

There's a shifting of the ground underneath the NC homeowners insurance market. The traditionally regulated rate making process is being undermined by a long forgotten loophole and this is fundamentally changing the way that insurance companies in NC are pricing their product. This is a creeping phenomenon and if the regulators in this state don't take some action soon, then we will be left with a sorry hybrid rate making process that could leave some homeowners paying far more than their share for their home insurance and some homeowners going bare when they didn't even realize it.

Homeowners insurance rates in North Carolina are heavily regulated by the NC Rate Bureau and the NC Insurance Department. In fact insurance companies have to file the rates that they want to charge and then wait for them to be approved. For the past 30 years or so, the Rate Bureau has set the maximum rate levels that the insurance companies could charge for home insurance. The level of competition during this time was such that most insurance companies filed their rates below these levels, often as much as 50% or more below the rate maximums. But in the past two years we have seen a sea change in the appetite for more home insurance business from insurance companies operating in our state. They have lost more money than they wish to lose and now the trends have dramatically changed their approach from one of seeking more new home insurance business to trying to find ways to get rid of the policies that they have.

The search for a way to return to profitability in NC homeowners insurance has led the insurance companies to try and find ways to get higher premiums on the homeowners policies in their book of business. When they started increasing their rates, they pretty quickly ran up against the maximum rates that they are allowed to charge. These are the maximum rates that the Rate Bureau will allow them to use. But there is a way around these maximums. The law states that if the insurance company can convince the homeowner to sign a form that gives them permission to charge rates higher than the Rate Bureau maximums, then rates can go as high as the insurance company wants to take them. The form that homeowners sign to give their insurance company the right to charge them rates above the NC Rate Bureau rates is called the consent to rate letter.

This loophole with the consent to rate letter was designed to give the insurance companies a way to charge a more appropriate rate to the rare situations where a homeowner has some inherent risk that makes them unattractive to insurance companies. It was meant to be used only rarely this was the case while the Rate Bureau's maximum rates were much higher than the rates that the insurance companies wanted to charge.

The problem now is that with our current rate structure in NC, the rates are just too low. And the only solutions that the insurance companies have are to either cancel policies or have their clients sign consent to rate letters. This is like trying to open the battery cover on your cell phone using only a hammer. In the process you destroy the phone. The consent to rate letter is a clunky, unwieldy tool to increase rates. In fact when it is used as often as we see these days, it is really just an end run around the rate making regulatory power that the Rate Bureau is supposed to control.

So how does this work for the homeowner. Well, if you are one of the ones selected by your insurance company, then you will receive a consent to rate letter with your renewal bill. If you sign the consent to rate letter, then you will be agreeing to a huge increase on your premium. If you don't then your home insurance policy will be cancelled by your insurance company. So it is sort of an all or nothing approach, some homeowners will escape completely; perhaps because they have never filed a claim or because their auto insurance policy is making enough money for the same insurance company to make up the difference. These unaffected homeowners will enjoy dramatically lower rates than those chosen for consent to rate letters. This subdividing of the insurance marketplace for homeowners insurance will, over time, put great stress on the system. In addition, there is the very real risk that many homeowners will not read or understand the letter and may fail to return it. They then will not receive a renewal bill and may not discover, until after a large loss has occurred, that they don't have any homeowners insurance in place.

The solution here is probably to have the Rate Bureau increase homeowner's insurance rates much more quickly than we have seen. I understand why they want to move slowly, and since this year was an election year, it was unlikely that we would see increases approved by the Insurance Commissioner. Now that the elections are behind us, I would like to see the Rate Bureau address this issue and take back control of the rate making process, or choose to scrap it completely. This hybrid system that we are stuck in right now is not good for consumers or insurance companies.

If you receive a consent to rate letter from your insurance company, I would advise that you not blindly sign and return it. There may be other options available to you. First call your agent and try to determine why you were on the list to receive a consent to rate letter. Next, see if your agent has any other options for you. If you are still not satisfied, give us a call at 877-687-7557 and we will help you find a solution that works best for you.

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