



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

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# 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

<b>Poor quality property Excellent quality insured</b>	<b>Poor quality property Poor quality insured</b>
Excellent quality property Excellent quality insured	Excellent quality property Poor quality insured

# 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