

Hurricane Sandy struck the northeastern US with a severe blow and the clean-up that is going on now will probably continue for many weeks more. Most of us in North Carolina were spared damage to our homes and property but did you know that despite this, hurricane Sandy will have an impact on your future home insurance rates? And if Sandy represents a changing weather pattern for the long term, then over time we may pay as much for our home insurance in North Carolina as homeowners now pay in Florida.

The rates that you pay for your home insurance are generated by data from many different sources and as such are affected by many things. But as far as weather related losses such as hurricanes go, there are really three ways that you can be affected negatively. Let's take a look at each of them separately.

The most obvious type of impact would be when your home or property suffers a direct loss from a storm and you have to file a claim. Most insurance companies will allow some number of weather related claims to be filed before they take the more drastic step of non-renewing your policy. This used to be as many as three claims though lately with tougher underwriting and lower profits in NC, some now won't tolerate even one weather related loss without at least requiring that you increase your deductible. Many might just not renew your policy after one weather related loss.

A second, less obvious way that your rates are affected by storms happens when a storm hits your local area. Even though your home may be spared the damage, the storm track through your neighborhood or your town puts that locale on the map for higher risk areas with insurance companies. When they pay out for a lot of losses in an area, you can bet that they start to train their attention on that area and begin to work to get more rate increases in that geography. So even though you dodge the bullet of storm losses, you may not dodge the rate increase bullet caused by that local storm.

The third way that storms affect your homeowners insurance rates is caused by the fundamental mechanism of how insurance spreads losses around. In a sense, when you purchase home insurance you are substituting a smaller known loss (your premiums) for a larger unknown one (storm damages to your home). One of the ways that the insurance industry spreads this risk around is through the use of reinsurance contracts. Reinsurance is insurance protection that insurance companies purchase from reinsurance companies for their entire book of business. For example, an insurance company might sign a reinsurance contract with a reinsurer that says that if they suffer losses from any one storm that exceed \$300 million then

the reinsurer will pay for all claims over that amount. Now when large storms hit the US and cause extensive damage, the reinsurers have to pay out on their contracts with the insurance companies. When this happens, the future costs of reinsurance will be higher as the reinsurers attempt to cover past losses and also make sure that they are profitable in the future. These higher reinsurance costs are then passed on down to the homeowners insurance consumer.

With a storm like Sandy, where the loss of property is extensive and widespread, future insurance costs are bound to be affected negatively. For most NC residents, the rate impact will only come from the third leg of this stool so our negative rate impact will certainly be much lower than areas of New Jersey and New York. But make no mistake; this storm will cost all of us more money in higher insurance premiums.

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