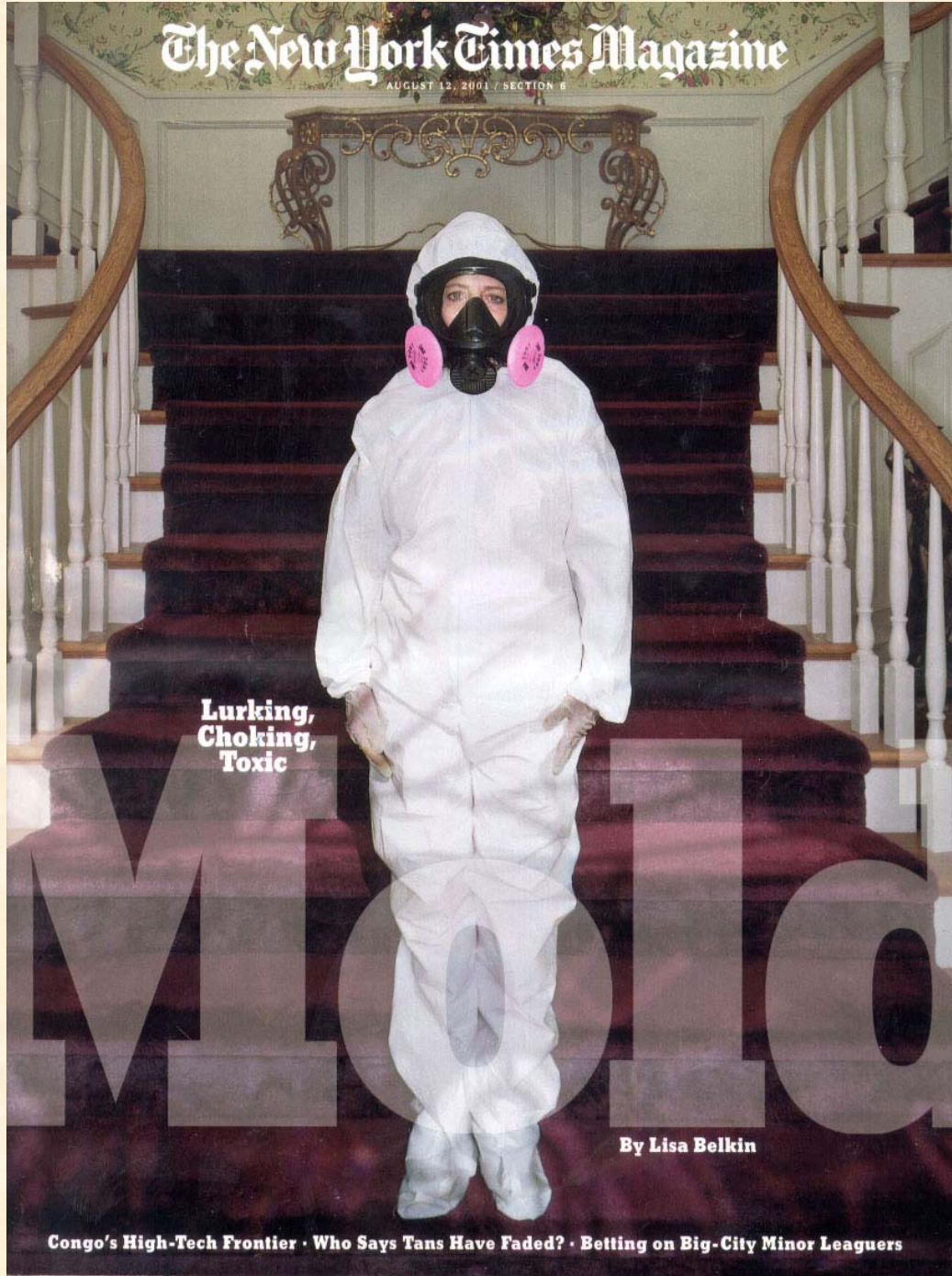
- *San Antonio Express-News*, June 11, 2001

KIPS BAY TENANTS SAY:

**WE'VE
GOT
KILLER
MOLD**

**It comes in through their vents.
They say it makes them sick, even
kills – and now, they're suing.**

SEE PAGE 3



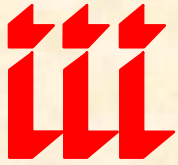
Lurking,
Choking,
Toxic

WMD

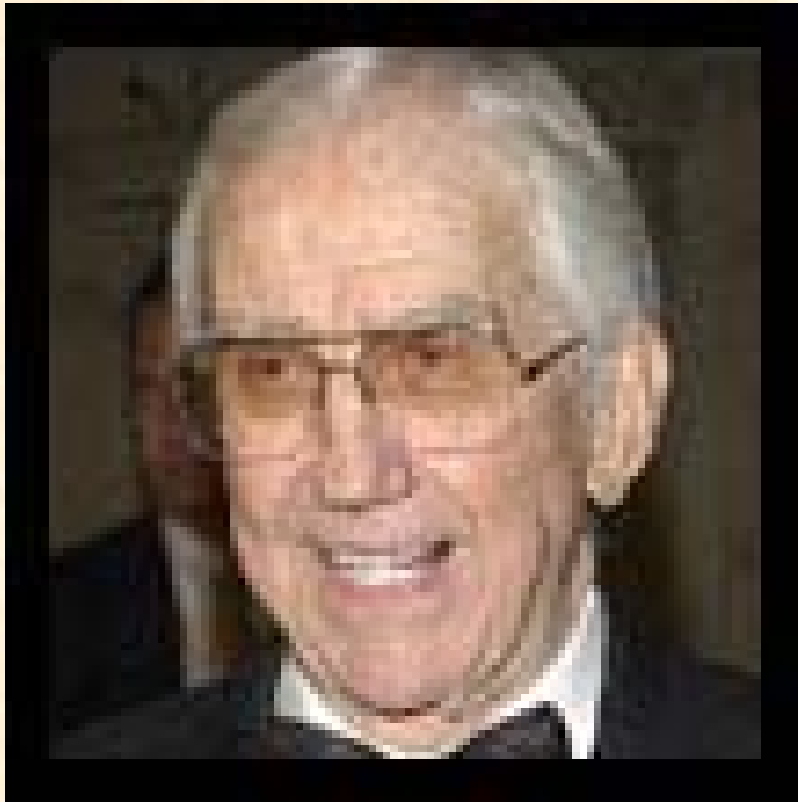
By Lisa Belkin

Congo's High-Tech Frontier • Who Says Tans Have Faded? • Betting on Big-City Minor Leaguers

Source: *New York Times Magazine*,
August 12, 2001



“Heeeeeere’s Stachy...” *Mold Goes Hollywood*



Ed McMahon

- Ed McMahon filed \$20 million suit against insurer & mold remediation contractor
- Ed only gave away \$10 million in sweepstakes
- Says mold sickened him, his wife and staff
- Says mold killed Muffin the family dog
- Alleges breach of contract, negligence and intentional infliction of emotional distress

“Ed McMahon Sues Over Toxic Mold Invasion,”
--USA Today, April 11, 2002

• Nearly 100 articles between April 10 and May 17, 2002!



2002/3: Financial & Market Consequences

In the Papers Over the Past Year

- **“The Turmoil Over Mold in Buildings”**
 - *New York Times*, March 23, 2003
- **“Landlords Add Mold Clauses to Apartment Leases”**
 - *Wall Street Journal*, March 18, 2003
- **“Insurers in Kansas Won’t Cover Mold”**
 - *Kansas City Business Journal*, February 21, 2003
- **“More Limited Form of Mold Insurance Emerges”**
 - *Wall Street Journal*, February 5, 2003
- **“State Farm Halts New Policies [in FL]”**
 - *Tampa Tribune*, June 29, 2002
- **“Hit With Big Losses, Insurers Put Squeeze on Homeowners”**
 - *Wall Street Journal*, May 14, 2002
- **“Can Toxic Mold Spoil a Stock Offering?”**
 - *Business Week*, April 29, 2002
- **“Apartment Owners Face Growing Liability”**
 - *Wall Street Journal*, April 24, 2002
- **“State Farm Won’t Write New Homeowners Policies [in CA]”**
 - *Los Angeles Times*, April 23, 2002
- **“Oklahoma Home Insurers Limiting Fungus Coverage”**
 - *The Oklahoman*, April 2, 2002
- **“Some Insurers Ending Coverage for Home Builders”**
 - *Minneapolis Star Tribune*, February 16, 2002

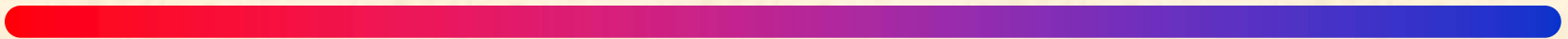


Great Pyramid of Mold



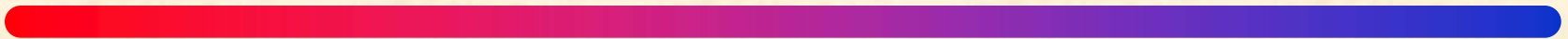
THE ECONOMICS OF MOLD:

*WHAT WILL MOLD COST
POLICYHOLDERS & THE
INSURANCE INDUSTRY ?*



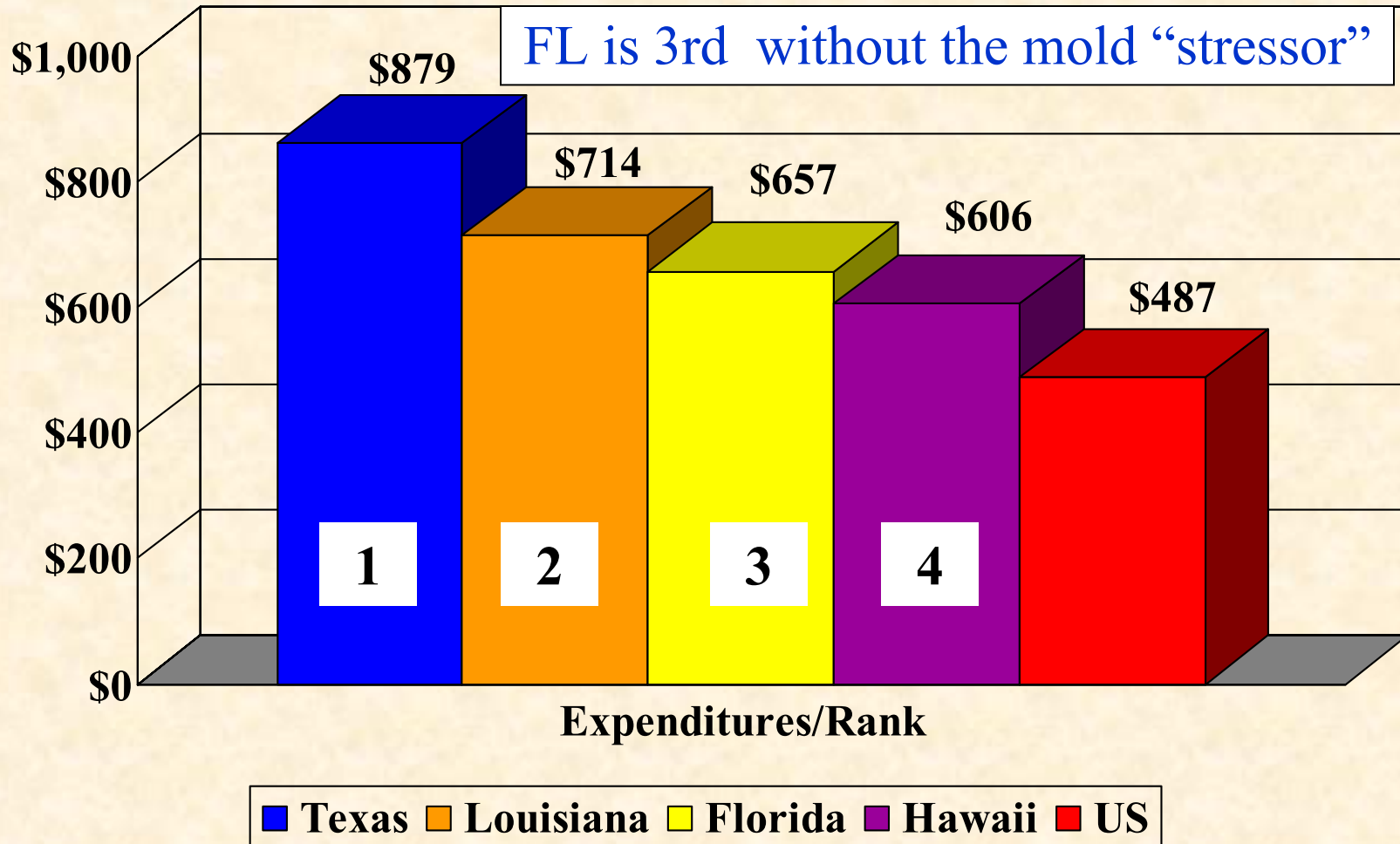
*Impacts on Affordability
and Availability*

*Real Consequences for
Homeowners & Housing Markets*



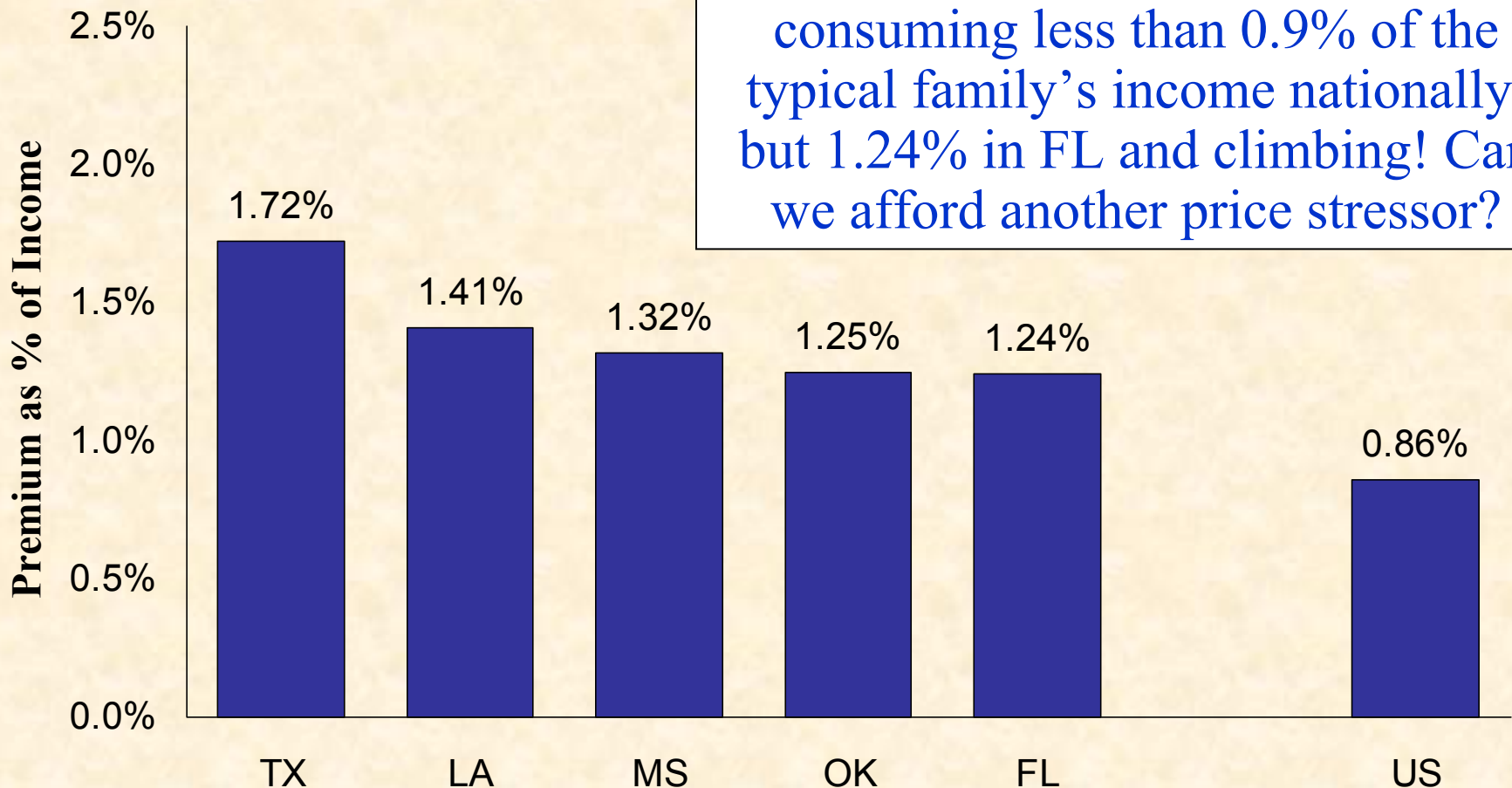


States With Highest HO-3 Insurance Premiums





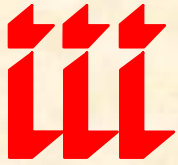
States with Highest Premium/Income Ratios*



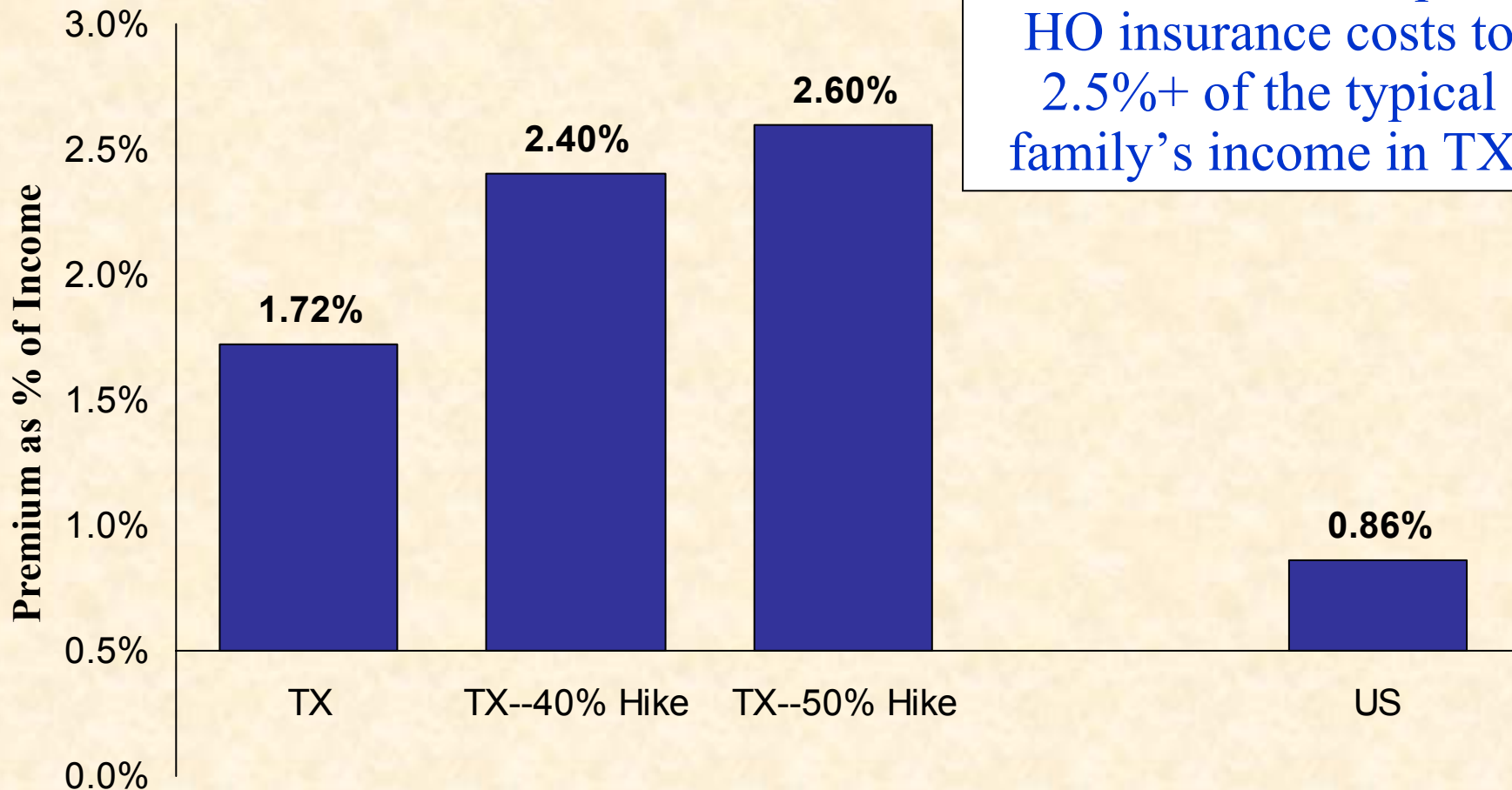
HO insurance is very affordable, consuming less than 0.9% of the typical family's income nationally, but 1.24% in FL and climbing! Can we afford another price stressor?

*As a % of the median family of 4's income, 1998.

Source: NAIC, Insurance Information Institute



*Mold-Induced Rate Increases Will Impact Affordability**

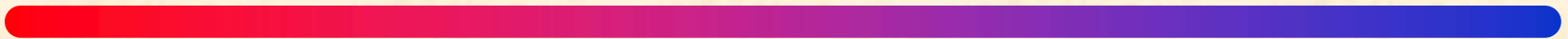


Mold costs could push HO insurance costs to 2.5%+ of the typical family's income in TX.

*As a % of the median family of 4's income.

Source: NAIC, Insurance Information Institute

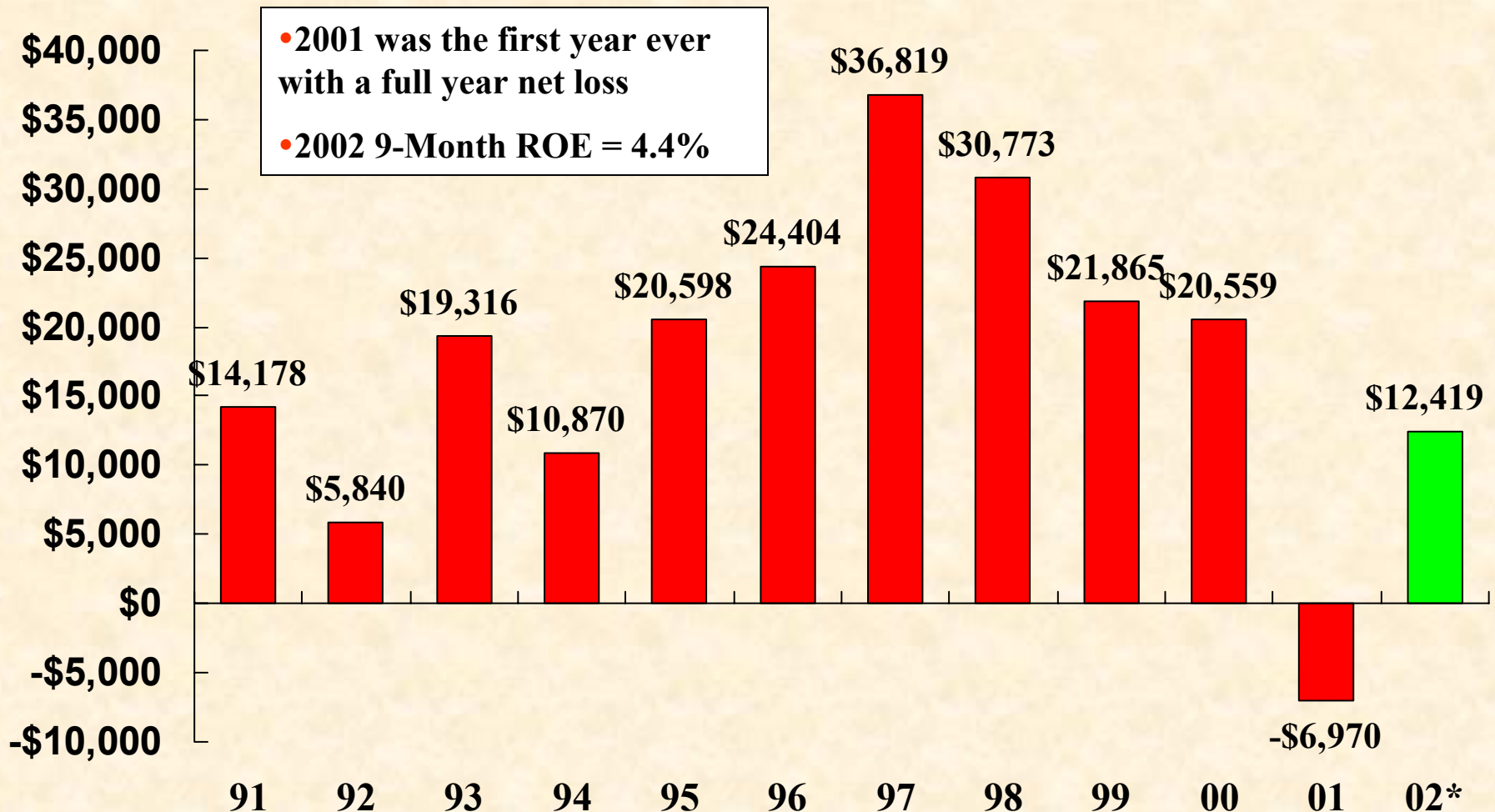
*Consumers Can't Afford Mold,
Neither Can Insurers*





P/C Net Income After Taxes

1991-2002E (\$ Millions)

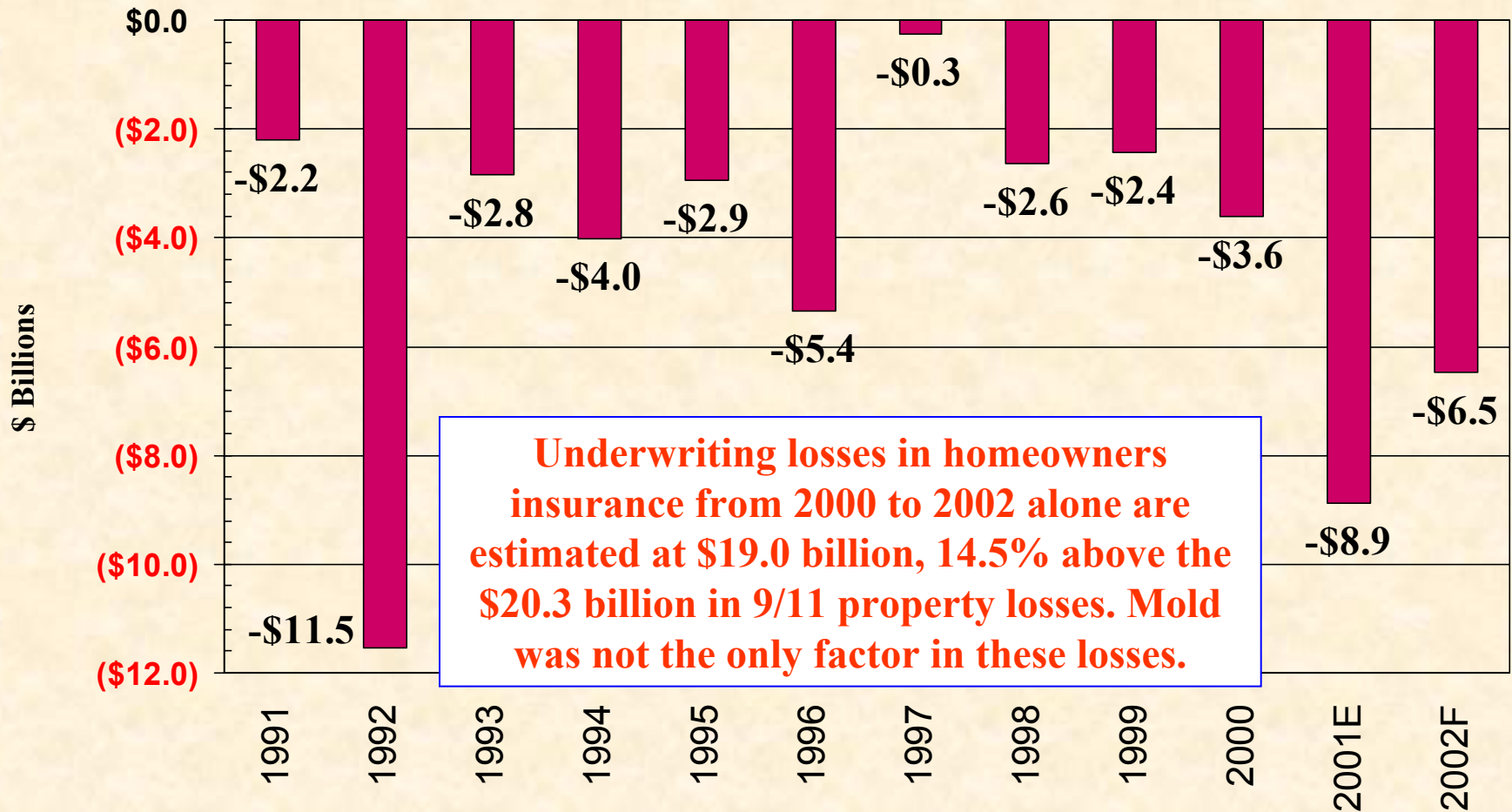


*I.I.I. estimate based on first 9 months of 2002 data.

Sources: A.M. Best, ISO, Insurance Information Institute.

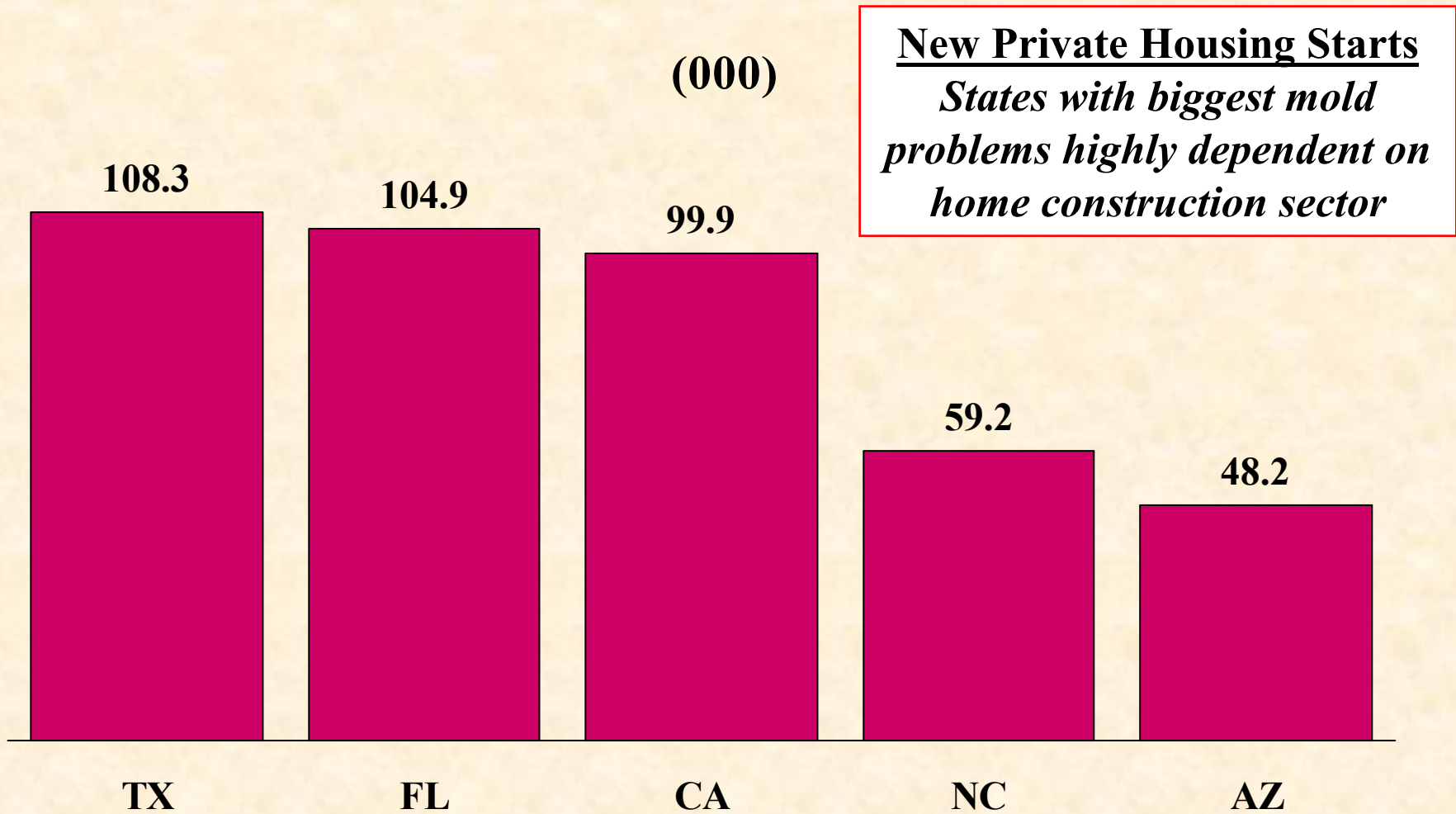


Underwriting Loss in HO Insurance, 1991-2002F





States with Most New Homes Built*, 2000

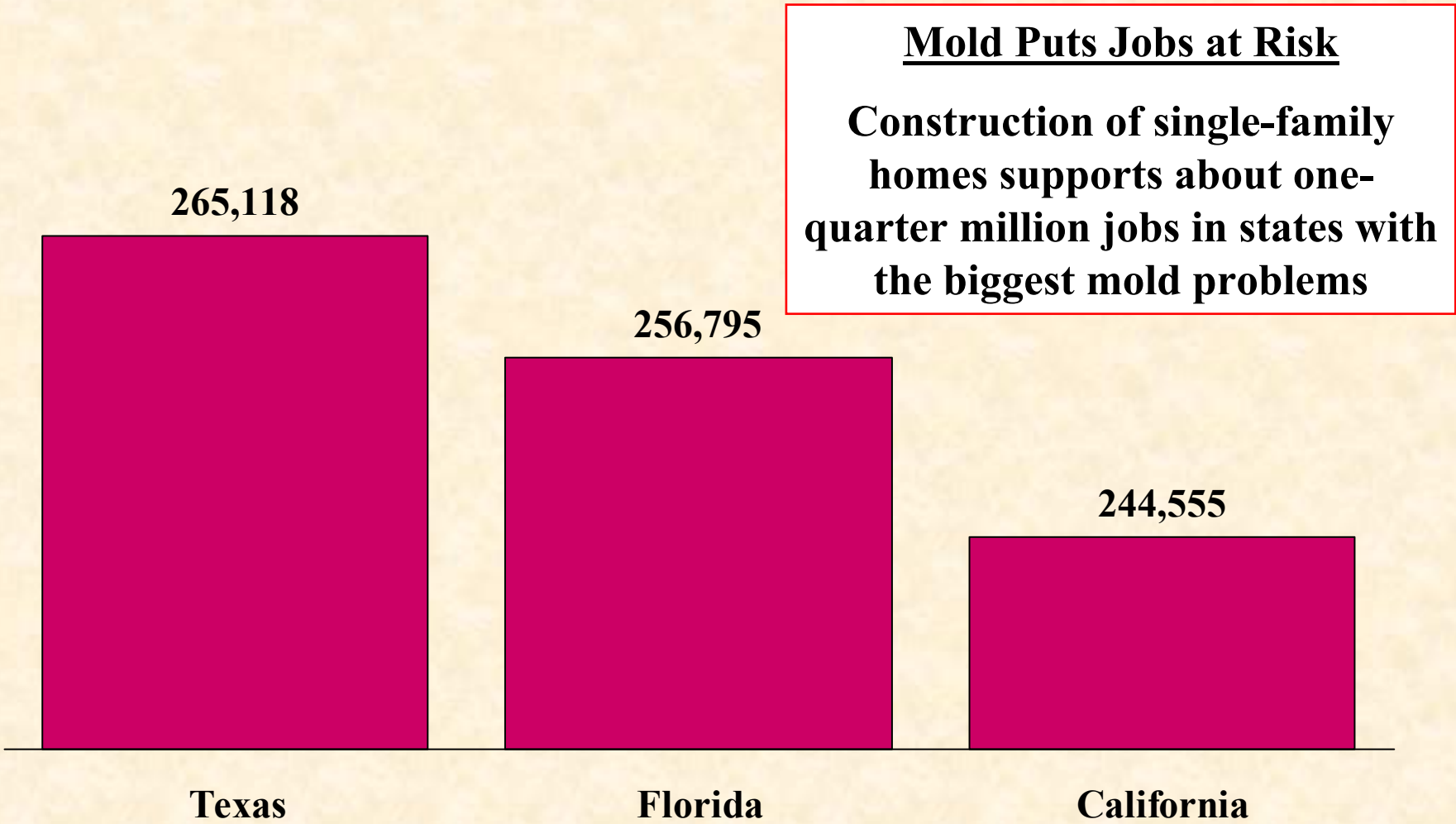


Source: National Association of Homebuilders, Insurance Information Institute

* Single family units



Number of People Employed in Construction of Single-Family Homes



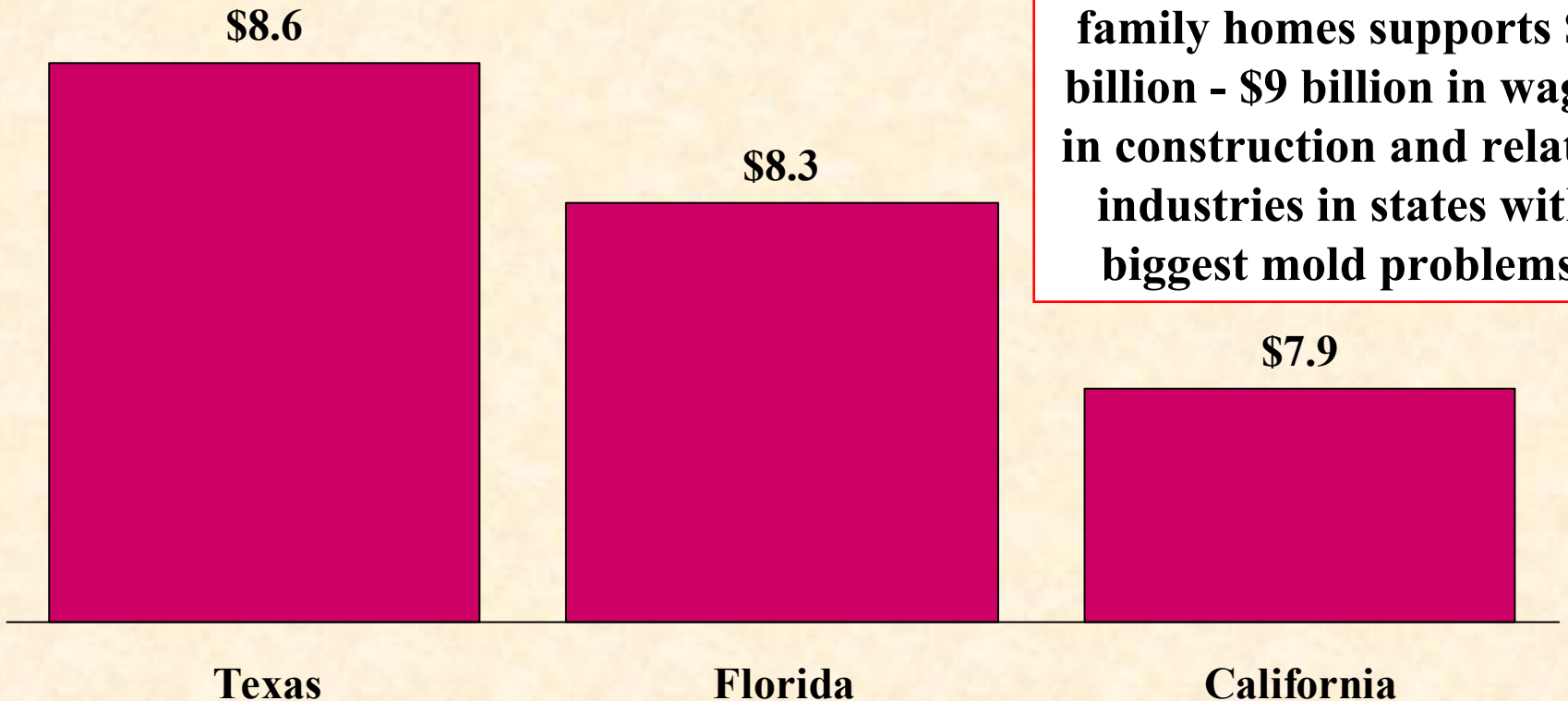
Source: National Association of Homebuilders, Insurance Information Institute

* Single family units, based on year 2000 construction figures



Billions in Wages Depend on Construction of Single-Family Homes

\$ Billions



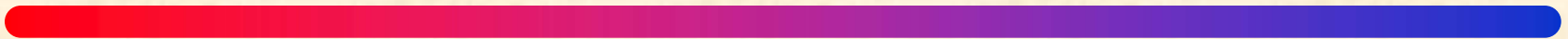
Mold Puts Wages at Risk

Construction of single-family homes supports \$8 billion - \$9 billion in wages in construction and related industries in states with biggest mold problems.

Source: National Association of Homebuilders, Insurance Information Institute

* Single family units, based on year 2000 construction figures

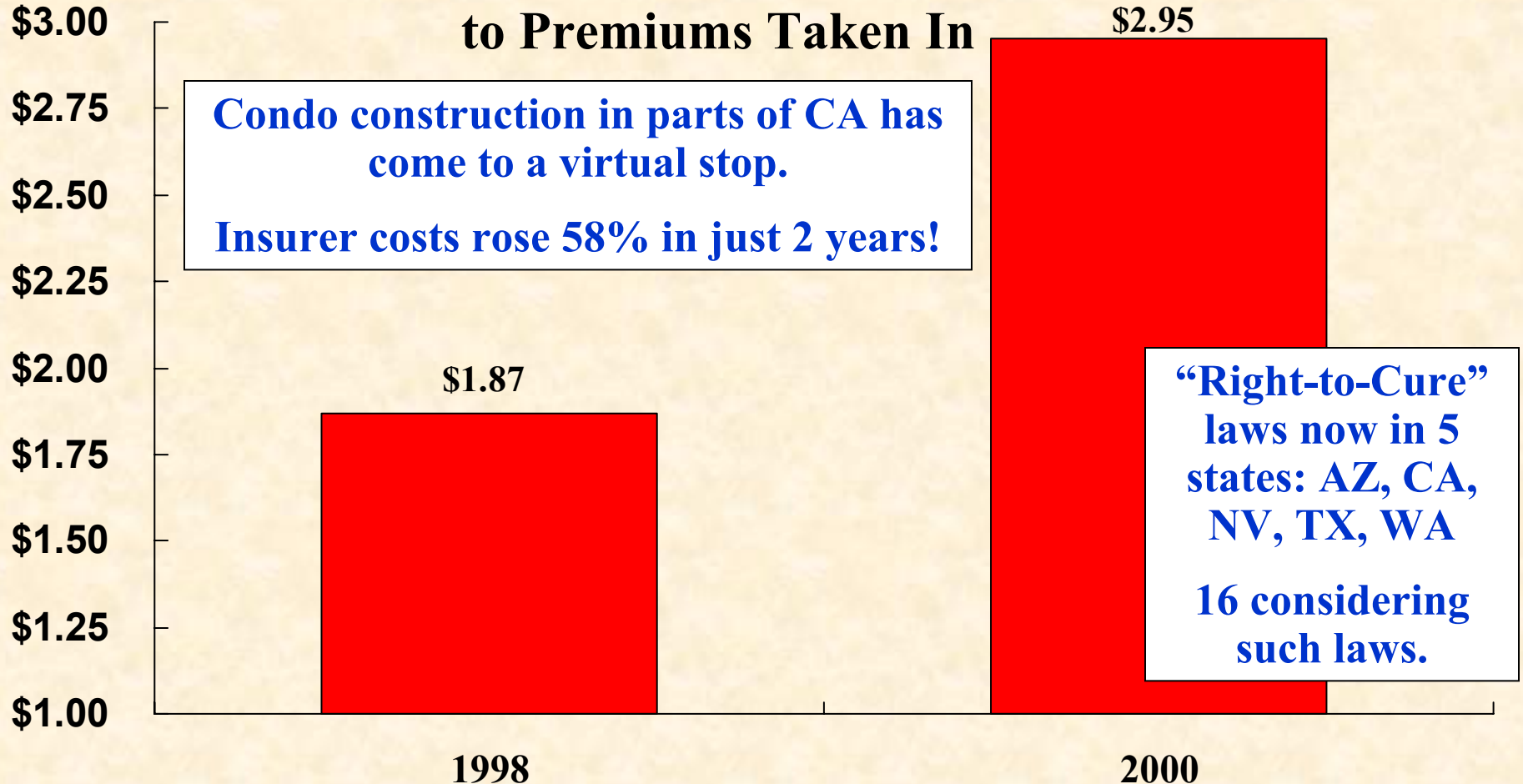
MOLD & COMMERCIAL INSURANCE





Construction Defect Litigation Destroying CA Condo Market

Ratio of Losses Paid Out to Premiums Taken In



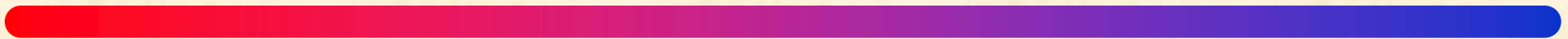


Where are the Next Battlefields for Mold?

- Homeowners issue probably crested in 2002
- Migration to commercial area affects many lines:
 - Commercial Property Commercial Liability
 - Products Liability Builders Risk/Construction Defects
 - Workers Comp...(very little)
- Hot Spots:
 - Apartments/Condos/Co-ops Office Structures
 - Schools Municipal Buildings
 - Cars? (GM case in NC)
- Trend toward class actions since science doesn't support massive individual non-economic damages
 - Much more lucrative for trial lawyers to form class

TEXAS INSURANCE REFORM:

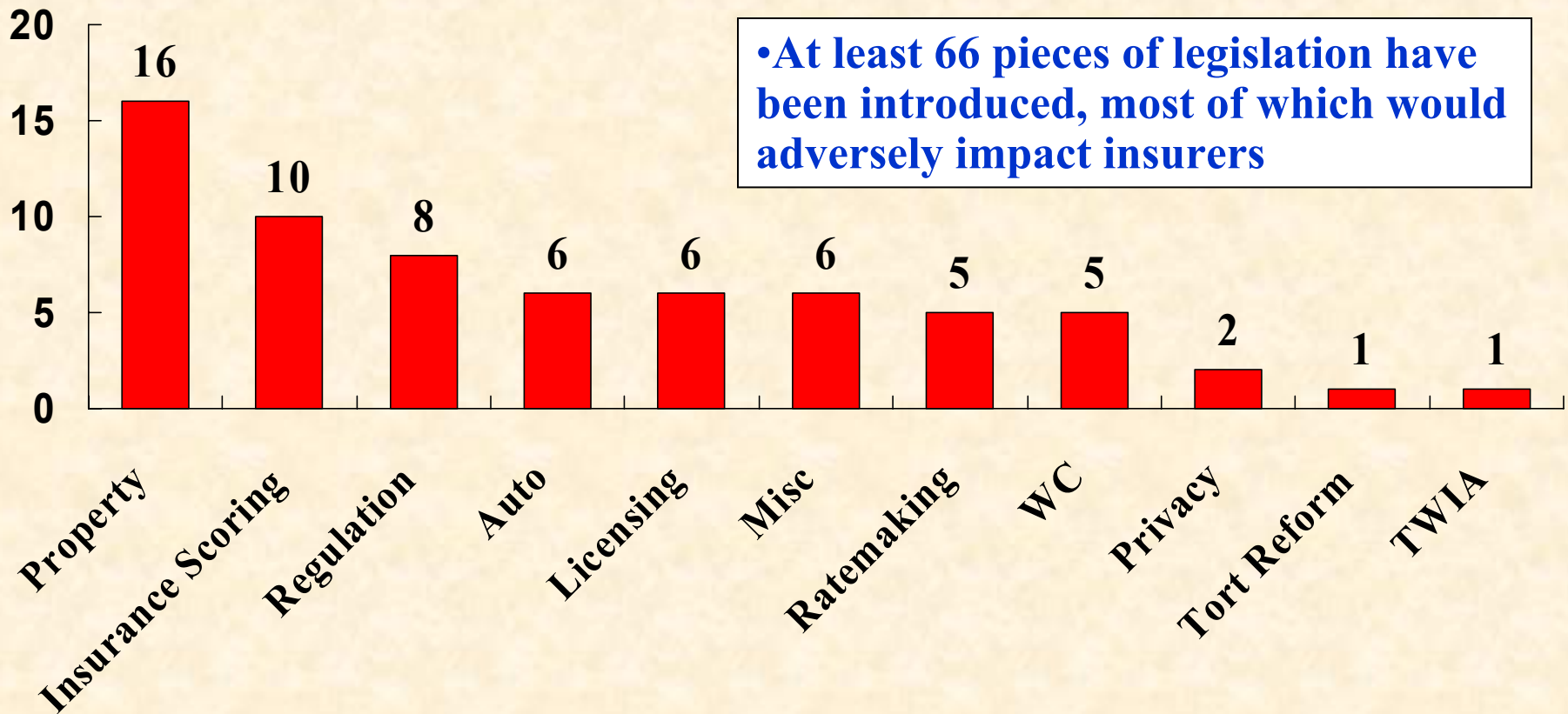
IS MORE REGULATION THE ANSWER?





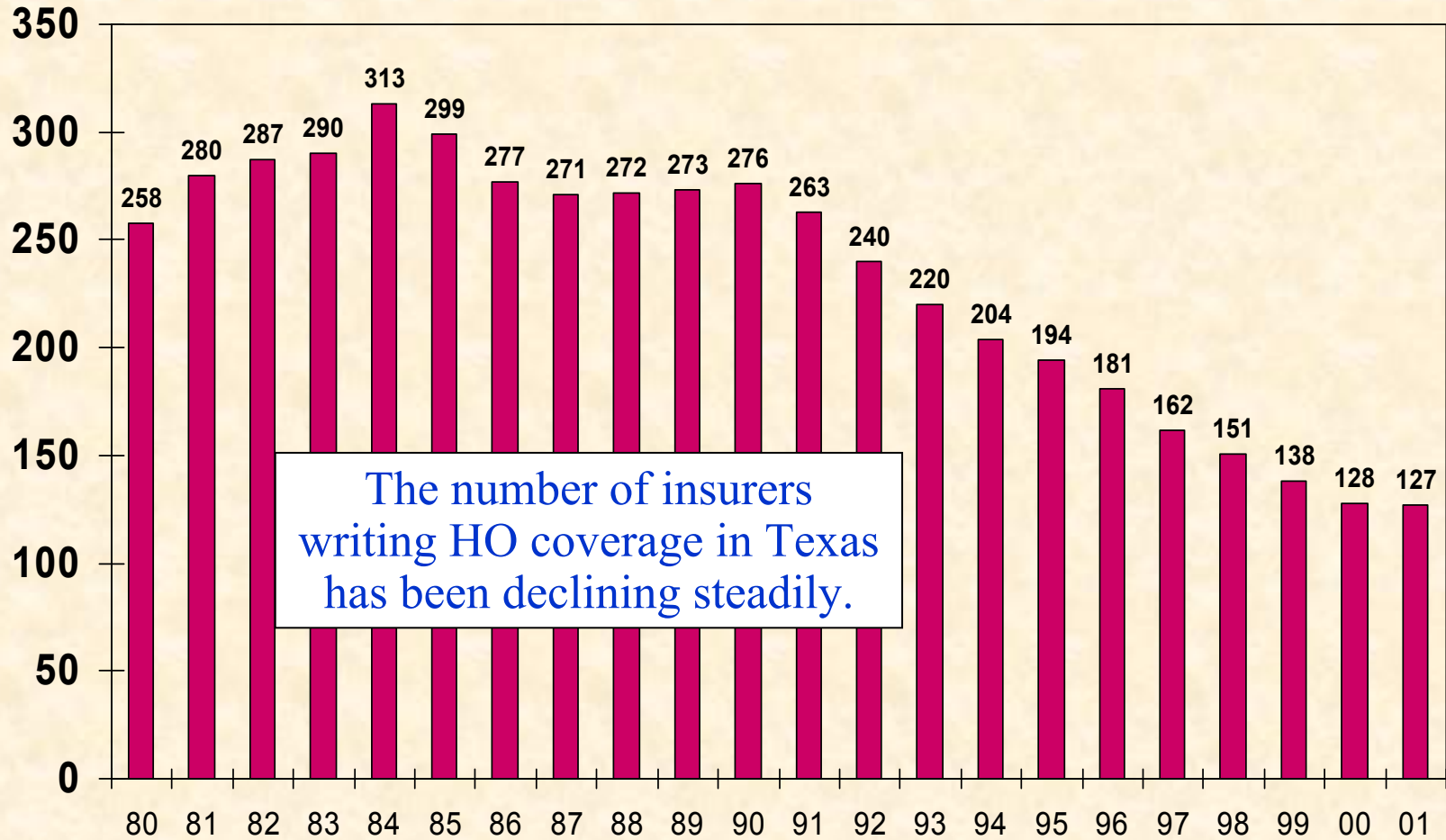
Texas Insurers Drowning in a Sea of New Regulation in 2003

Number of House/Senate Bills Introduced that Could Impact Insurers (as of Jan. 31)





Number of Homeowners Insurers in Texas



Road to Reform:

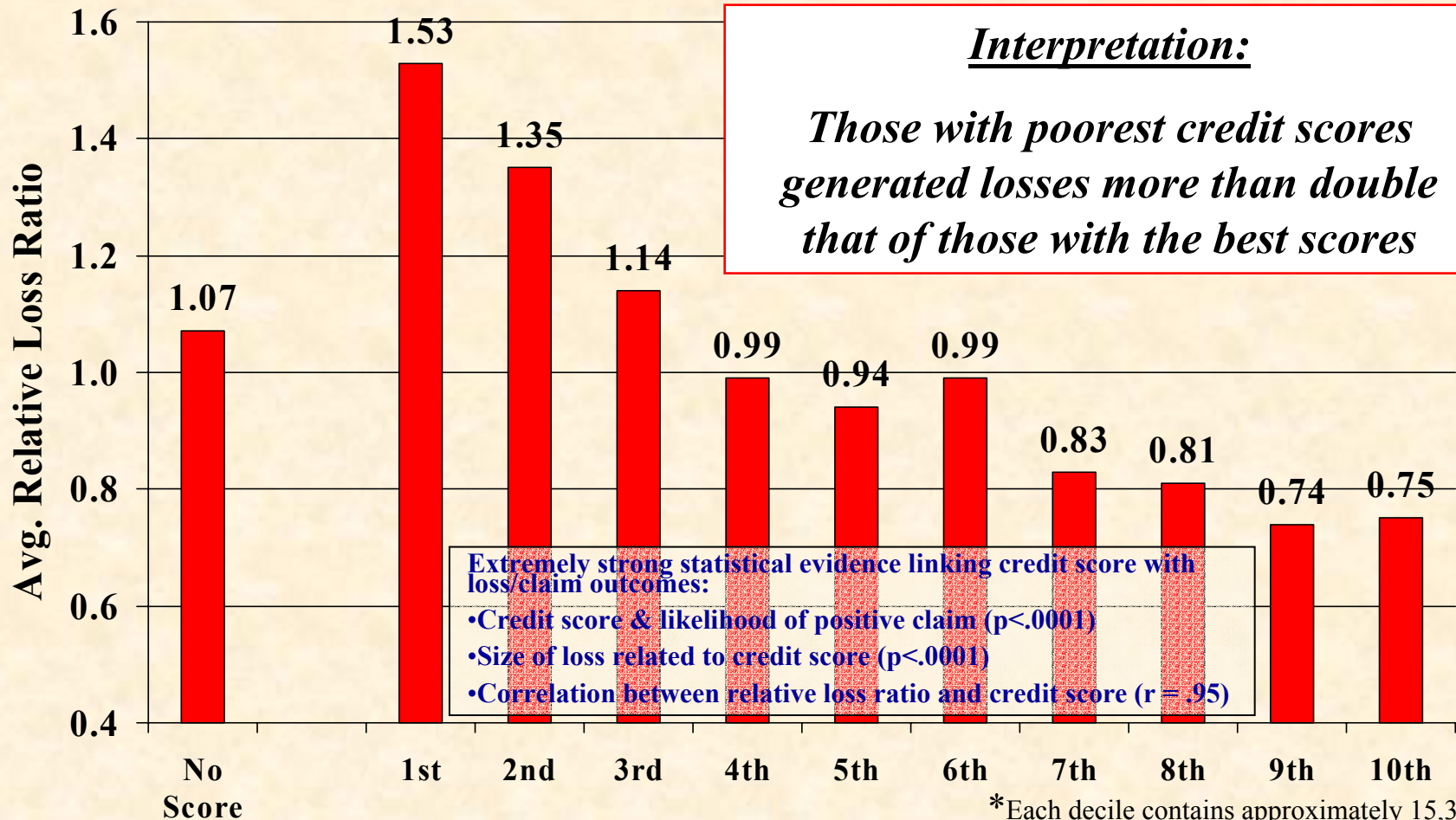


A Lot Like the Road to Baghdad

- It is a myth that insurers in TX are “unregulated”
 - E.g., solvency, forms...
- Solution to TX insurance problems will not be found in new, expansive, and expensive regulations as proposed
- Need market-based solutions that work to attract/retain insurers and fresh capital, not drive them away
- Issue needs to be de-politicized
- Prior approval will increase insurer and TDI expenses and increase politicization of insurance regulation
- Prior approval increases lag between recognition of change in trend and implementation of rate change
- Insurers need access to modern, fair and efficient underwriting tools such as credit



Texas Auto: Relative Loss Ratio (by Credit Score Decile, Total Market)*



Interpretation:
Those with poorest credit scores generated losses more than double that of those with the best scores

Extremely strong statistical evidence linking credit score with loss/claim outcomes:

- Credit score & likelihood of positive claim (p<.0001)
- Size of loss related to credit score (p<.0001)
- Correlation between relative loss ratio and credit score (r = .95)

1st Decile = Lowest Credit Scores
10th Decile = Highest Credit Scores.

Score Range

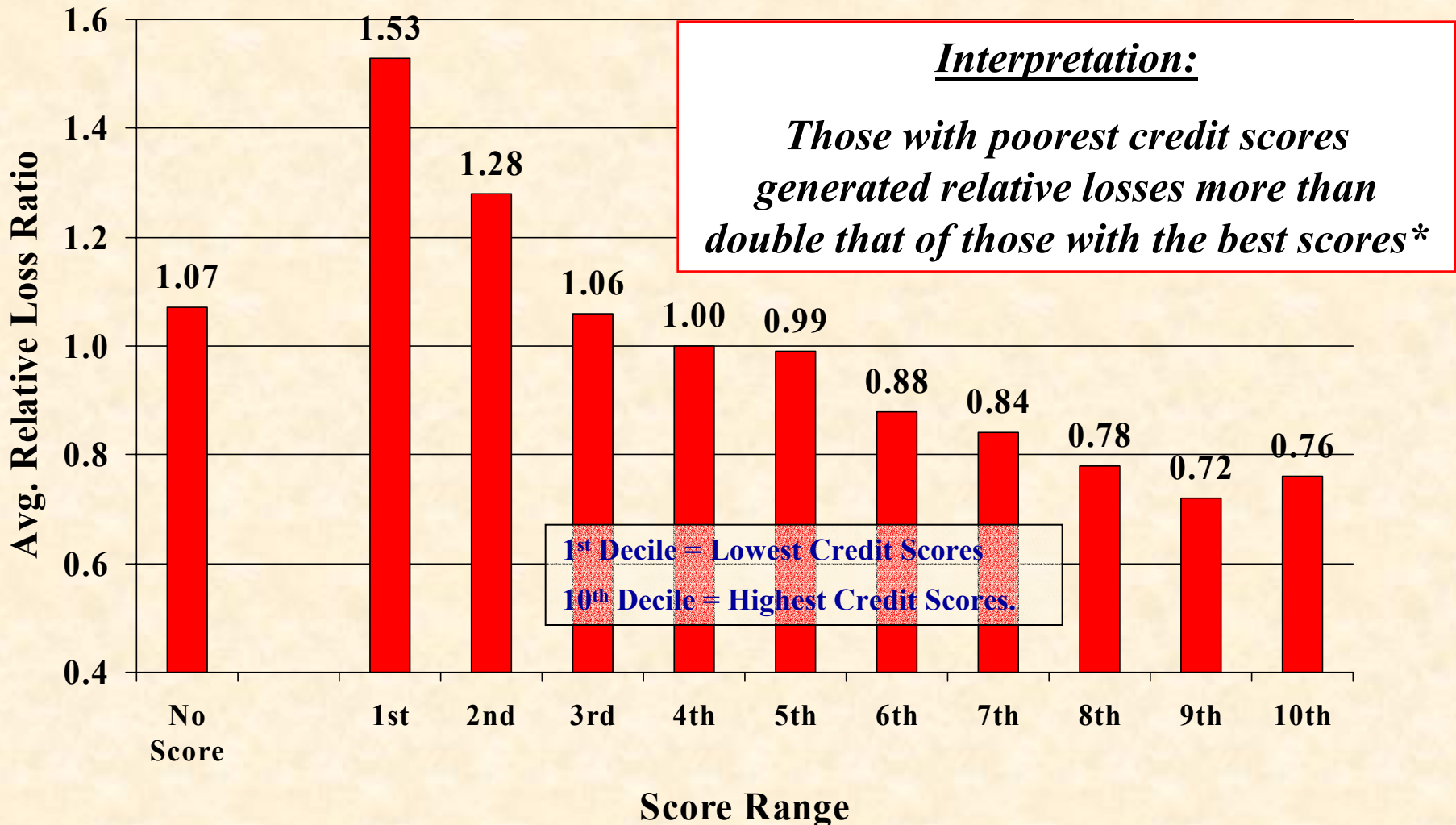
Source: University of Texas, Bureau of Business Research, March 2003.

*Each decile contains approximately 15,300 policies.
Includes standard and non-standard policyholders.



Texas Auto: Relative Loss Ratio

(by Credit Score Decile, Standard Market)

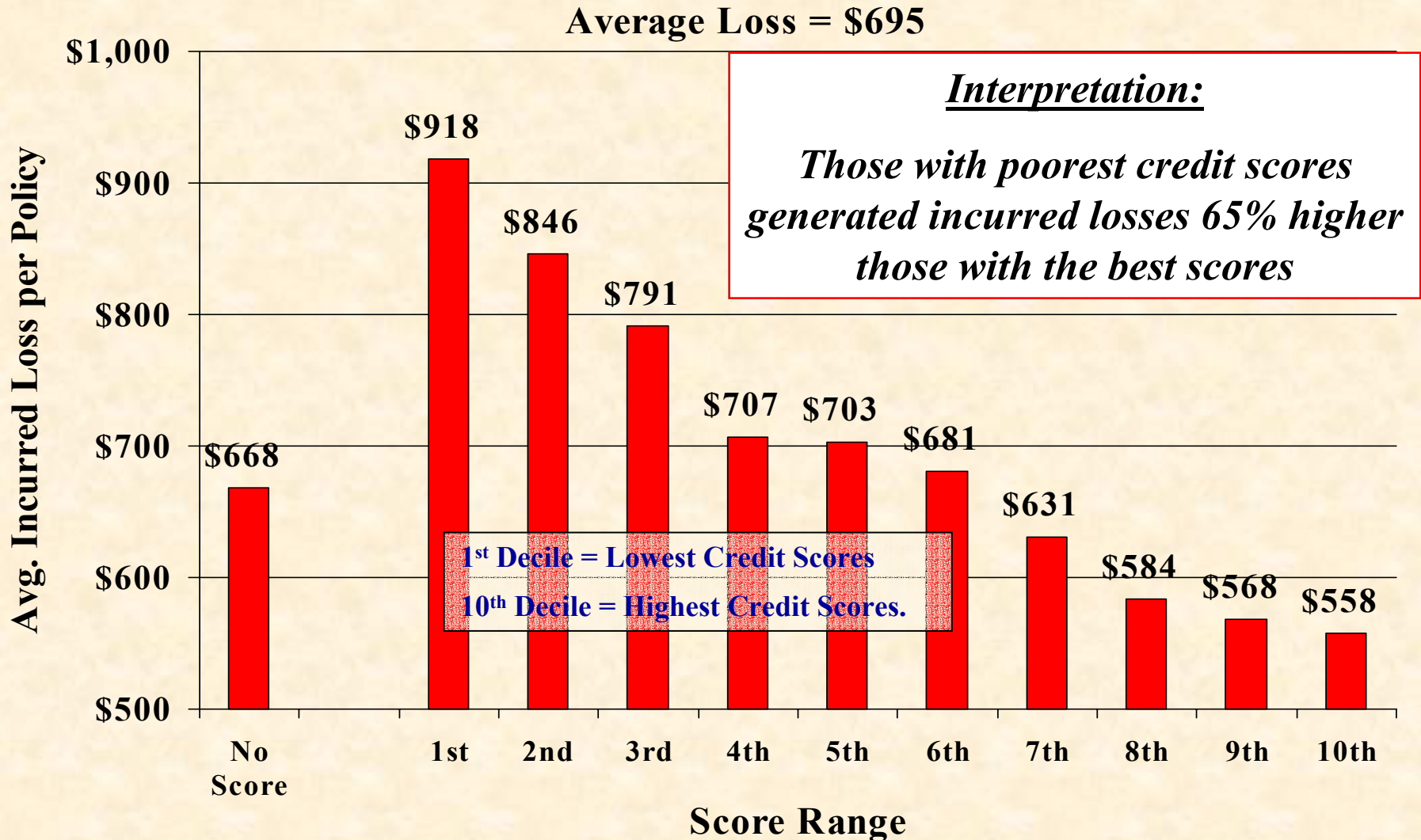


*Correlation between relative loss ratio and credit score is .95 and statistically significant.
Source: University of Texas, Bureau of Business Research, March 2003.



Texas Auto: Average Loss per Policy

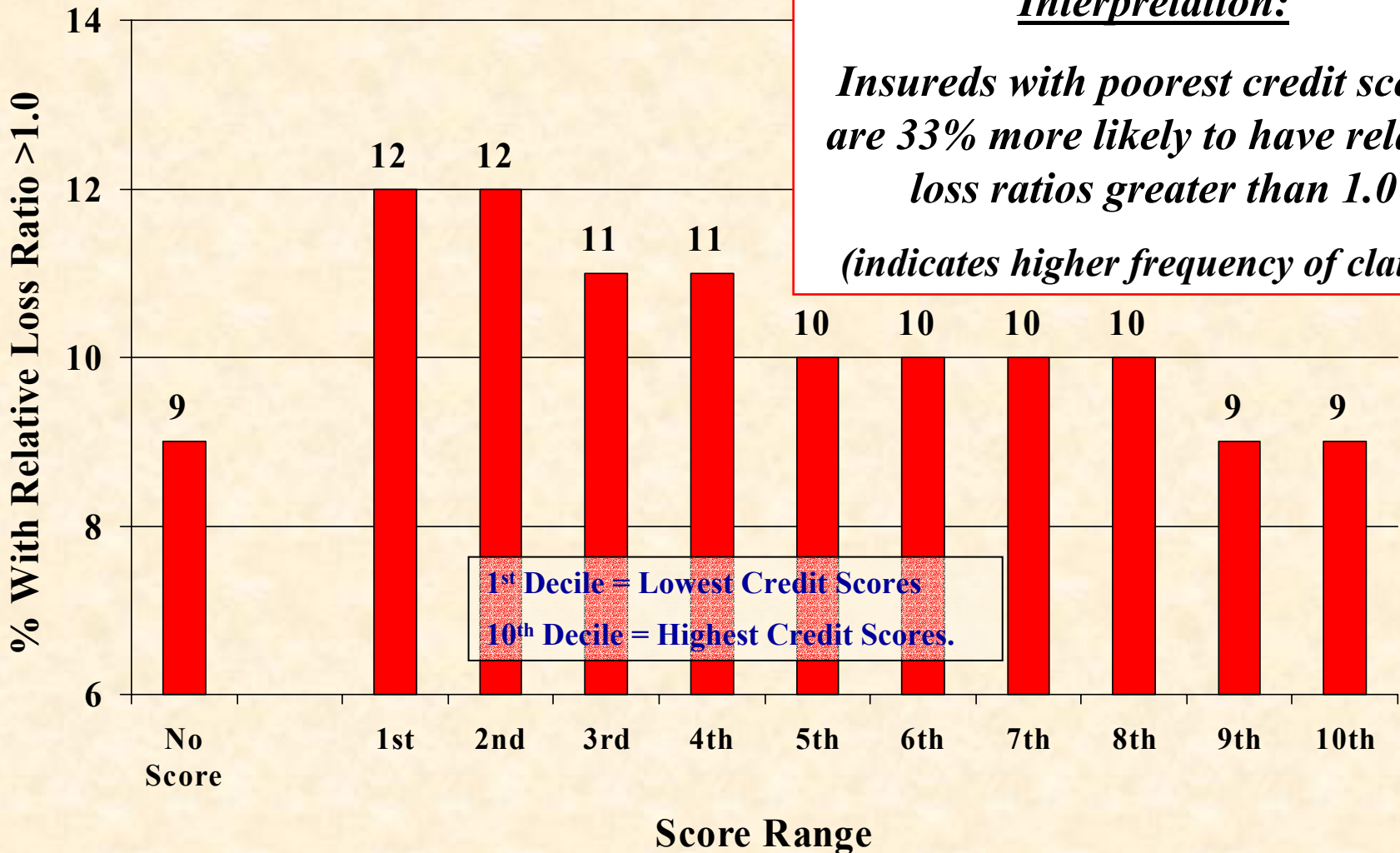
(by Credit Score Decile, Total Market)





Texas Auto: % Insureds with Relative Loss Ratio Above 1.0

(by Credit Score Decile, Total Market)



Interpretation:

Insureds with poorest credit scores are 33% more likely to have relative loss ratios greater than 1.0 (indicates higher frequency of claims)

1st Decile = Lowest Credit Scores
10th Decile = Highest Credit Scores.



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