

# **Contrary to Claims by an Insurance-Industry Lobbyist, Adding Water-Damage Coverage to Renter's Insurance Policies Does NOT Increase Premiums by Much, If At All.**

## Background

In March 2020 I posted an essay entitled [Renters Insurance Helps a Residential Tenant When He Accidentally Burns His Apartment but Not When He Accidentally Floods His Apartment. Full Coverage Should Be Mandated by Statute](#). In the recently concluded Minnesota legislative session a bill to do just that, [HF 3154](#), was introduced. It was heard by the House Committee on Commerce Finance and Policy on March 22, 2022. The committee voted in favor of the bill on a party-line vote and sent it to the House floor, where it received its Second Reading but advanced no further.

## Assertions by Insurance Lobbyist

At the March 22, 2022 hearing, Aaron Cocking, President of the Insurance Federation of Minnesota and lobbyist for the insurance industry, made two factual assertions, perhaps better stated as conjectures. Opposing the bill, Mr. Cocking provided no data but he asserted the following:

[1] Were an insurance company not currently providing liability coverage for water damage to the tenant's own unit required by law to do so, it would raise its premium. Thus HF 3154 would increase premiums on residential renters insurance. He made no conjecture about the amount of the increase.

[2] The Minnesota Supreme Court has fairly recently decided two cases about subrogation against tenants, [RAM Mutual Insurance Co. v. Rohde, 820 N.W.2d 1 \(Minn. 2012\)](#) and [Melrose Gates, LLC v. Chor Moua, 875 N.W.2d 814 \(Minn. 2016\)](#).<sup>1</sup> The [Moua](#) court held that if a residential landlord's insurance company paid a first-party claim to the landlord based on damage the landlord's tenant caused to the building, the landlord's insurance company could subrogate against the tenant (sue the tenant for the amount it paid the landlord) but the subrogation claim would be limited to the damage caused to the tenant's own unit and not damage to the rest of the building. Therefore, HF 3154 would raise residential renters' premiums and lower residential landlords' premiums since renters' insurance companies would now be shouldering a new obligation and landlords' insurance companies could take advantage of this new obligation.<sup>2</sup>

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<sup>1</sup> In his testimony, Mr. Cocking did not name the cases. In private conversations he did so and there is no doubt these are the two cases in question.

<sup>2</sup> Mr. Cocking did not go into this much detail but it's clear that this was his assertion.

## Methods - Three Measures Used to Test the Assertions

In a vacuum, both these assertions are probably correct. Everything else being equal, if an insurance company has to insure against an extra peril, it either raises premiums or makes less money. Similarly, if an insurance company has to insure against a newly valid subrogation claim, it either raises premiums or makes less money.

However, everything else is not equal. For example, renters insurance is often sold as a loss leader with more profitable auto insurance. Second, predicting a premium increase is not the same as predicting a significant increase. If the extra exposure to insurance companies is small, theory says premium increases will be small.

To test Mr. Cocking's conjectures I looked for evidence about the real-world effect of renters' insurance companies' liability policies covering or not covering water damage to a tenant's own unit. I looked at three measures.

One measure was whether the Moua case caused an increase in renters' premiums. Mr. Moua did his damage by fire. As discussed in the previous blog post, all renter's liability policies cover fire damage. Therefore under Mr. Cocking's reasoning, renters' insurance companies – now facing new subrogation claims – should have raised their rates starting a bit after Moua, i.e. starting about five years ago in 2017. Indeed, since fires generally cause more damage than water, the effect of the Moua case should have been significant even though sans HF 3154 water damage is generally not covered.

A second measure was a more general examination of insurance companies' filings with the Minnesota Department of Commerce to see if they commented on or otherwise shed light on a relationship between coverage of water damage and premiums.

A third measure is comparing premiums charged by companies that do cover water damage to those that do not cover it. This measure ignores all other factors and so is imperfect at best but it is informative.

## Insurance Filings With the Department of Commerce (Measures 1 & 2) Do Not Support the Insurance Lobbyist's Assertions

As discussed in my prior blog post, insurance companies are required to file copies of their policies, the rates they charge, and some other documents with the Minnesota Department of Commerce. These are public record, albeit with some practical limitations. The documents are posted by the Department on the SERFF website. In the old(er) days, documents stayed on SERFF semi-indefinitely even though they were supposed to stay for only five years. More recently, the Department has "fixed" its postings on SERFF so that documents are routinely eliminated at the end of the document's fifth year. This fix obviously hampers research since older documents are gone for good, inaccessible even by Department staff.<sup>3</sup> As an example, when I did this recent study in mid April 2022, there were only 1,032 documents under Property and

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<sup>3</sup> I confirmed this during discussion with a helpful staff member at the Department.

Casualty Insurance, Group 4 (the group that contains renters, homeowners, and mobile homeowners insurance documents). When I did a study in April 2019, discussed in my prior blog post, this same set included 3,429 documents.

For this study, I downloaded documents that seemed potentially relevant. These included new renters insurance policies, rate filings for renters insurance, and some explanatory documents filed with them. These documents are gathered in [Appendix 1](#). Appendix 1's Table of Contents states the date each document was filed with the Department.<sup>4</sup>

As Appendix 1 shows, no insurance company filed renters insurance rates more than once during the last five years. Thus it is impossible to determine by comparison whether the new rates are higher or lower than pre-Moua. However, there are several indications that Moua did not cause significant premium increases.

First, had Moua done so there would have been a rash of rate filings. In fact, of the 31 companies reviewed in my 2019 blog post, only one, Foremost Insurance Company, filed new rates. Only nine companies filed new rates -- Foremost and eight "new" companies (new compared to my 2019 study).

Second, several companies commented on its rates. American Security, a company that does provide liability coverage for water, lowered its rates by 26%.<sup>5</sup> RLI added water coverage but did not increase premiums.<sup>6</sup> Lyndon Southern, a company whose water coverage is unstated, made no changes in its premiums.<sup>7</sup> State National began to provide water coverage as a rider with the increased premium being \$4.50 per year or 38¢ per month.<sup>8</sup> Finally, USAA Group, whose water coverage is unknown, had the

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<sup>4</sup> My prior blog includes a link to a "[cheat sheet](#)" for how to use SERFF. A quickie guide is available by clicking on this link, [SERFF Filing Access - Minnesota](#), then Begin Search, then Accept, then chose Property and Casualty as the insurance type, and then "04.0 Homeowners" as the type of insurance and then Search to get all 1,032 documents (on 4/14/22; the number changes daily). Before clicking Begin Search, narrowing choices are also available. The Table of Contents also states the SERFF Tracking Number for each item to help the reader find them herself if she so desires.

<sup>5</sup> Water coverage is shown on Appendix 1, page 59. The rate decrease is pointed out on Appendix 1, page 66.

<sup>6</sup> Appendix 1, page 105 ("RLI Insurance Company is making two revisions to our Renters Program. The first revision is the addition of Premises Water Property Damage coverage to our Liability only form and our Contents and Liability form, with no additional rate change.")

<sup>7</sup> Lyndon Southern filed no policy in the last five years and none was available in 2019 so I cannot say whether it covers water or not. The redlined rate document, shown Appendix 1, pages 76-79, shows changes for some fees but none for premiums.

<sup>8</sup> Appendix 1, page 123 (discussing rider) and Appendix 1, page 138 (Box P) showing the \$4.50 per year = 37.5¢per month.. This coverage is capped at \$10,000 which covers most water problems. It's unclear the price of higher coverage but since premiums increase less than

highest increase identified in Appendix 1; USAA is an outlier to begin with, with very high rates.<sup>9</sup>

Spinnaker does cover water damage and did raise premiums, but only by \$5-16/year = \$0.42-\$1.33 per month.<sup>10</sup> From this filing there is no way to know how much, if any, of the increase was related to liability coverage (water, fire or other cause). The higher increases presumably reflect special riders or higher policy limits, so the 42¢ per month increase should be an upper limit of the effect of Moua and/or water coverage.

Put together, these filings indicate [a] Moua caused few premium increases (and perhaps no increases) and certainly no significant ones. If Moua was going to have an effect, the effect should have been apparent and it isn't. Adding water coverage to fire coverage would have an even smaller effect on premiums. [b] For those companies filing data on the subject, water coverage added between zero and 38-42¢ per month cost to the renter. While it would have been nice if SERFF provided more complete data, the data available indicates that Mr. Cocking's two assertions are largely not supported by SERFF filings.

### Average Actual Premiums (Measure 3) Also Do Not Support the Insurance Lobbyist's Assertions

The third measure I looked at was actual renters' insurance premiums for policies written by companies that do or do not include water damage in the liability part of their policies. When I testified in committee I testified about a preliminary and incomplete study I did in 2019. Now, in April 2022, I aimed to do a more complete study. Without inside access to the companies' files, I could not obtain a broad range of premium prices. Therefore, I got a quote from each company in question for a chosen rental. Specifically, I inquired on my own behalf for a rental of an apartment in a building in my neighborhood.<sup>11</sup> Except for the fact that I didn't actually intended to move there I answered questions honestly so that the company could do a real background check if it

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proportionally to caps it should be very little (this is a general rule of insurance since big claims, while big, are disproportionately rare).

<sup>9</sup> Rate increases for USAA Group are summarized on Appendix 1, page 172. USAA is also a very expensive company with premiums above \$300 per year, Appendix 1, page 201.

<sup>10</sup> The policy provision is shown on Appendix 1, page 109 (left column) and the rate increase on Appendix 1, page 111.

<sup>11</sup> The building in question is a 12-unit apartment building with a brick exterior located at 3400 Tenth Avenue South, Minneapolis, MN 55407. It appears to be about 50 years old. I reported that it had the standard smoke detectors and CO detectors required by local and state law, no sprinklers and no other alarm systems. I said I had no pets, was 71 years old, planned to live alone and had no claims on my homeowner's insurance in the last five years. I said I did not want to bundle renter's insurance with auto or other insurance.

wished. I asked for coverage for a one-year policy with no animals, no riders, and policy limits of \$25,000 first-party coverage with a \$500 deductible and \$300,000 liability coverage. I stated that I had not yet signed a lease but was planning a tenancy to start June 1, 2022.

I called the 31 companies listed in my 2019 blog post and asked for a quote. I also contacted the companies listed in this blog post if SERFF indicated whether the company covered water damage in their liability policy. Some gave me a quote directly and others referred me to a local agent. For the latter, I contacted the agent. I did not get a quote from every company because some informed me that they did not write or no longer wrote renter's policies in Minnesota, don't write stand-alone policies, or don't write policies except as partner policies (and 3400 Tenth was not a partner for the company that used partners). Also, some companies turned out to be just a different name for another company already contacted. In all I got quotes from 5 companies that do cover water damage and from 14 that do not. Some agents spontaneously quoted premiums for companies in addition to the one I had inquired about. This spontaneous quoting resulted in three different quotes for Safeco Insurance Company -- \$125, \$145, and \$155 per year. I used the \$125 figure in my calculations.

The quoted premiums varied widely as depicted in [Graph 1](#). The underlying data and calculations are given in [Appendix 2](#). Average and medium premiums were as follows:

The average premium for the 5 companies that do cover water damage was \$163.78 per year = \$13.65 per month. The average premium for the 14 companies that do not cover water damage was \$183.04 per year = \$15.25 per month (\$1.60 per month more).

Eliminating the highest and the lowest quote for each set to remove outliers (leaving 3 and 12 quotes respectively), average premium for the companies that do cover water damage was \$149.30 per year = \$12.44 per month; the average premium for the companies that do not cover water damage was \$172.99 per year = \$14.42 per month (\$1.97 per month more).

The median premium for the 5 companies that do cover water damage was \$159.00 per year = \$13.32 per month. The average premium for the 14 companies that do not cover water damage was \$153.50 per year = \$12.79 per month (53¢ per month less).

That is, averages premiums were actually slightly lower, by about \$2/month, for the companies that do cover water. Median premiums were nearly identical for the two groups, with the companies covering water having a median premium 53¢/month more expensive than those not covering water.

Given the considerable scatter in the quoted premiums, none of these differences are even close to statistically significant. Noteworthy, two of the three lowest quotes were from companies with large market shares – State Farm and Liberty Mutual, one of which covers water damage (State Farm) and one of which doesn't (Liberty Mutual).

This data shows that water coverage is at most a tiny factor in the premium the tenant pays for renters insurance. The total amount a tenant will pay for renter's insurance is determined by many factors and varies considerably. The tenant who wants water coverage and has the skill and the time to get it can get it at a favorable price.

### Conclusions

[1] Moua did not cause a rash of premium increases and perhaps caused none at all.

[2] Water coverage adds between zero and about 42¢ per month to the renter's insurance premium.

[3] That 42¢ is dwarfed by the large range of overall premiums, which ran from \$7.67 per month to \$32.89 per month in the test case.

[4] The unintended consequences which insurance lobbyist Aaron Cocking put forward in opposing HF 3154 are actually either not true or are very minor consequences.