The North Carolina homeowners insurance marketplace has taken it on the chin in recent months. Due to the poor claims results from the bad storms of 2011 and the resulting increased pricing for reinsurance that came after that, the 2012 homeowners insurance marketplace has been left in a bit of a shambles. Very few insurance companies in NC are willing to insure your home without the support of your much more profitable auto insurance policy to go along with it. And more and more homeowners all across the state are finding that they will have to sign a consent to rate form, allowing for huge rate increases in order to be offered a renewal policy by their homeowners insurance carrier. And underlying this turmoil is the yet to be understood impact of a new rule from the U.S. Department of Housing and Urban Development.

The new HUD rule, called the disparate impact rule, would expand the Fair Housing Acts discriminatory effects standard and how it applies to actions that have discriminatory effects on minority groups. Essentially, this new rule would hold companies responsible for policies that result in discriminatory effects on minorities whether or not there was ever any intention to discriminate against them. What this could mean, is that home insurance rates might be held to be discriminatory and if so, then this could have enormous impacts on homeowners rates in North Carolina.

When it comes to pricing a homeowners insurance policy for your home, your insurance company will study many different factors that are individual to your specific house and you as the owner. These factors can be as diverse as what type of fire protection services are offered in that area to your credit score. All of these factors along with many others that are unique to the house itself as well as the life and attitudes of the home owner go into the process of determining a specific price for insurance for that home and that customer. Imagine if you will a world where the insurance company would not be able to use some or all of this information to determine their rates for a home on the off chance that their methodology might be able to be construed as discriminatory against a minority somewhere.

This kind of ruling that limits the ability of insurance companies to provide more risk specific rates will result in an insurance marketplace with two flaws that will certainly drive rates higher for all buyers. First of all, when you take away the insurance company’s ability to underwrite a specific location or area for risks that are unique to that location or area, then you are forcing them to raise the rates on all other homes in order to account for the higher risk ones that must be subsidized by a common rate for all. Secondly, this approach of insuring with more unknowns will generally cause underwriters to err on the side of getting more money up front to protect them from these unknowns. This means that all homeowners will face higher rates.

The HUD rule and how it might affect the insurance industry will have to play out in the courts before we really know the final impacts it will have. There is a theory that this kind of rule will run afoul of the McCarran-Ferguson Act which gives states the power to regulate insurance. Perhaps the HUD rules will not be able to pierce this legality. At this point we will have to wait and see what the higher courts rule as challenges to this new HUD rule wind their way through the court systems.

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