

## **Coastal Insurance Changes Talking Points**

### ***I heard the news about homeowners rates going up. How much will my policy increase?***

It's impossible to say exactly since each policy is unique. The insurance department has provided examples of how much increase to a fairly typical home insured for \$150,000. Your actual increase may be less. In addition, your insurance provider may offer discounts that will reduce your total cost.

The percentage increase for a \$150,000 home by area is:

- 6.5% Barrier island areas of Currituck, Dare & Hyde counties
- 22.0% Other areas of Currituck, Dare and Hyde counties
- 6.5% Beaufort, Camden, Chowan, Craven, Jones, Pasquotank, Perquimans, Tyrrell and Washington counties
- 17.5% Barrier island areas of Brunswick, New Hanover, Pender, Onslow and Carteret counties
- 29.8% Other areas of Brunswick, New Hanover, Pender, Onslow and Carteret counties

### ***When will my policy go up?***

The rate increase is effective May 1, 2009. You will not pay the higher rate until your first policy renewal that occurs after May 1, 2009.

If your policy renews on April 15<sup>th</sup>, you will not be affected by the rate change until April 15, 2010. If your policy renews on June 1, 2009, you will pay the higher rate when your policy renews on June 1<sup>st</sup>.

### ***Why did the homes on the beach have less of an increase than those that are further away from the ocean?***

The homeowners rates on the barrier island beach communities were already higher than on the mainland and so the percentage increase is smaller. The homeowner rates on the beach will remain higher than the mainland after this rate change.

### ***With everything going on in the economy, why raise rates now?***

The Commissioner of Insurance is required to maintain rates that are sufficient to pay claims, also called actuarially sound rates, and that are not excessive. After examination of loss data and other costs of providing coverage, it was determined that an increase was necessary. The Commissioner is not permitted to take into account general economic conditions, the timing of property tax increases or any other external factors when evaluating the appropriate rate level.

Even after the rate increase, North Carolinians enjoy the lowest coastal homeowner rates from Virginia to Texas.

If the rates are not allowed to increase there is a much greater risk that insurance companies will quit providing coverage for North Carolina homeowners across the state, especially in the event of a hurricane or other catastrophic event. So while no one likes price increases, this will help protect the coastal economy and provide the most choice to consumers.

***I heard one reason for the rate increase had to do with Beach Plan. What is the Beach Plan and why does it need more money? Didn't the Beach Plan just raise their rates too?***

In North Carolina, the Rate Bureau proposes rate increases on behalf of the insurance companies. The proposal is then approved or disapproved by the Commissioner of Insurance. In many cases, the rate increase request is denied and then the Rate Bureau and the Commissioner agree to a smaller increase. All insurance companies doing business in the state must use the rates approved by the Commissioner. This includes the Beach Plan.

The Beach Plan isn't a regular insurance company. It is essentially a "pool" of all the insurance companies in the state and was intended to be a safety net for those homeowners who couldn't find another company to provide insurance for their homes. In some cases, the basic homeowners policy is provided by a regular insurance company with only the wind & hail coverage provided by the Beach Plan.

Because the Beach Plan was intended to be a "last resort" for insurance coverage, it charges more than the regular insurance companies by adding a "surcharge" to the highest rate allowed by the Commissioner for homeowners coverage.

Currently the surcharge is 5% for wind & hail only policies and 15% for full homeowners policies. The commissioner approved this surcharge to increase to 15% for wind & hail only policies and 25% for homeowners policies. The surcharge increase is effective for policies purchased or renewed starting February 1, 2009.

Because the Beach Plan is a pool arrangement, the insurance companies pay the claims through an assessment process. Recent studies have shown that the amount of losses from a major hurricane would be as much as \$4 billion or more. In order to best prepare for such a big loss, the Beach Plan keeps all profits and buys reinsurance – essentially insurance against a catastrophic event. Even with the cash reserves and reinsurance, the insurance companies still face assessments of \$2 billion or more. The higher rates and higher surcharge will allow the Beach Plan to buy more reinsurance and improve cash reserves so that there is enough money to pay the claims if a major hurricane hits the state.

***Didn't the Beach Plan change something about deductibles?***

Yes, also beginning with policies bought or renewed starting February 1, 2009. Currently, most policies have a defined dollar amount for a deductible. The change implements what is known as a percentage deductible. For policies in the 18 coastal counties, there will be a 2% deductible except for Bald Head Island, where the deductible for residential property will be 5%.

***How does the percentage deductible work?***

The deductible amount is 2% (or 5%) of your home's insured value. If your home is insured for \$200,000, then your deductible is \$4,000 for any claim. The amount of the claim doesn't change the deductible amount.

***Does the change to percentage deductibles change my premium?***

Yes, your premium will decrease slightly from the change which will offset some of the increase from the surcharge change.

***What about my flood insurance?***

Flood insurance rates are set and administered by the Federal Government through FEMA, a division of the Department of Homeland Security. Your flood insurance premium is not affected by the NC homeowner rate changes.