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The Impact of Hardening in the Homeowner's Insurance Market on Ohio Residential Real Estate Brokerage Markets

Joseph Coleman
Wright State University - Main Campus, joseph.coleman@wright.edu

James E. Larsen
Wright State University - Main Campus, james.larsen@wright.edu

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Joseph W. Coleman
Associate Professor, Department of Management Sciences and Information Systems
Raj Soin College of Business
Wright State University
Dayton, Ohio 45435
Phone: (937) 775-2648
Fax: (937) 775-3545
Email: joseph.coleman@wright.edu

James E. Larsen
Professor, Department of Finance and Financial Services
Raj Soin College of Business
Wright State University
Dayton, Ohio 45435
Phone: (937) 775-2870
Fax: (937) 775-3545
Email: james.larsen@wright.edu

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The Impact of Hardening in the Homeowner's Insurance Market on Ohio Residential Real Estate Brokerage Markets

Executive Summary

A recently released study sponsored by the National Association of REALTORS® (NAR) documents hardening in the homeowner's insurance market nationwide; i.e., property insurance premiums have increased sharply and coverage availability has often been limited. The NAR study did not, however, investigate the impact of this hardening on residential real estate transactions, nor did it include an examination of the transactional impact resulting from the increasing propensity of insurance companies to require property modifications as a condition of issuing a policy. In the present study, survey data collected from 406 members of the Ohio Association of REALTORS® (OAR) is used to analyze these issues.

Data in the NAR study suggests the impact of hardening in the property insurance industry on Ohio real estate markets may not be severe. The results of the present study tend to support this suggestion. Almost 69% of the respondents reported that they had never encountered an insurance-related problem. However, the rest reported being involved in 509 delayed transactions and 89 lost transactions. Based on these figures, we conclude that difficulty in obtaining property insurance is more likely to result in a delay rather than a lost transaction, and estimate that approximately 6% (1%) of all residential real estate transactions in Ohio were delayed (lost) due to hardening in the property insurance industry during 2003. No significant regional differences (based on OAR districts) are discovered.

Both delayed and lost transactions are more likely, by a ratio of roughly 4 to 1, to result from problems with the property as opposed to problems associated with the buyer. However, several buyer-related characteristics associated with delayed and lost transactions are identified, including first-time home buyers and buyers who locate the insurance company without

assistance from a real estate agent or lender. In addition, a buyer with little/bad/or no credit history is more likely to encounter difficulties in obtaining coverage. The most frequently cited cause of delayed transactions was the insurance company demanding property modifications (required most frequently to update outdated electrical systems), and the most frequently cited cause of lost transactions was cost of insurance coverage.

One of the objectives of this study was to identify the actions Ohio real estate licensees are taking to mitigate insurance-related problems. Accomplishing this task was complicated by the fact that the majority of respondents indicated that they do nothing. As previously mentioned, approximately 80% of delayed and lost transactions were due to problems with the property, but most of the actions taken by the respondents address buyer-related issues. A comparison of 100 respondents who took action and reported no insurance-related problems with 77 respondents who took action and encountered problems did not enable us to gauge the effectiveness of any particular action, perhaps because the latter group was reacting to problems rather than acting proactively. A list of actions that may prevent insurance-related problems is included in the Appendix to this report.

Survey participants were asked their opinion of the situation in Ohio. They were almost evenly split on whether current premium levels are a problem, but a majority of them believe that insurance cost is becoming more problematic. Respondent opinion regarding availability of coverage was more one-sided. A plurality believes that insurance availability is not currently a problem, and a larger plurality believes the situation is becoming more problematic. If the majority/plurality opinions are correct, the need for increased licensee knowledge of ways to avoid insurance-related problems and how to effectively address problems once they occur will soon become more critical.

The Impact of Hardening in the Homeowner's Insurance Market on Ohio Residential Real Estate Brokerage Markets

Introduction

The twenty-first century did not start well for the nation's property and casualty insurers. The seeds of the industry's recent problems, however, were sewn during the 1990's when competition between insurers caused premiums to lag behind cost increases. With the start of this century, the industry was hard hit by a number of factors including an extraordinary number of claims from catastrophic events (e.g., storms, wild fires and earthquakes), rising repair costs, inadequate premiums, and staggering claims from the September 11 terrorist attacks. Companies writing homeowner's policies also had to cover large jury awards for the latest environmental concern - toxic mold. Mold claims, virtually unheard of just a few years ago, cost insurers more than $1 billion in 2001. For the year 2001, total claims reached $381 billion, an increase of 86 percent over claims made in 2000. In addition, sagging securities markets resulted in reduced investment income for insurers.

In 2001, property and casualty insurers reported losing $9 billion compared to a $27 billion profit in 2000. State Farm (the country's largest home insurer with policies on more than 15 million homes nationwide) alone reported a $5 billion loss in 2001. In an attempt to stabilize its financial condition, the company announced that it would stop writing new homeowner's policies in 20 states and applied to state insurance regulators for (in many cases double-digit) rate increases for existing policies. Another way insurers have attempted to strengthen their financial position is to reduce the possibility of claims by tightening their underwriting procedures. It is now more common for insurers to conduct detailed property inspections and require property modifications as a condition of issuing a policy.

Observations by industry authorities highlight the significance of the problem in recent years. The Insurance Information Institute reports that the average cost of homeowner's insurance increased by 8% in 2002 and 7.8% in 2003. According to Cathy Whatley, President of the National Association of REALTORS® (NAR) the high cost of homeowner's insurance premiums and the lack of available coverage have become significant barriers to homeownership; most affected are buyers with no credit history and people attempting to purchase a property with prior water-related claims. NAR considered this problem so significant that they established an Insurance Task Force in September, 2002. The task force was charged with assessing the state of affairs, exploring solutions, and developing an appropriate role for NAR to help its state associations address what they considered to be a serious availability/affordability problem (its recommendations are shown in the appendix to this report).

Hardening of the insurance market can impact a number of groups, including current real property owners, those considering the purchase of real property, real estate licensees and their regulators.[1] If homeowners insurance is unavailable, the impact on the real estate brokerage industry is obvious. Problems may occur even if insurance is available at increased cost because insurance is a necessary component in securing a mortgage. Higher insurance premiums may result in some mortgage loan applicants failing to meet the 28%/36% underwriting standards required by conventional lenders. In addition, some would be home purchasers that still qualify for a mortgage loan may decide that the cost is prohibitive. In either case, fewer transactions will occur.

[1] The results of a recent OAR membership survey indicate that the availability of residential and commercial property insurance is one of the most important issues they face in the near future. Seventy-one percent of the respondents rated this issue as "very important" or "important" on a five-point Likert scale. "2004 OAR REALTOR® Member Survey Findings." Ohio Association of REALTORS®. Columbus, Ohio.

There are some indications that the insurance industry may be turning the corner. The Insurance Information Institute estimates that homeowner's insurance premiums will increase by only 2.8% in 2004, and Weiss Ratings, Inc. reports total insurance industry earnings for the first quarter of 2004 at $13.6 billion.[2] This includes $5.5 billion in underwriting profit (the first time this figure has been positive in the last five years).

The present study focuses on the impact of the hardening homeowner's insurance market on residential property transactions in Ohio. The primary purpose of this study is three-fold. First, to quantify the impact on residential transactions resulting from higher insurance premiums/reduced availability, and the increasing propensity of insurance companies to demand property modifications as a condition of issuing a policy. Second, to identify factors related to the problem (e.g., regional differences, property value, and buyer characteristics). Third, to discover the actions Ohio real estate licensees are taking to mitigate the problem. To accomplish these objectives, the responses to a survey mailed to a geographically proportional random sample of Ohio REALTORS® are analyzed.

The remainder of this paper is organized in the following manner. In the next section we briefly review the report commissioned by NAR to investigate property insurance price and availability trends; focusing on information pertinent to Ohio. In the third section, we present information about the Ohio FAIR Underwriting Association. In the fourth section, we detail the survey responses. In the fifth section, our analysis of the survey data is presented. The Appendix includes a list of actions REALTORS® can take to avoid/address insurance-related problems and a proposed Action Plan to increase licensee and public awareness of the situation.

[2] Information provided by these organizations can be viewed at www.iii.org and www.weissratings.com. The III forecast was made before the devastating 2004 hurricane season.

National Association of REALTORS® (NAR) Study

Grace and Klein (2003) examine market structure and performance indicators to quantify property and casualty insurance price and availability trends nationwide.[3] They report considerable variation across states, but in general found that residential and commercial property insurance premiums have risen sharply in recent years and that coverage availability has often been limited with some homeowners being forced to switch to state-sponsored insurance plans which typically offer more limited coverage.[4] Their study includes information that indicates that while the situation in Ohio may be serious, it may not be as critical as in many other states. For example, they report that as of the third quarter of 2002, the average premium per insured household in Ohio was the third lowest of any state: $365. The national average premium paid per insured household at the same time was $632.[5] In addition, they report that the percentage increase in average premium per insured household in Ohio from 1997 to 2002 was significantly less than nationwide: 28.3% compared to 39.9%. Only nine states experienced a lower rate of increase over the period 1997-2002.[6]

Grace and Klein found the measurement of homeowner's insurance availability a bit more difficult. One commonly used measure of insurance availability is the number, or proportion, of policies issued through state-sponsored FAIR plans.[7] They report that in 2001, 30,581 policies with a value of $4,817,759,000 issued through the Ohio FAIR Underwriting Association were

[3] The full report can be viewed at www.realtor.org/Research.nsf/files/frgraceklein.pdf/$FILE/frgraceklien.pdf. Grace, Martin F. and Robert W. Klein. "Overview of Recent Developments in Residential & Commercial Property Insurance." National Association of REALTORS. July 8, 2003.

[4] Less desirable "non-standard" policies (with higher premiums, larger deductibles, and/or more exclusions) are also available through the private sector.

[5] Homeowners in California paid the highest average premium: $1,246 and homeowners in Delaware paid the lowest average premium: $341.

[6] However, for the year 2002, homeowners in 28 states experienced a lower percentage rate change than the 15-19% increase paid by homeowners in Ohio.

[7] A problem with this measure is that only thirty states have such plans. Another is that it does not reflect the extent to which homeowners have been effectively forced to switch to private insurers that they prefer less.

outstanding.[8] This figure represented approximately one percent of the value of all outstanding homeowner's policies in the state, and the one percent share put Ohio in sixteenth position of the thirty states with a FAIR plan.[9] However, the number (value) of policies insured through the Ohio FAIR Underwriting Association increased by 23.7% (25.8%) between 1999 and 2001. Over the same time period the number of FAIR Plan policies outstanding in all states with Plans decreased by 14.7%, and the value of all state Plan policies increased by only 2.3%.

Grace and Klein suggest that nationwide the situation may be improving. In several Midwestern states, including Ohio, weather-related perils appear to be significant cost drivers and there is little one can do to control these events. However, the value of securities portfolios held by homeowner's insurance companies began to improve in late 2002 and the supply of homeowner's insurance may be beginning to increase in some states which should have a beneficial impact on premium cost and policy availability.[10] This is more likely to occur in states where rates have reached adequate levels and costs appear to be under control. Regarding rate levels, Grace and Klein report that premiums needed to be increased by 3% in Ohio for insurers to earn an adequate rate of return (14%). Comparatively, again, the situation in Ohio is better than most other states. There were only seven states in 2003 where insurance rates were closer to adequate than in Ohio. Finally, they report that the average loss per insured household in Ohio for the third quarter, 2002 was $276. This figure compares favorably to the national average loss per insured household of $486 at the same time, and also compares favorably to the previously mentioned $365 average premium per insured Ohio household.

[8] HO2, HO3, and HO8 policies are available through the Ohio FAIR plan.

[9] At the current time, 31 jurisdictions have FAIR Plans or offer assistance in obtaining coverage: Alabama, California, Connecticut, Delaware, District of Columbia, Florida, Georgia, Hawaii, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, New Jersey, New Mexico, New York, Ohio, Oregon, Pennsylvania, Rhode Island, Virginia, Washington, West Virginia and Wisconsin.

[10] Weiss Ratings, Inc reports that capital gains realized by the insurance industry during the first quarter of 2004 was $3.2 billion compared to $1.1 billion for the first quarter of 2003.

Grace and Klein do not empirically examine the linkage between hardening of the homeowner's insurance market and real estate markets, but they warn that further hardening will affect the real estate market and the costs associated with the timely buying and selling of property. Nor did they include an examination of the impact on transactions resulting from the increasing propensity of insurance companies to require property modifications as a condition of issuing a policy. The present study, therefore, extends the NAR study by investigating these issues through the analysis of survey responses from REALTORS® in Ohio.

The Ohio FAIR Plan Underwriting Association

One obvious result of the riots that occurred in inner cities across the United States during the 1960s was catastrophic property loss. Subsequently, private insurers were unable (or unwilling) to provide coverage for inner city properties and many property owners were left uninsured. Because proof of adequate insurance coverage is a normal prerequisite for mortgage origination, loans for inner city property improvements or acquisition became difficult or impossible to obtain. To address this problem, Congress passed the Federal Riot Reinsurance Act which went into effect on August 1, 1968. This law specified that the Federal government would provide reinsurance to insurance companies for catastrophic loss due to riot in those states that established a FAIR Plan. "FAIR" is an acronym for Fair Access to Insurance Requirements.

In 1968, Ohio was among the states that quickly implemented a FAIR Plan.[11] The Ohio FAIR Plan Underwriting Association (Plan) is regulated by the Department of Insurance of the State of Ohio and is an unincorporated association of all insurance companies that are approved

[11] Creation of the Plan was authorized by Section 2744.081 of the Ohio Revised Code. Interested readers can learn more about Ohio's FAIR Plan than we provide in this brief presentation by contacting either the Ohio FAIR Plan at: (614) 839-6446, (800) 282-1772, www.ohiofairplan.com or by contacting the Ohio Department of Insurance at: (614) 644-2658, www.ohioinsurance.gov.

to write fire insurance in Ohio by the State Insurance Commission. The insurance companies are required to be members in the association and to share in Plan losses (or profits) in proportion to the amount of business that they do in the state. Initially, coverage under the Plan was available only in the state's ten major urban areas: Akron, Canton, Cincinnati, Cleveland, Columbus, Dayton, Lima, Springfield, Toledo and Youngstown. The scope of the Plan has evolved. By 1977, the entire state was designated as eligible for coverage and the Plan is now used to make insurance coverage available for thousands of properties deemed uninsurable, due to a variety of circumstances, by the private sector.

Insurance coverage is available through the Plan for any eligible property at "standard" rates if coverage is unavailable in the voluntary insurance market (i.e., in order to qualify for a policy through the Plan the applicant must provide evidence that he/she has been rejected for coverage by two insurance companies). Given the findings of the present study, it is important to note that Plan underwriters do not consider the buyer's credit history (or environmental conditions). However, loss history is considered in determining the type of coverage that will be provided, and a (no-cost to the applicant) inspection of the property, conducted by an inspector assigned by the superintendent of the State Department of Insurance, is required to assure that the property meets FAIR underwriting standards.

Underwriting activity through the Ohio FAIR Plan for the period 1997 through 2003 is shown in Exhibit 1. The data in the exhibit provides evidence of continued hardening in the homeowner's insurance market, including the increase in the number of policies renewed. In addition, at year-end 2003, there were 70,761 policies in force. This figure represents almost 2% of all outstanding homeowner's policies in the state; up from almost 1% in 2002. The total

number of policies issued through the Plan increased by 64.5% between 2002 and 2003; more than twice the rate of increase from 1999 to 2001.[12]

EXHIBIT 1

Ohio FAIR Plan Underwriting Activity: 1997-2003

Year	Total Number Policies	Number of Renewals	Number of New policies	Written Premiums in $ Millions	Underwriting Loss in $ Millions
1997	28,500	18,694	9,806	7.2	2.9
1998	26,471	16,122	10,349	8.2	2.8
1999	24,731	17,535	7,196	8.2	3.0
2000	31,617	22,943	8,674	8.98	3.17
2001	30,581	20,771	9,810	10.66	3.48
2002	43,005	23,559	19,446	19.0	2.4
2003	70,761	34,398	36,363	28.9	3.0

Source: Ohio FAIR Plan

Survey Response Summary

On June 15, 2004 the survey (shown in the Appendix) was mailed to a geographically proportional random sample of 5,000 of the 31,500 members of the Ohio Association of REALTORS® (OAR). Usable responses were received from 406 licensees (8.12% response rate). Summary respondent demographic information is shown in Exhibit 2 with continuous variables shown in the upper panel and non-continuous variables presented in the lower panel.

Examination of the upper panel of Exhibit 2 shows that the 364 respondents with a sales associate license had, on average, 12.83 years of real estate experience. A broker license was

[12] For the first 7 months of 2004, Ohio FAIR Plan applications are down 9% from the same time period for 2003.

held by 42 respondents and including them, the average years of experience in real estate for all respondents was 14.76 years. The average respondent was 52.48 years of age and was involved in approximately 22 transactions that closed during 2003. The average value of these transactions was $152,361.

EXHIBIT 2

Survey Respondent Characteristics

Continuous Variables

Variable	Mean	Number of Responses	Minimum Value	Maximum Value	Standard Deviation
Years as a Sales Associate	12.83	404	0.5	53	9.30
Total Years in Real Estate	14.76	404	0.5	53	10.40
Respondent Age	52.48	401	21	82	12.19
Number of Transactions in 2003	21.93	396	0	262	23.43
Average Sale Price of Transactions in 2003 (dollars)	152,361	388	0	1,500,000	115,695

Non-continuous Variables

Variable					Number of Responses
Gender	Male		Female		
Number (%)	149	39.1%	232	60.9%	381
Ethnic Group	Majority		Minority		
Number (%)	373	94.7%	21	5.3%	394
Agency Type	Residential		Non-residential		
Number (%)	375*	92.4%	31*	7.6%	406

Source: responses to survey questions 2-5 and 7-9.
* Calculated as the product of the mean residential percentage times the number of respondents

Examination of the lower panel shows that females (males) comprise 60.9% (30.1%) of the respondents who disclosed their gender (25 respondents chose not to do so).[13] Approximately 5% of the respondents indicated that they were a member of a minority group (12 respondents elected not to provide this information). Our mailing list was not limited to licensees specializing in residential transactions, but our sample is dominated by these individuals. Two hundred seventy-nine respondents (68.7%) reported that they devote 100% of their efforts on residential brokerage. The 92.4% figure reported for "agency type" in Exhibit 2 is the mean residential percentage for all respondents. In essence, 375 can be interpreted as the number of full-time equivalent agents devoted to residential sales out of the total number of respondents.

Exhibit 3 shows the location from which responses were received. For administrative purposes, OAR divides Ohio into 9 districts and Exhibit 3 includes additional information about these districts, including the number of people, REALTORS®, local real estate boards (or Associations) and counties within each district, the largest city in each district and the general location of each district within the state.[14] With the exception of District 5, responses were received in proportion to the distribution of REALTORS® within the districts.[15]

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[13] Neither the Ohio Real Estate Commission nor the Ohio Association of REALTORS® track licensee/member age or gender. This makes it impossible to determine any response bias based on these two factors. Respondents to the OAR 2004 Member Survey had a median age of 54 years and 62% were female.

[14] District 1 counties: Ashtabula, Carroll, Columbiana, Mahoning, Portage, Stark and Trumbull. District 2 counties: Cuyahoga, Erie, Geauga, Huron, Lake, Loraine, Ottawa, Sandusky, and Seneca. District 3 counties: Ashland, Crawford, Holmes, Medina, Richland, Summit and Wayne. District 4 counties: Allen, Defiance, Fulton, Hancock, Hardin, Henry, Lucas, Paulding, Putnam, Van Wert, Williams, Wood and Wyandot. District 5 counties: Auglaize, Champaign, Clark, Darke, Greene, Logan, Mercer, Miami, Montgomery, Preble and Shelby). District 6 counties: Delaware, Fairfield, Fayette, Franklin, Hocking, Knox, Licking, Madison, Marion, Morrow and Union. District 7 counties: Belmont, Coshocton, Guernsey, Harrison, Jefferson, Monroe, Morgan, Muskingum, Noble, Perry, Tuscarawas and Washington. District 8 counties: Athens, Gallia, Highland, Jackson, Lawrence, Meigs, Pickaway, Pike, Ross, Scioto and Vinton. District 9 counties: Adams, Brown, Butler, Clinton, Clermont, Hamilton and Warren.

[15] A Chi-Square association test indicates the response rates are not proportional when District 5 is included; $p = .0018$, test statistic 34.40, critical value with $\alpha = .05$ is 23.68. 24.11 of the test statistic came from District 5 (i.e., without District 5 the test statistic would be approximately 10). Perhaps the participation rate for District 5 was high because respondents were more familiar with the investigating university which is located in that district.

EXHIBIT 3

OAR District Characteristics and Survey Responses

OAR District	Location in Ohio	Largest City	District Population	Survey Responses	Realtors®	Local Boards	Counties
1	Northeastern	Youngstown	1,256,459	25	2,677	6	7
2	Northern	Cleveland	2,277,546	77	6,368	4	9
3	North-Central	Akron	1,072,342	33	2,906	7	7
4	Northwestern	Toledo	1,045,400	37	2,434	5	13
5	West-Central	Dayton	1,260,245	71	3,459	4	11
6	Central	Columbus	1,737,358	77	6,787	7	11
7	East-Central	Zanesville	544,386	10	727	8	12
8	South-Central	Chillicothe	497,867	5	541	5	11
9	Southwestern	Cincinnati	1,624,628	69	4,847	6	7

Source: responses to survey question #6, The Ohio Association of REALTORS and the authors.

The respondent's answers to survey questions 10a – 10d, which elicited opinions on the cost and availability of property insurance, are reported in Exhibit 4. The parenthetical numbers below the headers in the upper and lower panels of the exhibit were used to calculate the mean values shown in the last column.[16] Examination of Exhibit 4 reveals that the respondents are almost evenly split on the issue of insurance cost. One hundred eighty-five respondents either "agreed" or "strongly agreed" that the cost of insurance is currently a problem, while 188 either "disagreed" or "strongly disagreed." Respondent opinion regarding availability of coverage was slightly more one-sided. One hundred thirty-three respondents either "agreed" or "strongly

[16] The parenthetical numbers are also used later for statistical analysis purposes.

agreed" that insurance availability is currently a problem, but 201 either "disagreed" or "strongly disagreed."

EXHIBIT 4

Respondent Opinions on Property Insurance Cost and Availability

STATEMENT	Strongly Agree (1)	Agree (2)	No Opinion (3)	Disagree (4)	Strongly Disagree (5)	No Response	Mean
Cost of insurance is a problem	32	153	59	173	15	4	3.04
Availability of insurance is a problem	31	102	68	182	19	4	3.14

STATEMENT	Decreasing (1)	Slightly Decreasing (2)	No Change (3)	Slightly Increasing (4)	Increasing (5)	No Response	Mean
Cost problem is:	4	7	135	134	114	12	3.88
Availability problem is:	1	8	179	119	81	18	3.70

Source: responses to survey questions 10a – 10d

A majority of the respondents believe that insurance cost is becoming more problematic and almost half believe the same for insurance availability. Specifically, 248 respondents believe that the insurance cost problem is either "slightly increasing" or "increasing," while only 11 thought the cost problem was "slightly decreasing" or "decreasing," and 200 respondents believe that the insurance availability problem is either "slightly increasing" or "increasing," while only 9 thought the availability problem is "slightly decreasing" or "decreasing." If the majority/plurality opinions are correct, the need for increased licensee knowledge of ways to avoid insurance-related problems and how to address problems once they occur will soon

become more critical. Therefore, the proposed Action Plan in the Appendix to this report contains several suggestions to increase licensee knowledge on this issue.

Responses to survey question 11, which gave respondents the opportunity to specify actions they take to avoid/address transactions delayed or lost due to difficulties in obtaining property insurance, are summarized in Exhibit 5. The "actions" are described in the first column. The number (percentage) of respondents that indicated they took each action when acting as the seller's agent is reported in the second (third) column. The number (percentage) of respondents that reported taking each action while acting as the buyer's agent is shown in the fourth (fifth) column. The total number of actions taken, shown on the last line of the exhibit, is larger than the number of surveys returned because many agents indicated that they pursued multiple actions. The information shown in the unshaded portion of Exhibit 5 includes the actions specified on the survey form and the information shown in the shaded portion of the exhibit details the actions pursued by respondents that indicated "other" to survey question 11.

Given respondent's perceptions of the extent and trend of the situation (reported in Exhibit 4) it is surprising that "do nothing" was the most frequently cited action: nearly 73% of seller's agents and over 52% of buyer's agents indicated this "action." In other words, only 73 respondents reported that they took some action when acting as the seller's agent and 174 reported taking some action when acting as the buyer's agent. The second most frequently cited action specified was to obtain a copy of the buyer's credit report: 5.2% of seller's agent's and 11.3% of buyer's agent's indicated they follow this practice. Difficulties in obtaining insurance coverage, however, can also result from problems associated with the subject property and the values reported in the third and fourth lines of Exhibit 5 indicate that few agents formally

investigate the insurance claims history of the property. Two respondents put a question mark next to these selections suggesting that they may have been unfamiliar with a CLUE report.[17]

Focusing on the actions shown in the shaded portion of Exhibit 5, the most frequently cited action was to refer the buyer to an insurance agent; 13 seller's agents and 56 buyer's agents reported taking such action. Another popular action, especially for buyer's agents, was to advise

EXHIBIT 5

Actions Taken to Address Delayed and Lost Transactions

	Seller's Agent		Buyer's Agent	
Action	Number of Responses	%	Number of Responses	%
Nothing	296	72.9	212	52.2
Secure Buyer's Credit Report	21	5.2	46	11.3
Obtain a CLUE Report	7	1.7	8	2.0
Favorable CLUE Report Condition of Sale	4	1.0	11	2.7
Refer to Insurance Agent	13	3.2	56	13.8
Monitor Process	6	1.4	6	1.5
Ask Seller About Claim History	5	1.2	2	0.5
Recommend Home Inspector	3	0.7	3	0.7
Provide Buyer with Seller's Insurance Information	3	0.7	1	0.2
Advise Seller to Make Repairs	3	0.7	0	0..0
Give General Advice	2	0.5	8	2.0
Facilitate Insurance Company Inspection	1	0.2	2	0.5
Advise Buyer to Hunt for Insurance Early	1	0.2	29	7.1
Ask Buyer about Claim History	0	0.0	1	0.2
Other	11	2.7	18	4.3
No Response	37	9.1	20	4.9
Total	450		423	

Source: responses to survey question 11. The percentages shown in the third and fifth columns of Exhibit 4 are based on 406 responses and add to more than 100 percent because many respondents indicated multiple actions.

buyers to shop for a policy early; 30 respondents indicated that they did so. Either of these actions may be effective in reducing problems, but perhaps a more effective activity was

[17] Basic information about CLUE reports can be found at www.ohioinsurance.org/newsroom/clue_reports07-03.asp also at www.ohioinsurance.org/newsroom/pdf/property_insurance.pdf and at www.pciaa.net/sitehome.nsf/main.

reported by 6 agents who reported that they monitored the buyer's progress in obtaining coverage. Other actions that appear to hold promise were mentioned by a handful of respondents. These include, facilitating the insurance company's inspection of the property, questioning both the buyer and seller about their insurance claim history, recommending a home inspector (to identify potential problems early in the process), and recommending that seller's make needed repairs. However, 2.7% of seller's agents and 4.3% of buyer's agents reported taking "other" actions which have been grouped together, and shown in the last shaded line of Exhibit 5, because (in the researcher's opinion) the reported actions are of dubious value if the objective is to minimize delays. Examples include "hold the buyer and buyer's lender responsible for insurance," "inform the buyers that they must have insurance at closing," and "it's in the contract that the buyer must have insurance."

Responses to survey questions 12 through 17, which gave respondents the opportunity to express the extent to which they have experienced delayed and/or lost transactions because property insurance was either too expensive, unavailable, or because the insurance company required modifications to the property, are summarized in Exhibit 6. Information about delayed transactions is shown in the unshaded portions of the exhibit and information about lost transactions is shown in the shaded portions. The reason for the delayed (or lost) transaction is shown in the first column. The second column in the exhibit shows the total number of reported delayed (or lost) transactions. The third column shows the number of respondents that included a response (including zero) to the survey question. The fourth column reports the average number of delayed (lost) transactions per respondent for all respondents (second column divided by third column). The fifth column shows the number of respondents who indicated a delayed (lost) transaction and in the sixth column this number is converted into the average number of

transactions per respondent for only those respondents who indicated one or more delayed (lost) transactions (second column/fifth column). The highest number of delayed or lost transactions reported by any single respondent is shown in the seventh column.

Examination of Exhibit 6 reveals that an insurance-related problem is more likely to result in a delay rather than a lost transaction. Respondents reported being involved in 509 delayed transactions and 89 lost transactions. Several measures indicate that the most frequent cause of delayed transactions is the insurance company demanding modification to the property. First, 90 (22.2% of all) respondents indicated that they had encountered a delayed transaction due to this circumstance; more than any other cause. Second, 216 of the 509 (42.4%) reported delays were due to this circumstance. Third, note that this circumstance also resulted in the largest average affected transaction number for all respondents (0.54). Delays were attributed to the cost of coverage in 184 (36.1%) cases. This circumstance resulted in the largest average affected transaction number for affected respondents (3.02). Unavailability of coverage was cited as the cause of 109 (21.4%) delayed transactions.

Two measures suggest that cost of coverage is the most prevalent cause of lost transactions. First, 26 (6.4% of all) respondents indicated that they lost a transaction due to this circumstance; more than any other cause. Second, 42 of the 89 (47.2%) lost transactions were lost for this reason. Another 33 (37.1%) transactions were reported lost due to property modifications required by the insurance company. Apparently the property owners in these cases were unable or unwilling to make the specified modifications. Only 14 (15.7%) lost transactions were attributed to the unavailability of coverage. With Ohio's FAIR Plan, one would expect this number to be low.

The last line of Exhibit 6 indicates that 22 respondents managed to close 30 delayed transactions by using Ohio's FAIR Plan. In other words, 27.5% of the 109 transactions delayed because private insurance was unavailable were rescued by the FAIR Plan. In addition, 19 other respondents volunteered information (not reflected in Exhibit 6) that indicated that they avoided delayed transactions by utilizing Ohio's FAIR Plan in a timely fashion.[18]

EXHIBIT 6

Delayed and Lost Transactions

Variable	Number of Transactions	Number of Responses	Average Number of Problems per Respondent (All Respondents)	Number of People Reporting Transaction	Average Number of Problems per Respondent Reporting a Transaction	Maximum Value
Delayed due to insurance cost	184	398	0.46	61	3.02	11
Lost due to insurance cost	42	402	0.10	26	1.62	6
Delayed due to required home modification	216	400	0.54	90	2.40	10
Lost due to required home modification	33	402	0.08	24	1.38	4
Delayed due to non-availability of insurance	109	402	0.27	54	2.02	10
Lost due to non-availability of insurance	14	398	0.04	9	1.56	3
Delayed transaction closed using FAIR Plan	30	402	0.07	22	1.36	3

Source: responses to survey questions 12-17.

[18] This information was not solicited. Therefore, the percentage of agents that pursue this strategy may be higher.

Given the 8,685 transactions respondents reported closing in 2003 and the total number of delayed and lost transactions reported in Exhibit 6, we estimate that approximately 5.86% ($\pm$ 0.49%) of all residential real estate transactions in Ohio were delayed and approximately 1.02% ($\pm$ 0.21%) of all transactions were lost due to disruptions in the property insurance industry during 2003. These figures are approximations for at least two reasons. First, there is the possibility that respondents may have over-reported the number of transactions they closed which would lower our estimate of the impact. Second, we are uncertain whether all of the reported delayed/lost transactions occurred during 2003 which may increase our estimate of the impact.

Responses to survey questions 18 and 19, which gave respondents the opportunity to provide more detailed information about the delayed and/or lost transactions reported in survey questions 12-17, are summarized in Exhibit 7. Respondents provided the requested details for 108 of the 509 (21.2%) delayed transactions and 21 of the 89 (23.6%) lost transactions. Exhibit 7 shows the location of these transactions by OAR District.[19]

The factors that respondents indicated were the cause of delayed/lost transactions are shown in Exhibit 8. For expository expedience the factors in the exhibit are listed from the most to least frequent cause for delayed transactions. In addition, factors that involve the buyer are shown in the shaded portions of the exhibit and factors associated with the property are shown in the unshaded portions.

[19] We cannot reject the null hypothesis that the number of delayed transaction reported is proportional to the population distribution by OAR District based upon the results of a Chi-Square association test. The critical value was 14.06 with $\alpha = .05$. The test statistic was 9.87. Even though the test statistic was not sufficiently large to reject the null, two thirds of its value was the result of reported delays from District 5. The null hypothesis that the number of lost transactions reported is proportional to the population distribution by OAR District is rejected based upon the results of a Chi-Square association test. The critical value was 14.06 with $\alpha = .05$. The test statistic was 19.52 of which 13.7 was from District 5.

EXHIBIT 7

Location of Problem Transactions by OAR District

District	Number of Delayed Transactions	%	Number of Lost Transactions	%
1	8	7.4	0	0.0
2	20	18.5	5	23.8
3	10	9.3	1	4.8
4	12	11.1	1	4.8
5	21	19.4	8	38.1
6	14	13.0	2	9.5
7	1	0.9	1	4.8
8	6	5.6	2	9.5
9	16	14.8	1	4.8
TOTAL	108	100.0	21	100.0

Source: responses to survey questions 18 & 19.

EXHIBIT 8

Factors Responsible for Delayed and Lost Transactions

Factor	Delayed Number	Delayed %	Lost Number	Lost %
Electrical	22	22.2	2	11.1
Buyer had little/no/bad credit history	14	14.1	3	16.7
Property had previous water claims	9	9.1	0	0
Property with previous unspecified claims/bad CLUE	7	7.1	2	11.1
Roof	7	7.1	3	16.7
Poor overall condition of the property	7	7.1	3	16.7
Other specified property problems (siding, sidewalk, foundation, septic, water lines, property age)	7	7.1	1	5.6
Buyer had previous insurance claims	4	4.0	0	0
Fireplace insert/chimney/buck stove	3	3.0	0	0
Vacant property/repossession	3	3.0	0	0
Buyer indicated short-term tenure/investor	2	2.0	0	0
Natural disaster	2	2.0	0	0
Flood zone	1	1.0	3	16.7
Environmental problem	1	1.0	0	0
Property not up to FAIR standards	1	1.0	0	0
Unspecified	9	9.1	1	5.6
Total	99	100.0	18	100.0

Source: responses to survey question #18 and #19.

Note that both delayed and lost transactions are much more likely to result from factors associated with the property compared to factors associated with the buyer. At least 20.1% of the delayed transactions and at least 16.7% of the lost transaction resulted from factors associated with the buyer. However, at least 70.7% of the delayed transactions and at least 77.9% of the lost transaction resulted from factors associated with the property. A reexamination of the data in Exhibit 5 suggests that licensees do not take problem avoidance actions in proportion to these figures.[20]

While a responsible agent should take actions to address most (if not all) of the factors enumerated in Exhibit 8, the survey results suggest that many problems could be avoided if agents concentrated their efforts on two factors. The most frequent cause of delayed transactions is outdated electrical components or systems; 22 transactions were delayed and 2 transactions were lost because the insurance company required updates to electrical systems. Sellers could spend a few hundred dollars on a presale property inspection which can serve as an effective marketing tool if no problems are discovered. If the inspection uncovers defects, the inspection gives the seller time to correct defects before they confound the buyer's search for property insurance. Even if sellers are unwilling to pay for an independent inspection, agents should take action to facilitate the insurance company's property inspection. Several respondents indicated that insurance companies can be arbitrary regarding needed repairs and in scheduling inspections, but assuring that the property is available for inspection at the scheduled time will facilitate the process.

The second most frequent cause of delayed and lost transactions is buyers with little/bad/or no credit history. Agents could reduce this problem by obtaining a copy of the buyer's credit

[20] The qualifier "at least" is used here because of the "Unspecified" responses. In Exhibit 5, 11.2% (36.1%) of seller's (buyer's) agents indicated actions to investigate/assist the buyer, while only 8.2% (10.7%) of seller's (buyer's) agents indicated actions to investigate/help assure the insurability of the property.

report fairly early in the sales process. Familiarity with the Ohio FAIR Plan, and use of it where appropriate, can also minimize delays.

EXHIBIT 9

Characteristics of Delayed Transactions

Variable					Number of Responses
Reason for Delay	Coverage Too Expensive	Property Modification Required	Coverage Unavailable	Not Specified	
Number	29	45	21	3	98
(% of total)	(29.6)	(45.9)	(21.4)	(3.0)	
Property Type	Single Family	Duplex	Multiplex		
Number	103	3	2		108
(% of total)	(95.4)	(2.8)	(1.8)		
Buyer Ethnicity	Majority	Minority	Not Specified		
Number	84	10	12		106
(% of total)	(79.2)	(9.4)	(11.3)		
Buyer a Previous Homeowner	Yes	No			
Number	41	67			108
(% of total)	(38.0)	(62.0)			
Who Found First Insurance Company	Agent	Buyer	Lender	Other*	
Number	10	74	6	10	100
(% of total)	(10.0)	(74.0)	(6.0)	(10.0)	
Who found Company that Issued Policy	Agent	Buyer	Lender	Other*	
Number	24	35	6	6	71
(% of total)	(33.8)	(49.3)	(8.5)	(8.5)	

Source: responses to survey question #17.
* A combination of the buyer and lender or real estate agent.

Two notable characteristics associated with problem transactions, reflected in Exhibits 9 and 10, are that they occur with greater frequency when a first-time buyer is involved and when the buyer is left to his or her own devices in locating an insurance company. Sixty-two percent of the delayed transactions involved first-time buyers as did 55.6% of the lost transactions.

EXHIBIT 10

Characteristics of Lost Transactions

Variable					Total Responses
Reason for Lost Transaction	Coverage Too Expensive	Property Modification Required	Coverage Unavailable		
Number	6	10	4		20
(% of total)	(30.0)	(50.0)	(20.0)		
Property Type	Single Family	Duplex	Multiplex		
Number	17	1	3		21
(% of total)	(80.9)	(4.8)	(14.3)		
Ethnicity	Majority	Minority			
Number	17	0			17
(% of total)	(100)	(0)			
Buyer a Previous Homeowner	Yes	No			
Number	8	10			18
(% of total)	(44.4)	(55.6)			
Who Found Insurance Company	Agent	Buyer	Lender	Other*	
Number	2	11	2	5	20
(% of total)	(10.0)	(55.0)	(10.0)	(25.0)	

Source: responses to survey question #18.
* A combination of the buyer and lender or real estate agent

Seventy-four percent of delayed transactions and 55% of lost transactions occurred when the buyer located the insurance company. Only 10% of delayed and lost transactions occurred when the real estate agent located the insurer. These results suggest that agents can reduce property insurance related problems by actively assisting the buyer in the insurance company search.

Price data is not included in Exhibits 9 and 10. The average list price of delayed transactions was $123,744; while the average list price of lost transactions was $116,106. Both these figures are significantly lower than the average price of all transactions closed by the affected respondents.[21] The average list price for closed transactions for respondents that encountered a delay (lost transaction) was $140,728 ($157,722). This indicates that delayed/lost transactions are associated with lower priced houses. Previous research suggests that older houses sell for lower prices, ceteris paribus. Although our survey did not inquire about the age of the subject property, coupling the above price information with the previous research findings leads us to surmise that the probability of insurance related problems is positively related to property age (older properties have a higher probability of containing outdated components and a longer time period during which insurance claims could have been filed.

Survey Response Analysis

In this section we present a statistical analysis of the survey data. First, variables that distinguish respondents who indicated that they take action to address insurance-related problems from respondents that indicated that they did not are identified. Second, we investigate the relationship of the actions taken by respondents to the incidence of insurance-related problems. Third, we identify variables that distinguish respondents that have experienced

[21] A paired t test was used to determine significance. The critical value at $\alpha = .05$ for delayed transactions = 1.66 and the test statistic = 3.18 ($p = .0010$). For lost transactions the critical value at $\alpha = .05$ is 1.74 and the test statistic = 4.94 ($p = <.0001$).

insurance-related problems from those that have not. Fourth, variables that are associated with respondent's opinions on the impact of insurance market hardening are presented. Fifth, variables associated with delayed and lost transactions are presented. Last, we investigate whether the cause of delayed and lost transactions (e.g., cost, availability, required modifications) is significantly related to a variety of variables.

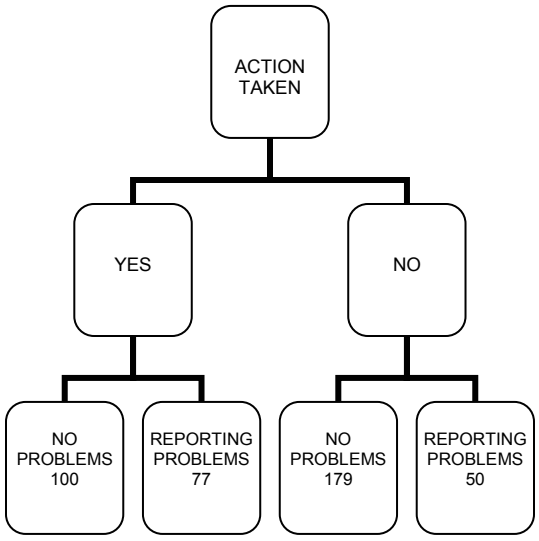
Variables that Distinguish Respondents that Do/Do Not Take Actions

Exhibit 11 shows the number of respondents classified by whether they experienced insurance-related problems and whether they take actions to address such problems. First, note that 68.7% (279/406) of the respondents reported that they had not encountered a problem. Note also that 179 of 229 respondents that take no action had not encountered a problem, but the other 50 were not as fortunate. Further note that 100 of the 177 respondents who take action

EXHIBIT 11

Interaction of Insurance-Related Problems and Actions

Action Taken	Number of Respondents Reporting No Problems	Number of Respondents Reporting Problems	Total
No	179	50	229
Yes	100	77	177
Total	279	127	406



encountered no problems, but 77 did. In other words, 21.8% (50/229) of respondents who took no actions encountered problems, but a significantly higher percentage, 43.5% (77/177), of respondents who take actions encountered problems. These figures suggest that respondent's behavior is influenced by their personal experience. In essence, those who have encountered insurance-related problems tend to take actions, and those that have not encountered problems, take no action.

A two-sample t-test was used to identify variables that differ significantly between two groups; the 177 respondents that take some action, and the 229 respondents that take no such action. If a respondent indicated (in survey question 11) that they took any action, they were placed in the former group. The results are summarized in Exhibit 12. Separate tests (details not shown) found no difference in these variables based on OAR District. Additionally, the results of a Chi-square test (not shown in Exhibit 12) indicate that male respondents were more likely to take action to address insurance-related problems.[22] Examination of the first four lines in Exhibit 12 reveals that respondents who took action were older, with more real estate experience, and involved in more closed transactions during 2003 compared to respondents who undertook no action. The fifth line of the exhibit shows that there was no significant difference between the two groups with regard to the average selling price of transactions closed in 2003. The information in the sixth and eighth lines indicates that respondents who took actions considered insurance cost and availability problems to be more serious than respondents who did not take such actions. The seventh and ninth lines show that respondents who took actions considered the insurance cost and availability problems to be increasing more than respondents who

[22] The probability of males taking action was .489 while the probability that a female takes an action was .396. The Chi-square test statistic was 3.22 with $p = .0726$.

EXHIBIT 12

Variables that Distinguish Respondents that Do/Do Not Take Actions

Variable	Mean Value Do Nothing	Mean Value Do Something	t value	Pr > |t|
Years as a sales associate	11.97	13.93	2.14*	0.0333
Total years in real estate	13.17	16.80	3.46	0.0006
Respondent age	51.41	53.87	2.01*	0.0456
Number of transactions in 2003	19.15	25.51	2.70*	0.0073
Average sale price of 2003 transactions (dollars)	156,242	147,333	0.81	0.4190
Cost of insurance is a problem	3.21	2.82	3.62*	0.0003
Cost problem is increasing	3.68	4.13	5.07*	<.0001
Availability of insurance is a problem	3.29	2.94	3.18*	0.0014
Availability problem is increasing	3.53	4.04	4.70*	<.0001
Transaction delayed due to insurance cost	0.17	0.84	4.25	<.00010
Lost transaction due to insurance cost	0.04	0.19	2.82	0.0054
Transaction delayed due to required property modification	0.319	0.828	3.65	0.0003
Transaction lost due to required property modification	0.044	0.131	2.14	0.0335
Transaction delayed due to non-availability of insurance	0.154	0.423	2.56	0.0111
Delayed transaction closed using Ohio FAIR Plan loan	0.035	0.131	2.51	0.0127
Transaction lost due to non-availability of insurance	0.009	0.069	2.11	0.0365

* The folded F-test showed the population variances for each subgroup should be assumed to be equal. In this case the pooled t-test was used. The Satterthwaite test was used when the folded F-test indicated that the population variances should be assumed to be unequal

took no actions.[23] The information in the last seven lines of the exhibit show that respondents who took action were involved in significantly more problem transactions compared to respondents who did nothing to avoid insurance-related problems.[24]

The Relationship between Actions and Insurance-Related Problems

A Chi-square proportions test was used to investigate the relationship between actions taken and whether or not the respondent reported being involved in a problem transaction. In this case, the analysis is limited to the 177 respondents who reported that they take action; 100 who did not encounter one or more problems were compared to the 77 who did. The results are presented in Exhibit 13. Examination of Exhibit 13 reveals that none of the actions investigated distinguish the two groups. These results, however, do not allow us to conclude that the actions are ineffective in avoiding insurance-related problems because the group of 77 may have been taking action to solve existing problems, whereas the group of 100 was obviously employing the actions proactively.

[23] The numbers used in the calculation of mean values for the respondent opinion variables shown in lines 6-9 of Exhibit 12 were the values shown at the top of Exhibit 4. i.e., 1 for "strongly agree" or "decreasing" through 5 for "strongly disagree" or "increasing."
[24] In analysis not detailed here, no difference was observed between OAR Districts.

EXHIBIT 13

Chi-Square Results – Actions and Problem Incidence

Action Taken	Proportion of respondents with No Problem Transactions	Proportion of respondents with Problem Transactions	Chi-Square Test Statistic	Pr > $\|\chi_2\|$
Seller's agent requests a CLUE report	0.0200	0.0649	2.31	0.1283
Seller's agent requires a favorable CLUE report	0.0100	0.0390	1.65	0.1986
Seller's agent secures buyer's credit report	0.1000	0.1429	0.76	0.3820
Other actions taken by seller's agent	0.2400	0.3117	1.13	0.2875
Buyer's agent requests a CLUE report	0.0400	0.0519	0.14	0.7044
Buyer's agent requires a favorable CLUE report	0.0400	0.0909	1.93	0.1643
Buyer's agent secures Buyer's credit report	0.2300	0.2987	1.07	0.3015
Other actions taken by buyer's agent	0.7300	0.6883	0.37	0.5438

Variables that Distinguish Respondents that Have/Have Not Encountered Problems

A two-sample t-test was used to determine variables that differ significantly between two groups: 127 respondents that indicated they had encountered a delayed or lost transaction and 279 respondents that indicated that they had not. The results are summarized in Exhibit 14. Examination of Exhibit 14 reveals that sales associates who experienced an insurance-related problem, had fewer years experience, and closed more transactions in 2003 compared to

EXHIBIT 14

Variables that Distinguish Respondents that Have/Have Not Encountered Problems

Variable	Mean Value No Problems	Mean Value Problems	t value	Pr > |t|
Years as a sales associate	13.386	11.22	2.29*	0.0229
Total years in real estate	15.013	13.932	0.96	0.3394
Respondent age	52.833	51.541	0.97	0.3316
Number of transactions in 2003	19.411	29.798	-4.13	<.0001
Average sale price of transactions in 2003 (dollars)	166,584	142,035	2.44*	0.0150
Cost of insurance is a problem	3.2624	2.5161	6.54	<.0001
Cost problem is increasing	3.7588	4.1707	-4.35	<.0001
Availability of insurance is a problem	3.403	2.5	8.21	<.0001
Availability problem is increasing	3.5669	4.0331	-4.95*	<.0001

* The folded F-test showed the population variances for each subgroup should be assumed to be equal. In this case the pooled t-test was used. The Satterthwaite test was used when the folded F-test indicated that the population variances should be assumed to be unequal.

their counterparts who had not experienced a problem. Additionally, the average sale price of transactions closed in 2003 was significantly lower for respondents who experienced insurance-related problems. No significant difference in respondent age or total years in real estate were discovered. As shown in the last four lines in Exhibit 14, respondents who had encountered insurance-related problems were more likely to agree that cost and availability of insurance is currently a problem and more likely to agree that the problems are increasing. Separate tests (details not shown) found no difference in these variables based on OAR District, and also no significant difference in encountering insurance-related problems by gender.

Variables Related To Respondent Opinions on Insurance Market Hardening

Stepwise regression analysis was used to identify variables that are significantly related to the respondent's opinions on the severity of hardening in the insurance industry (dependent variable is response to survey questions 10a-10d).[25] The variables subject to the analysis included respondent characteristics (survey questions 1-9) and the extent to which the respondent has encountered insurance-related problems (survey questions 12-17). Four separate models were estimated. To enter and remain in each model we required that each variable be significant at the 5% confidence level.[26] In all four models, no more than 22% of the variation in the dependent variable is explained which indicates that other factors not captured in the survey are influencing the respondent's opinions. Several significant variables are identified, however, and this was our objective. The results are summarized in Exhibits 15-18.

Exhibit 15 shows the variables that are significantly related to the respondent's agreement with the statement that insurance cost is currently a problem. Not surprisingly, the more transactions delayed due to insurance cost encountered by the respondent, the more likely was the respondent to agree with the statement.[27] This variable has the most explanatory power of the variables that entered and remained in the model, explaining almost 16% of the variation in the dependent variable. Agreement with the statement is also positively related to the respondent's tenure in real estate. The last variable to enter the model was seller's agents that

[25] Stepwise regression enables the identification of significant variables while minimizing the detrimental effects of multicollinearity. i.e., there may be other explanatory variables that are significant when examined individually. But, they fail to enter the stepwise model because they are highly correlated with a variable already in it.

[26] Responses to questions 10a, 10b, 10c and 10d are highly correlated. Therefore, each question was analyzed separately and those parts of question 10 that were not the subject of investigation were not included as possible independent variables.

[27] Recall from Exhibit 4 that the responses for the dependent variable were coded from 1 for "strongly agree" to 5 for "strongly disagree." Therefore, the negative parameter estimate indicates a positive relationship between the dependent and independent variable.

reported doing nothing to avoid insurance related problems. They were more likely to disagree with the statement.

EXHIBIT 15

Variables Associated with Question 10a Responses: cost of insurance is a problem

Variable	Parameter Estimate	Partial R-square	Model R-square	F Value	Pr > F
Intercept	3.15538			370.03	<.0001
Number of transactions delayed due to insurance cost	-0.29850	0.1594	0.1594	55.93	<.0001
Total years in real estate	-0.01519	0.0257	0.1851	9.28	0.0025
Sellers' agent who does nothing to avoid insurance-related problems	0.41844	0.0215	0.2066	7.94	0.0052

Exhibit 16 shows the variables that are significantly related to the respondent's opinion on the trend in insurance cost. Again, not surprisingly, the more transactions delayed due to insurance cost encountered by the respondent, the more likely was the respondent to believe that the insurance cost problem is increasing.[28] Respondents were also more likely to believe that the insurance cost problem is increasing; the longer they have been in real estate, and the more they had encountered transactions delayed due to insurance non-availability. Strangely, the more transactions a respondent lost due to insurance non-availability the more likely was the respondent to believe that the problem is decreasing, as were buyer's agents that reported doing nothing to avoid insurance-related problems.

[28] Recall from Exhibit 4 that the responses for the dependent variable were coded from 1 for "decreasing" to 5 for "increasing." Therefore, the positive parameter estimate indicates a positive relationship between the dependent and independent variable.

EXHIBIT 16

Variables Associated with Question 10b Responses: cost problem is increasing

Variable	Parameter Estimate	Partial R-square	Model R-Square	F Value	Pr > F
Intercept	3.71370			1,141.08	<.0001
Number of transactions delayed due to insurance cost	0.14830	0.0731	0.0731	22.89	<.0001
Buyer's agents that do nothing to avoid insurance-related problems	-0.33182	0.0461	0.1193	15.13	<.0001
Total years in real estate	0.01573	0.0308	0.1501	10.44	0.0176
Number of transactions delayed due to insurance non-availability	0.12724	0.0192	0.1692	6.62	0.0362
Number of transactions lost due to insurance non-availability	-0.50855	0.0169	0.1862	5.95	0.0495

Exhibit 17 shows the variables that are significantly related to the respondent's agreement with the statement that insurance availability is currently a problem. Again, the respondent's opinion appears to be associated with their own experience. The greater the number of transactions encountered by the respondent that were delayed, due either to insurance cost or unavailability, the more likely the respondent was to agree with the statement. Older respondents were also more likely to agree that insurance availability is currently a problem.

EXHIBIT 17
Variables Associated with Question 10c Responses: availability is a problem

Variable	Parameter Estimate	Partial R-Square	Model R-Square	F Value	Pr > F
Intercept	3.95947			227.50	<.0001
Number of transactions delayed due to insurance cost	-0.28947	0.1491	0.1491	51.85	<.0001
Number of transactions delayed due to insurance non-availability	-0.16117	0.0234	0.1725	8.36	0.0041
Respondent age	-0.01092	0.0139	0.1864	5.01	0.0259

Exhibit 18 shows the variables that are significantly related to the respondent's opinion concerning the trend in insurance availability. The more transactions delayed due to insurance non-availability encountered by the respondent, the more likely was the respondent to believe that the insurance availability problem is increasing. This variable had the most explanatory power of any variable in the model, explaining 8.81% of the variation in the dependent variable. Respondents were also more likely to agree that the insurance availability problem is increasing; the older they are, the longer they have been a broker, and the more transactions delayed by insurance cost they have encountered. Buyer's agents who do nothing to avoid insurance related problems, and seller's agents who obtain a copy of the buyer's credit report as a means to avoid insurance-related problems are more likely to believe that insurance non-availability is becoming less problematic.

EXHIBIT 18

Variables Associated with Question 10d Responses: availability problem is increasing

Variable	Parameter Estimate	Partial R-square	Model R-square	F Value	Pr > F
Intercept	3.27929			234.46	<.0001
Number of transactions delayed due to insurance non-availability	0.17338	0.0881	0.0881	27.63	<.0001
Number of transactions delayed due to insurance cost	0.12055	0.0458	0.1339	15.08	0.0001
Respondent age	0.00920	0.0339	0.1678	11.58	0.0008
Buyer's agents that do nothing to avoid insurance-related problems	-0.30254	0.0249	0.1927	8.72	0.0034
Seller's agent secures the buyer's credit report	-0.40185	0.0120	0.2047	4.27	0.0398
Years as a broker	0.01397	0.0109	0.2156	3.90	0.0494

Variables Related To Delayed and Lost Transactions

Stepwise regression analysis was used to identify variables that are significantly related to the number of delayed and lost transactions encountered by respondents.[29] Two separate models were estimated. To enter and remain in each model we required that each variable be significant at the 5% confidence level. The results are presented in Exhibit 19 and Exhibit 20 for delayed and lost transactions, respectively.

Exhibit 19 shows the variables that are significantly related to the number of delayed transactions encountered by the respondent. The variable with the most explanatory power was the

[29] The model presented in Exhibit 17 was also estimated using the percentage of all transactions closed in the last 52 weeks that were delayed as the dependent variable, and the model presented in Exhibit 18 was also estimated using the percentage of all transactions closed in the last 52 weeks that were lost as the dependent variable. The results in both cases were similar to those reported here.

respondent opinion on insurance availability (survey question 10c). Those who believe that availability is a problem encountered more delayed transactions, as did respondents who believe that insurance cost is a problem. In addition, the more transactions the respondent closed, the more delays encountered. One variable that is negatively related to the number of delayed transactions encountered is agents that do nothing to avoid insurance-related problems. Finally, the more experience the sales associate has, the less delayed transactions encountered.

EXHIBIT 19

Variables Related to the Number of Delayed Transactions

Variable	Parameter Estimate	Partial R-square	Model R-square	F Value	Pr > F
Intercept	5.60798			84.72	<.0001
Believes availability of insurance is a problem	-0.68565	0.1696	0.1696	54.04	<.0001
Number of transactions in 2003	0.03228	0.0708	0.2403	28.00	0.0002
Seller's agent that does nothing to avoid insurance- related problems	-0.04046	0.0336	0.2739	16.69	0.0010
Years as a sales associate	-0.04046	0.0123	0.2863	13.81	0.0143
Believes cost of insurance is a problem	-0.43601	0.0139	0.3002	10.29	0.0205

Exhibit 20 shows the variables that are significantly related to the number of transactions lost by the respondent. The variable with the most explanatory power is the respondent's opinion on insurance availability (survey question 10c). Those that agreed with the statement

lost more transactions. The number of lost transactions is positively related to three additional variables: buyer's agents that required a favorable CLUE report, those that took "other" actions to avoid insurance-related problems, and the number of transactions the respondent closed in 2003. The number of lost transactions encountered by respondents was negatively related to the respondent's total years in real estate.

EXHIBIT 20

Variables Related to the Number of Lost Transactions

Variable	Parameter Estimate	Partial R-Square	Model R-Square	F Value	Pr > F
Intercept	0.64194			21.74	<.0001
Believes insurance availability is a problem	-0.15289	0.0940	0.0940	28.63	<.0001
Buyer's agent requires a favorable CLUE report	1.18109	0.0734	0.1674	24.24	<.0001
Seller's agent that takes Other actions to avoid insurance-related problems	0.39715	0.0373	0.2046	12.84	0.0006
Total years in real estate	-0.00904	0.0150	0.2196	5.24	0.0119
Number of transactions in 2003	0.00328	0.0134	0.2330	4.76	0.0300

APPENDIX

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Proposed Action Plan

In developing these recommendations, our objective was to not repeat recommendations contained in the NAR Insurance Task Force Final Recommendations (TFFR) which are detailed later in this Appendix. Note that not all the items in TFFR apply to Ohio. For example, Ohio already has a widely-used FAIR Plan. Other legislative recommendations included in TFFR may apply for Ohio. Our recommendations are organized into the following categories: (1) licensee education, (2) consumer awareness, and (3) activities that the ORC and/or OAR could undertake.

1. Licensee education:
    1. **Add information to pre-examination courses** covering:
        1. Homeowner's insurance market hardening,
        2. Type and nature of potential problems,
        3. Actions that licensees can take to avoid and remedy problems,[30]
        4. CLUE reports, and
        5. Ohio FAIR Plan.

    2. **Develop and offer one or more continuing education courses** covering the same five topics.

    3. **Include information for licensees/members on the ORC and OAR websites** covering the same five topics.

    4. **Advertise** all of the above.

2. Consumer awareness:
    1. **Include information for the general public on the ORC and OAR websites** covering the same five topics.

    2. **Place posters in real estate offices** stating importance of securing coverage early and list of ways to avoid problems.

    3. **Prepare informational brochures for sellers and buyers** to be distributed by licensees.[31]

    4. **Advertise** all of the above.

3. ORC/OAR activities:
    1. **Set up (an internet) system** where licensees/members can submit information about problem transactions so that ORC/OAR can track the problem.

    2. **Add direct links on the ORC and OAR web sites** to the Ohio FAIR Plan and other related web sites.

[30] The Checklist appearing later in this Appendix could serve as a basis for this topic.
[31] Informational brochures are recommended in the TTFR.

Checklist – Avoiding Insurance-Related Problems

1. **Real estate agent should recommend a third-party property inspection to be conducted early in the marketing process.** A favorable report can serve as a good selling tool. Any defects identified in the report can be fixed to avoid problems later.

2. Seller, where feasible, should **fix any defects discovered in the property inspection**.

3. Real estate **agent should ask both seller and buyer about their claim history** and recommend #4.

4. **Seller and buyer should check their loss history report** such as a CLUE report from ChoicePoint or an A-Plus report from Insurance Services Office. A good report for both may mean lower premiums and a lower probability for problems obtaining insurance coverage. A bad report for either is a warning signal.

5. Before house-hunting, **buyers should check their credit report**, report any mistakes at once, and take steps to improve credit rating if possible (and needed). A good credit report may also mean lower premiums and a lower probability of problems obtaining insurance coverage.

6. Real estate agent should advise buyer to **shop early** for insurance coverage, **recommend an agent or company** that has a track record of providing good service. Sellers may also learn of good insurance agents from their own past experience, the experience of friends and relatives or the home seller. Leaving this process up to the buyer (especially a first-time buyer) is asking for trouble.

7. Real estate agent should actively **monitor the buyer's progress** in obtaining coverage. Rejected applications suggest #10.

8. Real estate agent and seller should work with insurance company to **facilitate insurance company inspection of the property** (it's a pain, but they have what you want – a policy for the buyer).

9. Seller, where feasible, should in a timely fashion **make any repairs required by the insurance company.**

10. Real estate agent should be prepared, when necessary, to **assist the buyer in obtaining insurance coverage through the Ohio FAIR Plan**. The faster items 1 though 9 are accomplished, the faster this can be done. Environmental conditions and the buyer's credit history are not factored into the underwriting decision by the Ohio FAIR Plan.

HOMEOWNER'S INSURANCE SURVEY

1. Please circle the type of license that you currently hold. Broker Sales Associate
2. How many years have you been in the real estate brokerage business?
   as a sales associate _____ as a broker (if applicable) _____
3. What is your age? _____
4. Are you a member of a minority group? No_____ Yes_____ (please specify)_____
5. Please circle your gender. Male Female
6. At which local board or association are you a member? _____
7. What percentage of your total business during the previous 52 weeks is done in the following areas? (Total = 100%)
   _____ Residential Sales _____ Commercial Sales
   _____ Agricultural Sales _____ Other (please specify) _____
8. The number of transactions you closed during the previous 52 weeks is _____
9. The average price for all your transactions during the previous 52 weeks is approximately _____
10. Please indicate how strongly you agree with the following two statements by circling one of the five responses.
    10a. The cost/availability of homeowners insurance is a significant problem in real estate transactions.
    Strongly agree Agree No opinion Disagree Strongly disagree
    10b. The problem is decreasing/increasing.
    Decreasing Slightly decreasing No change Slightly increasing Increasing
11. Check which of the following items you typically do to help assure that a buyer will be able to obtain an insurance policy?

Acting as the seller's agent	Acting as the buyer's agent
_____ Nothing	_____ _____ Nothing
_____ Obtain a CLUE report	_____ _____ Obtain a CLUE report
_____ Make a favorable CLUE report a condition of the sale	_____ _____ Make a favorable CLUE report a condition of the sale
_____ Secure the buyer's credit report	_____ _____ Secure the buyer's credit report
_____ Other, please explain _____	_____ Other, please explain _____

11a. _____ How long have you been doing the item(s) you checked in question #11?

12. _____ How many listings have you had where a **transaction was delayed** because homeowners **insurance was too expensive**?

13. _____ How many listings have you had where a **transaction fell through** because homeowners **insurance was too expensive**?

13a. _____ Of the transactions in question 13, how many resulted from the buyer no longer qualifying for a mortgage loan?

13b. _____Of the transactions in question 13, how many resulted from the buyer deciding that the cost was too high, even though the buyer still qualified for a loan?

14. _____ How many listings have you had where a **transaction was delayed** because homeowners **insurance required modification to the property?**

15. _____ How many listings have you had where a **transaction fell through** because homeowners **insurance required modification to the property?**

16. _____ How many listings have you had where a **transaction was delayed** because homeowners **insurance was unavailable?**

16a. _____Of the transactions in question 16, how many transactions did you use the Ohio FAIR Plan Underwriting Association?

17. _____ How many listings have you had where a **transaction fell through** because homeowners **insurance was unavailable?**

If any of your answers to questions 12 through 17 are greater than zero, please complete the rest of the survey.
If your answers to questions 12 through 17 are all zero, you have completed the survey.
Thank you. Please return the survey using the pre-addressed envelope.

18. IF YOU HAD ANY DELAYED TRANSACTIONS (Questions 12, 14 or 16 is/are greater than zero), please complete the following table

	YOUR LAST DELAYED TRANSACTION	YOUR NEXT TO LAST DELAYED TRANSACTION
Reason for delay? (Too expensive, Modification to property, Unavailable)		
What type of property was involved (e.g., single-family home, duplex)?		
In what County was the property located?		
In what year did the problem occur?		
What factor was responsible for the problem? (e.g. natural disaster, environmental hazard, buyer had previous water-related claim, bad CLUE score, buyer had no credit history, property had previous water-related claim, other)		
What was the approximate list price of the property?		
What was the approximate age of the buyer?		
What was the race of the buyer?		
Was the buyer a previous homeowner?		
What was the name(s) of the insurance company involved?		
Who located the insurance company(ies) involved? (e.g., you, buyer, lender)?		
What was the name of the insurance company that wrote the policy?		
Who located the insurance company that wrote the policy? (e.g., you, buyer, lender)?		

19. IF YOU HAD ANY LOST TRANSACTIONS (Questions 13, 15 or 17 is/are greater than zero), please complete the following table

	YOUR LAST LOST TRANSACTION	YOUR NEXT TO LAST LOST TRANSACTION
Reason for lost transaction? (Too expensive, Modification to property, Unavailable)		
What type of property was involved (e.g., single-family home, duplex)?		
In what County was the property located?		
In what year did the problem occur?		
What factor was responsible for the problem? (e.g. natural disaster, environmental hazard, buyer had previous water-related claim, bad CLUE score, buyer had no credit history, property had previous water-related claim, other)		
What was the approximate list price of the property?		
What was the approximate age of the buyer?		
What was the race of the buyer?		
Was the buyer a previous homeowner?		
What was the name(s) of the insurance company involved?		
Who located the insurance company(ies) involved? (e.g., you, buyer, lender)?		

NAR Insurance Task Force Final Recommendations

In developing its recommendations, the Task Force was committed to a number of specific goals. These included: (1) development a set of recommendations that would allow the NAR to address both the short term and long-term needs of the membership for a source of available and affordable insurance coverage; (2) provide state associations with the information and resources to address insurance legislative and regulatory issues at the state level, (3) take any needed action at the federal level, and (4) educate the REALTOR® community about the new realities of the insurance market.

The final recommendations of the Task Force are organized into the following categories: (1) recommendations for state association consideration, (2) recommendations for NAR assistance for state Association legislative/regulatory insurance dealings, (3) federal policy recommendations, (4) alternative insurance product recommendations, and (5) REALTOR education recommendations.

NAR Recommendations for State Association Consideration and Activity

1. Recommendation: That state associations consider advocating the creation or expansion of state insurance FAIR plans to include basic homeowners and commercial property coverage so that a robust alternative insurance mechanism exists in all states.

2. Recommendation: That state associations consider advocating for state legislation/regulation that would require insurance companies to file their credit-based insurance scoring methodology and formulas with the state department of insurance providing that such methodology and formulas are held confidential and treated as a trade secret under state law.

3. Recommendation: That state associations consider opposing the use of credit scoring as the primary criteria for the acceptance, denial, renewal or rating of a potential insured for insurance underwriting purposes.

4. Recommendation: That state associations consider supporting legislation/regulation that would limit the ability of insurance companies to refuse to provide insurance coverage after the issuance of an insurance binder and/or close of escrow.

5. Recommendation: That state associations consider supporting legislation/regulation that would allow consumers one free copy of their credit report, CLUE report, credit score and insurance score per year.

6. Recommendation: That state associations consider advocating the creation of a consumer ombudsman in state insurance commissioner offices.

7. Recommendation: That state associations consider:

- The creation of a state insurance task force to examine the use of credit reports, credit scores and CLUE databases in the insurance underwriting process,
- The need for an insurance contingency in any standard contract form, and

- The development of an ongoing relationship with state insurance commissioners as well as the insurance industry so as to promote future communication and cooperation..

NAR Assistance for State Association Legislative/Regulatory Insurance Dealing

1. Recommendation: That NAR create a program to provide state associations with access to consultants with expertise in insurance necessary for them to effectively address legislation or regulation dealing with insurance issues at the state level. The proposed program would be modeled after the successful Land Use Initiative program.

2. That NAR create/maintain a web-based resource center on insurance issues that would provide state and local associations with easy access to commonly needed insurance advocacy information.

Federal Legislative/Regulatory Options

A. Transparency and Accuracy of Credit/Insurance Scores and Claims Databases

1. Recommendation: That NAR support disclosure of insurance scores, the key factors influencing the insurance score, the date of the score, and sufficient explanation to facilitate understanding what impact the insurance score may have on the insurance underwriting decision in accordance, in accordance with existing policy on credit score disclosure.

2. Recommendation: That NAR support amendment of the Fair Credit Reporting Act to shorten the time frame available for consumer reporting agencies to investigate and correct consumer reports.

3. Recommendation: That NAR support legislation to increase the penalties for entities that repeatedly report inaccurate information to consumer reporting agencies.

4. Recommendation: That NAR support legislation that would regulate the manner in which multiple inquiries generated when consumers shop for mortgages or insurance over an extended time period are evaluated by lenders and insurers.

5. Recommendation: That NAR support legislation/regulation that would allow consumers one free copy of their credit report, property claims report, credit score and insurance score per year.

B. Alternative Insurance Vehicles

Recommendation: That NAR support passage of an amendment to the federal Risk Retention Act (RRA) to expand its provisions to property and casualty insurance.

C. Natural Disaster Risks

Recommendation: That NAR aggressively pursue creation of a federal natural disaster insurance program.

D. Tort and Class Action Reform

Recommendation: That NAR more actively participate in federal tort reform and class action reform legislative debates.

Alternative Insurance Products Options

1. Recommendation: That NAR explore the creation of a preferred partner relationship with established insurance firms or brokerages to provide affordable homeowners insurance coverage to REALTOR® clients.

2. Recommendation: That NAR explore the feasibility of NAR providing informational resources on the process of creating and administering a self-insurance, captive and reinsurance capacity for those NAR members and their clients interested in creating such a self-insurance program.

3. Recommendation: That NAR undertake the initial research necessary to explore the feasibility of NAR creating and administering captive for the purpose of providing errors and omission insurance to NAR members.

REALTOR® Education

1. Recommendation: That NAR develop informational resources for REALTORS® to use to educate consumers about how to deal with their property casualty insurance needs, including informational brochures that could be easily downloaded, reproduced and used by members to educate their clients and a consumer-oriented website on insurance topics.

2. Recommendation: Than a workgroup of the Insurance Task Force and the Risk Management committee be created to develop a set of best practices for REALTORS that would guide the membership on how to advise their buyers and sellers on insurance issues.