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TECHNICAL ADVISORY

TA 150

February 16, 2000

SUBJECT: Guidelines for Hurricane Deductibles

BACKGROUND: Over the past few years, company approaches to hurricane deductibles have varied widely. The Louisiana Insurance Rating Commission (LIRC) became concerned that consumers' interests may not have been properly taken care of and felt the need to implement uniform guidelines for hurricane deductibles. The LIRC met in a special meeting on Wednesday, February 16, 2000, to address concerns about hurricane deductibles. At this meeting, the LIRC took comments from both the insurance industry and the public.

MAIN POINTS: On behalf of its member agents and their policyholders, IIAL sent the following list of issues to LIRC members for consideration prior to the special meeting. By addressing this important issue early, IIAL was able to set the agenda for the discussion.

"Agents continue to find limited voluntary insurance company markets to provide homeowners coverage in South Louisiana. The FAIR Plan continues to absorb an enormous volume of new business. In light of the continued hurricane catastrophe concerns of insurance companies, hurricane deductibles are probably necessary to maintain the voluntary property market. However, we believe that the public interest would be best served if the LIRC developed standard hurricane deductible guidelines. As you requested, following are some suggestions for the LIRC to consider.

- 1. Clear Notice to Policyholders.** LIRC guidelines should require insurance companies to provide a clear and unmistakable notice to policyholders that the homeowner's policy has a hurricane deductible with an easy-to-read explanation of the scope of the hurricane deductible.
- 2. Hurricane Deductibles vs. Windstorm Deductibles.** The LIRC guidelines should address the appropriateness of hurricane deductibles as opposed to windstorm deductibles.
- 3. Define Deductible Trigger.** Hurricane claims have created serious problems and extensive litigation over the exact determination and application of the hurricane deductible. Who, how and when is a hurricane event declared? Is a company required to prove that hurricane

force winds in excess of 75 miles an hour caused the damage in order to apply the hurricane deductible? Does the hurricane deductible apply to secondary events, such as storms or tornadoes spawned on the periphery of a hurricane? A precise definition of the deductible trigger must be established.

4. **Guidelines for the Scope of Hurricane Deductibles.** LIRC guidelines should establish the scope of hurricane exclusions. What is the maximum percent or dollar amount of hurricane deductibles? Does the percentage deductible apply to the amount of claim or the limit of insurance coverage?
5. **Options to Buy Back Regular Deductibles.** LIRC guidelines should address the availability of normal deductible buy back options and the appropriate pricing of such options. As an alternative, mitigation efforts might be used to eliminate the application of the hurricane deductible. For example, some companies eliminate the hurricane deductible if the home is insured to value, has storm shutters and is covered by flood insurance.
6. **Guidelines on Implementaiton of Hurricane Deductibles.** LIRC guildelines should clearly establish consistent procedures for how insurance companies implement the use of hurricane deductibles. Does it apply to new business or renewals? Can the deductibles be implemented on policies in force or on the renewal date?"

IIAL Technical Affairs Chairman Joseph A. O'Connor, Jr., Co-Chairman John R. Smestad and Executive Vice President Jeff Albright attended the special meeting on behalf of IIAL.

The meeting opened with Rating Commission Members Ruiz and Chozen expressing serious concerns about the impact of hurricane deductibles on consumers. Ruiz asked IIAL to present its concerns as outlined above and suggested that this format provided a good framework for the discussion.

Several insurers, such as State Farm, Allstate, Hanover and Farm Bureau, addressed the subject of hurricane deductibles with the LIRC. During the discussion, it was apparent that industry practices vary considerably. Rating Commission members expressed a strong consensus that uniform guidelines are needed.

The LIRC will accept written comments on this issue from the industry and public until March 1, 2000. The LIRC will reconvene at 2:00 PM, March 15, 2000, to further discuss action to be taken with regard to hurricane deductible guidelines. IIAL will continue to represent its member agents and their policyholders.

**NECESSARY
ACTION:**

None at this time. IIAL will update you when further action is taken.