

2012 was the hottest year on record in the United States. The effects of a global warming trend are creating more frequent and more intense storms. In North Carolina that means more intense windstorms and hailstorms. The losses from wind and hail in 2011 sent the homeowners insurance marketplace in North Carolina into a tailspin. With the insurance companies losing money hand over fist on home insurance and the insurance commissioner's unwillingness to allow rate increases during an election year, the home insurance marketplace in NC became chaotic for consumers.

With insurance companies losing money on each home insurance policy they sold, they began to look for ways to protect themselves. The first and most obvious move was to only write home insurance if they also wrote a client's more profitable auto insurance. Next was the use of an arcane rule – the consent to rate letter, to try for rate increases on a policy by policy basis. Along with that came mass cancellations and nonrenewals of existing home insurance policies and in some cases insurance companies quit writing any business at all in this state.

In the end, if an insurance company can't get the rates they need to be profitable but want to stay in the home insurance business, what choices do they have? They must reduce the coverage that they provide in some way or another. With North Carolina home insurance, there has been one area of coverage that has cost the insurance companies more in claims costs than any other. And that is damage to roofs from wind or from hail. So we are now beginning to see some of the larger insurance companies in our state taking action to reduce the coverage in their policies for wind and hail losses to roofs.

One way to reduce coverage for roof damage is to change the policy language so that when a roof is damaged the value of the claim is based on the depreciated value of the roof instead of the replacement value of the roof. Most companies still provide replacement cost protection on roof damage claims but several big companies have already begun to change their policies to pay claims based only on the depreciated value of the roof.

Let's take an example to help illustrate what this might mean to a NC homeowners policy holder. Let's say you have a 20 year roof on your house that is 15 years old at the time that a hailstorm damages the roof. With a traditional replacement cost policy your claim would equal the cost of putting on a new, 20 year roof. For the sake of this example, let's assume that new roof will cost \$20,000. However, if you are one of the unfortunate policyholders whose policy has been amended to reduce the coverage to a depreciated basis then you will only collect  $\frac{1}{4}$  of the replacement value as your roof is effectively  $\frac{3}{4}$ ths used up. So you would collect only

\$5000 for that claim. Imagine having to come up with \$15,000 right away to repair your roof after a bad hailstorm.

Another approach that some other insurance companies are taking is to increase the deductible for all wind and hail claims. We are seeing some companies implementing a mandatory \$2000 deductible on all home insurance policies for all claims related to wind or hail. The insurance companies that are taking this approach seem to be keeping the replacement value protection for roofs in place so this is in lieu of changing the coverage for roof damage.

For the sake of the consumer, I would much rather that all policies have the same coverage. Now, as a consumer you will need to check in on your home insurance policy to make sure that you understand how your roof claim will be valued if damaged in a claim. Of course if your roof is pretty new then depreciated value may be better for you than a large wind and hail deductible. On the other hand, if your roof is getting some age on it then you would be better served taking on a larger wind and hail deductible to keep your replacement coverage on your roof.

At this time, at Clinard Insurance Group, we still represent a number of insurance companies that have not changed either their deductible plan or the valuation for roof claims. But, as the bigger insurance players in our market begin to make these moves, you can bet that those will smaller market share will take notice and start to make changes to their coverage language in their policies. As this happens, all home insurance consumers need to ask questions of their agents and read their policies and any mail from their insurance company very carefully.

If you would like our help with your home insurance, please call us, toll free, at 877-687-7557.