

Although NC home insurance rates had a 7% rate increase last July, the NC Rate Bureau has requested another rate increase, averaging 25.3% across the state. NC Insurance Commissioner, Wayne Goodwin has said that he will not approve this rate increase. If this happens then there will be a hearing held to issue a ruling which could then be appealed to the courts. While the overall requested rate increase is 25.3%, the actual rate increases are set by territory and a few territories could see decreases of up to 2.7% while other territories, especially coastal ones would see increases as high as 35%.

This battle between the insurance companies and the insurance commissioner over rates is at once political and economic. I have read the comments on various news feeds from consumers and they are almost overwhelmingly in support of the insurance commissioner and his goal of holding down rates. This underscores the very political nature of this debate. Most people react to this news by simply thinking of their particular situation and their pocketbook. If consumers actually take the time to analyze the economic equation that insurance companies face with inadequate premiums, they tend to discount this by assuming that the CEO's of the insurance companies are overpaid, or that the insurance companies are working in collusion with each other to distort or cover up actual costs and losses. One of the reasons given for this huge request now is that so many past requests have been denied or pared down to lower levels and the insurance companies are saying that they need to catch up on the rate levels.

This is a complex issue and I want to share with you some of the negative effects of having a pricing structure that is so heavily regulated by a politician who can claim more votes by denying rate increases. I will share with you here an insider's view as to what is happening and what I think we can expect if we continue down this path of infighting between the NC Insurance Commissioner's Office and the NC Rate Bureau.

The NC Rate Bureau is owned by the member insurance companies who sell insurance in our state so that they may pool their loss data for statistical purposes. This large pool of insurance claim and loss data allows the rate bureau to make rate requests that, at least in theory should be fairly accurate. In NC we have a large number of insurance companies selling homeowners insurance and the competition for business is usually quite healthy and beneficial to the insurance consumers in our state. But, after the large losses experienced in 2010 and 2011, the insurance industry has repeatedly told us that they are having trouble getting enough premium from customers to pay the losses that are happening.

From my perch as an insurance agency owner, I have seen quite a number of changes take

place in home insurance over the past few years. My perception is that we now have an entire insurance marketplace that is in disarray and is almost completely dysfunctional. The burden of these changes falls squarely on the agent's shoulders to be sure, but it also falls disproportionately on the shoulders of the customers who find themselves caught up in the tangled mess that inadequate rates leave behind.

The first hints of change came when the largest insurance companies began to refuse to write new homeowners insurance policies without the supporting auto insurance for that same customer. This is because while the home policy was a money loser, there was enough profit in auto insurance to support those losses. It didn't take long for most every insurance company to follow suit and today you would be hard pressed to find a market for your home insurance without the support of your auto. The burden of this change fell hardest on the elderly who still owned their homes but had stopped driving.

The next phase of market destruction came when insurance companies made this home insurance only with an auto policy requirement not only for new policies but for renewals as well. Now suddenly many homeowners who insured their home and auto policies with different companies found themselves facing a non-renewal of their home insurance unless they brought their auto insurance to that company as well. This was just another painful reality for a few more NC homeowners.

Soon, the insurance companies began to use an archaic rule, called [consent to rate](#) to get their home insurance clients to pay them rates that are above the state mandated maximum rates that the insurance commissioner has allowed. This was a way, albeit one policy at a time, to make an end run around the insurance commissioner's power to control rates. Unfortunately, having clients give you written permission to increase their rates, one policyholder at a time is a very inefficient way of getting a rate increase and drags some percentage of homeowners in NC through a paperwork net that has left many without coverage. There is no doubt in my mind that there are some homeowners out there who think they are insured but are not because they failed to [sign a consent to rate letter](#) and their policy never renewed. If they didn't notice that they didn't pay a bill recently, they may not realize that they have no coverage.

The next step in this debacle has been that several large insurance carriers have given up and pulled out of the state completely. That means we have even less competition between insurance companies, thus putting additional upward pressure on pricing. And since when they leave, they leave all insurance markets, we see reduced competition and higher pricing in other

areas like auto insurance, business insurance and workers compensation insurance.

The latest iteration that insurance companies struggling to make a profit on NC homeowners insurance have brought to bear have been increased deductibles and reduced roof coverage. Some companies have implemented percentage deductibles for hail or wind damage at renewal. If you don't read the fine print, you may not know that you now have a \$5000 wind and hail deductible on your most recent policy, or that you have a 10% of the loss deductible for those claims. We are also seeing a number of insurance companies who have reduced the coverage on roofs to the actual cash value of the roof. This means that if your roof is damaged in a hailstorm for instance, and you must replace it, the value that you will receive from the insurance company will be based on the number of years of age your roof currently has left in its useful life. So if you have a 30 year roof and it is 20 years old, and the cost to put on a new roof is \$15,000, then you will receive 1/3 of that amount or \$5000. But you still have to find another \$10,000 to replace your roof.

All of these results are generally negative for the consumer. And while consumers almost universally seem to believe that insurance companies are out to screw them over, they should understand that these insurance companies are operating in competition with each other and none of them are getting rates high enough to make a profit so they are stripping down the policy or putting consumers through the consent to rate process in order to attempt to make money. If our insurance commissioner would allow the free market to operate then yes, insurance rates will go up right away, but over time competition will allow rates to settle at a level that allows for a stable insurance market. I know no one wants to pay more for their insurance but blindly supporting a politician's goal of keeping rates below profitable levels will generate more pain and agony for consumers over the long haul.

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