



Report

TO

**GOVERNOR ANDREW M. CUOMO
AND
THE NEW YORK STATE LEGISLATURE**

PURSUANT TO

SECTION 5402 (g) OF THE INSURANCE LAW

IN RELATION TO

**BROAD FORM AND REPLACEMENT COST POLICIES ISSUED BY
THE NEW YORK PROPERTY INSURANCE
UNDERWRITING ASSOCIATION**

**New York State Department of Financial Services
Maria T. Vullo
Superintendent**



NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

December 21, 2017

Governor Andrew M. Cuomo
The Executive Chamber
State Capitol
Albany, NY 12224

In accordance with Section 5402(g) of the Insurance Law as amended by Chapter 542 of the Laws of 2013, please find attached the Report by the Department of Financial Services on the number of broad form and replacement cost policies issued by the New York Property Insurance Underwriting Association for the ten-year period beginning on June 30, 2008.

Respectfully submitted,

Maria T. Vullo
Superintendent of Financial Services

cc: Hon. John J. Flanagan
Hon. Jeffrey D. Klein
Hon. Andrea Stewart-Cousins
Hon. James L. Seward
Hon. Carl E. Heastie
Hon. Brian M. Kolb
Hon. Kevin A. Cahill

**The Final Report to the Governor and Legislature
Pursuant to Section 5402(g) of the New York Insurance Law
Regarding Broad Form and Replacement Cost Policies
Issued by the New York Property Insurance Underwriting Association**

Article 54 of the Insurance Law was amended by Chapter 136 of the Laws of 2008, effective June 30, 2008. Among its provisions, Chapter 136 (as amended by Chapter 542 of the Laws of 2013) amended Insurance Law §5402(g) to allow the New York Property Insurance Underwriting Association (NYPIUA) “to offer broad form coverage for a period of ten years beginning on June 30, 2008. The association is required to report to the superintendent as to the number of policies written pursuant to Section 5402(g) and paragraph 5405(f)(3) of the insurance law. The superintendent shall report to the governor and the legislature regarding the number of policies issued pursuant to this section and such paragraph and shall include recommendations as to the continuation of such insurance offerings on or before January 1, 2018.”

NYPIUA is a joint underwriting association created in 1968 under the laws of the state of New York to act as an insurer of last resort for property owners that are unable to obtain basic coverage in the voluntary market. From its inception, NYPIUA offered fire insurance and extended coverage policies using the Basic Form only. As of June 30, 2008, the association’s charge was expanded by allowing it to offer the Broad Form policy as well. A Broad Form policy provides all coverages included in the Basic form, plus enhancements to the basic policy with the addition of coverage for perils such as: direct loss to property from burglary damage; weight of ice, snow or sleet; glass breakage; accidental discharge or overflow of water or steam; falling objects; freezing; artificially generated electrical current; collapse, tearing apart, cracking, burning or bulging; and volcanic eruption. By purchasing the Broad Form policy, property owners insured by NYPIUA are provided coverage that is more closely aligned with policies commonly sold in the voluntary market.

NYPIUA’s broad form (DP-2) policy form was first approved by the Insurance Department, and NYPIUA began issuing DP-2 policies, on April 1, 2009. This report, submitted in compliance with the Chapters cited, is based on data provided by NYPIUA of the number of policies written from April 1, 2009 through September 30, 2017, in accordance with Insurance Law §5402(g).

NYPIUA policies generally provide for payment of losses on an actual cash value basis. Actual cash value is the amount it would cost to repair or replace the damaged or destroyed property less wear and tear, or depreciation. Replacement cost is the full amount it would cost to actually repair or replace the property at the present location. Section 5405(f)(3) provides that policies written in conjunction with a voluntary market policy that includes a “wraparound” endorsement may provide coverage on a replacement cost basis. Wraparound coverage, available to property owners in New York’s coastal areas, provides the enhanced coverages for property as provided in a standard broad form policy, and in addition provides liability insurance for injury or damage to others. Thus, insurance from NYPIUA on a replacement cost basis with a wraparound policy from a voluntary insurer makes available the equivalent of a standard homeowners insurance policy to residents in coastal areas of the state.

As reported by NYPIUA, from April 1, 2009 through September 30, 2017 a cumulative total of 104,704 Broad Form (DP-2) policies were issued. Of those, 86,716 policies were actual cash value policies and the remaining 17,988 policies were replacement cost policies. During the same period, NYPIUA also issued a cumulative total of 335,963 Basic Form (DP-1) policies, consisting of 320,159 written on an actual cash value basis and 15,804 written on a replacement cost basis. These totals represent the sum of the policies issued for the ten-year period, which includes both new policies and the yearly renewal of policies previously issued.

The following chart summarizes the total number of Broad Form (DP-2) policies, both actual cash value and replacement cost, issued by NYPIUA from April 1, 2009 through September 30, 2017. Appendix A contains detailed information by year.

Summary of Broad Form Policies Written (DP-2)

Period	Cumulative # of Policies			New Policies Issued		
	Actual Cash Value Policies Written	Replacement Cost Policies Written	Total Policies Written	Actual Cash Value Policies Written	Replacement Cost Policies Written	Total Policies Written
4/1/09-12/31/09	2,419	112	2,531	1,736	324	2,060
1/1/10-12/31/10	6,121	783	6,904	2,837	534	3,371
1/1/11-12/31/11	8,655	2,013	10,668	2,658	873	3,531
1/1/12 – 12/31/12	10,136	2,419	12,555	2,396	238	2,634
1/1/13 – 12/31/13	12,256	2,710	14,966	2,759	279	3,038
1/1/14 – 12/31/14	13,362	2,763	16,125	2,189	115	2,304
1/1/15 – 12/31/15	13,162	2,737	15,899	1,656	63	1,719
1/1/16 – 12/31/16	12,182	2,587	14,769	1,072	30	1,102
1/1/17 – 9/30/17	8,423	1,864	10,287	885	16	901
Total	86,716	17,988	104,704	18,188	2,472	20,660

Similarly, the following chart summarizes the total number of Basic Form (DP-1) policies, both actual cash value and replacement cost, issued by NYPIUA from April 1, 2009 through September 30, 2017. Appendix B contains detailed information by year.

Summary of Basic Policies Written (DP-1)

Period	Cumulative # of Policies			New Policies Issued		
	Actual Cash Value Policies written	Replacement Cost Policies Written	Total Policies Written	Actual Cash Value Policies Written	Replacement Cost Policies Written	Total Policies Written
4/1/09-12/31/09	49,920	2,444	52,364	2,962	358	3,320
1/1/10-12/31/10	44,943	2,408	47,351	1,875	47	1,922
1/1/11-12/31/11	41,464	2,160	43,624	1,543	21	1,564
1/1/12 – 12/31/12	37,969	1,911	39,880	1,203	9	1,212
1/1/13 – 12/31/13	35,617	1,729	37,346	1,289	11	1,300
1/1/14 – 12/31/14	33,232	1,578	34,810	1,100	2	1,102
1/1/15 – 12/31/15	30,864	1,436	32,300	975	1	976
1/1/16 – 12/31/16	27,528	1,270	28,798	746	6	752
1/1/17 – 9/30/17	18,622	868	19,490	705	2	707
Total	320,159	15,804	335,963	12,398	457	12,855

Findings:

In analyzing NYPIUA's annual reports, we note a steady increase in the number of broad form policies issued by NYPIUA during the period of April 1, 2009 through December 31, 2013. Although the number of such policies has decreased modestly since then, the reports indicate that consumers are now purchasing more new broad form policies relative to basic policies. Additionally, the modest reduction in recent years reflects the trend of NYPIUA personal policies in-force overall. This decline in NYPIUA's policies may be attributed to an increase of voluntary insurers entering the homeowners insurance market, which suggests that NYPIUA is effectively fulfilling its intended role as the residual market insurer for property owners.

Recommendation:

Offering broad form policies by NYPIUA makes an admitted market policy available to homeowners who might otherwise be forced to seek coverage from nonadmitted insurers in the excess lines market, where the rates and forms are not subject to the Department's review and approval. The Department strongly prefers admitted market policies. We recommend that the Legislature extend the provisions of §5402(g) to continue to make Broad Form policies available through NYPIUA.