Do Perils Exist Here?
Consumers and Insurance
Day-to-Day with Housing

Dr. William Hardin
Director of the Jerome Bain Real Estate Institute
Florida International University
Miami, FL
General Characterization of the US Insurance Market – Personal Lines

- High degree of State regulation
- Often linked to financing
- Needs differ by area
- Needs differ by type, sophistication of market participant
- Often highly political
- Sold in a market that is fragmented, confused, and financially illiterate
THINKING LIKE THE END CONSUMER

- Health/dental/disability/life insurance
  - Unknown underwriting/needed for many
  - Forthcoming changes
- Auto Insurance
  - Mandated coverage
  - Can be churned
- Property/housing insurance
  - For many, most basic like auto
  - Mandated coverage
- Liability/umbrella policies
The Present Focus - Housing

- Housing specific policies/needs
  - Title insurance
  - Standard policies
    - Perils Wind
    - Perils Flood
    - Perils Earthquake

- Distribution

- Mandates
  - Financing
  - Government directed
INSURANCE IN THE HOUSING MARKET

- Availability
  - Potentially limited
  - Based on geography/location
  - Uncertainty of cost

- Distribution
  - Breakdown in channels of distribution
  - Centralized and decentralized

- Cost
  - Can be high
  - But may be not high enough
THE REAL ESTATE MINE FIELD

- Financial illiteracy
  - Buyers
  - Distributors

- Underwriting
  - Property location
  - Property condition
  - Insured’s capacity
  - Insured’s creditworthiness
  - Cost interaction
AT LEAST TWO TYPES OF FUN

- Excellent properties and easily insured owners
  - Needed coverage
  - Required coverage

- Poor properties with problematic owners
  - Older properties
  - Unmaintained properties
  - Unprotected properties
  - Poorly located structures
  - Poor ownership structures
  - Financially constrained insured
### Obligatory 4 Quadrant Model

<table>
<thead>
<tr>
<th>Poor quality property</th>
<th>Poor quality property</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent quality insured</td>
<td>Poor quality insured</td>
</tr>
<tr>
<td>Excellent quality property</td>
<td>Excellent quality property</td>
</tr>
<tr>
<td>Excellent quality insured</td>
<td>Poor quality insured</td>
</tr>
</tbody>
</table>
WHERE IS THE REAL ESTATE MARKET?

- Segmented
  - Quality of asset
  - Type/quality of buyer/insured
- Cash buyers
  - Lower end
  - Higher end
- Affordable housing
  - Rental
  - Owner markets
Other head winds and thoughts

- Basic conjecture – more pressure on lower end of the market due to economics, transaction costs, etc…
- Little tax benefit to ownership for households lower than $150,000 in income and especially for median home buyers
- Debt-to-Income ratios misrepresent cost of ownership as lower income households are not subsidized
- Insurance issues are more of a hindrance than a cause
- BUT, improvement in distribution channels, literacy campaigns, cost reduction ideas are needed