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HURRICANE IRENE LIKELY TO STRIKE EAST COAST: DO YOU KNOW WHAT YOUR HURRICANE DEDUCTIBLE IS?

Many Coastal States Have Deductibles Triggered By the Severity of a Windstorm

NEW YORK, XX, 20XX — With Hurricane Irene expected to hit the East Coast this weekend, now is a good time to review your homeowners insurance policy so that you know what your hurricane deductible is, according to the Insurance Information Institute (I.I.I.).

Hurricane deductibles are incorporated into many of the homeowners insurance policies issued in the 18 coastal U.S. states and the District of Columbia. A deductible is the amount of money policyholders pay out-of-pocket before their insurance coverage kicks in, so it is important for homeowners to determine whether a specific hurricane deductible applies to their policy.

“Due to increased coastal development and greater hurricane risk, hurricane deductibles were created to help keep private sector property insurance coverage available and affordable by having the policyholder share more of the risk with their insurer,” said Loretta Worters, vice president, I.I.I.

A standard homeowners insurance policy deductible is usually either \$500 or \$1,000. Hurricane deductibles are calculated as a percentage of the insured value of a house. That percentage, and details about a policy’s hurricane deductible, is often listed on the Declarations page, the first page of a homeowners insurance policy.

States allowing insurers to incorporate hurricane deductibles into their homeowners policies include: Alabama, Connecticut, Delaware, Florida, Georgia, Hawaii, Louisiana, Maine, Maryland, Massachusetts, Mississippi, New Jersey, New York, North Carolina, Rhode Island, South Carolina, Texas and Virginia.

Hurricane deductibles apply solely to damage caused by hurricanes, and typically vary from 1 percent to 5 percent of the insured value of a home. For example, a policyholder whose home is insured for \$200,000 with a 2 percent hurricane deductible would have to pay the first \$4,000 needed to repair the home, if the loss were caused by a hurricane. In some coastal areas with high wind risk, insurers may incorporate hurricane deductibles even higher than 5 percent. Moreover, in some states policyholders can select higher hurricane deductibles in order to reduce their premiums. Insurers’ hurricane deductible plans are reviewed by state insurance regulators.

Whether a hurricane deductible applies to a claim depends on the specific “trigger” selected by the insurance company. These triggers vary by state and insurer and usually apply when the National Weather Service (NWS) officially names a tropical storm, declares a hurricane watch or warning, or defines a hurricane’s intensity. Due to these differences, homeowners should check their policies and speak to their agent or insurance company representative to learn exactly how their particular hurricane deductible works.

THE ORIGINS OF HURRICANE DEDUCTIBLES

Homeowners insurers realized after Hurricane Andrew struck Florida in 1992 and Hurricane Hugo hit South Carolina in 1989, that they were far more vulnerable to huge weather related losses than they had previously thought. Indeed, some of the nation’s largest homeowners insurers found in the early 1990s that it was difficult for them to secure the reinsurance coverage (a form of insurance for insurance companies) they needed to protect their bottom line because reinsurers were unwilling to assume so much of the homeowners insurers’ risk. To get coverage from reinsurers, homeowners insurers had to agree to reduce their potential maximum losses from severe wind by requiring policyholders to bear a greater share of the cost, and sought permission from their regulators to take this step. This was accomplished by switching over to hurricane deductibles, tied to a percentage of a home’s insured value.

The National Oceanic and Atmospheric Administration (NOAA) predicted earlier this month that up to 19 named tropical storms, defined as weather events with winds of 39 miles per hour (mph) or greater, could form in the Atlantic basin this season. Seven to 10 of these tropical storms could become hurricanes, NOAA added, with sustained maximum winds of 74 mph or higher. Hurricane Irene is the first storm of the 2011 hurricane season.

For more see [Hurricane and Windstorm Deductibles](#).

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