

Update on the Proposed Insurance Rate Hike

By John Brodman

Recap

In January's issue, we posted a column about the proposed homeowners' insurance rate hike filed with the North Carolina Department of Insurance (NCDOI) by the Rate Bureau on October 1, 2012. That proposal would in effect increase homeowner's insurance rates (for both wind and hail, and fire and theft) by about 17.7% on average across the state, but by as little as 1.2 percent in some inland territories, and by as much as 30% in the coastal areas, including Pine Knoll Shores. If approved, this could raise the cost of homeowner's insurance considerably for us and other residents in the 18 county coastal area who purchase wind and hail extended coverage policies separate from their basic homeowners' policies that provide fire, theft and liability coverage. The Insurance Commissioner, Wayne Goodwin, and the NCDOI subsequently denied the rate increase and called for a public hearing to be held on June 3, 2013, to examine the rate increase proposal in detail.

While settlement of the proposed rate hike is likely to be delayed until some time after the public hearing, it looks pretty certain that homeowner's insurance rates in North Carolina are going nowhere but up. The only question is how far, how fast and how the rate increases will be allocated across the 18 different insurance territories within the state. Burden sharing among these territories, particularly between the coastal areas and the rest of the state, is the number-one name of the game, and, as with most things, the devil is in the details. Saying that there is a lot of politics involved is a colossal understatement. We like to imagine that government policy actions are predicated on coherent planning and careful, intelligent assessments of possible consequences, but, unfortunately, experience tells us differently. Regulation of the insurance industry in NC is antiquated, far from transparent and in need of a major overhaul. North Carolina is the only coastal state where consumers have no role in the formal rate-setting process, which is currently confined to the Rate Bureau and the Insurance Commissioner.

Why I Believe Rates Will Go Up

In the first place (and please don't shoot the messenger), North Carolina homeowner's insurance rates, on average, are among the lowest in the country and the lowest of any state on the Atlantic and Gulf coasts. According to industry data, the average cost of all homeowners' policies written in the United States during the last 12 months through January 2013 was \$917, with a high near \$1,800 in some mid-west states (Oklahoma) and a low near \$400 (Utah). The average cost of all new policies written in North Carolina over the same 12-month period was \$603. In Louisiana, it was \$1,546, Texas \$1,179, Florida \$1,166, Mississippi \$1,286, Alabama \$921, Connecticut \$920, South Carolina \$786 and Georgia \$888. In addition, many of these states have mandatory deductibles for catastrophic events from 2% to 5%, compared with a 1% deductible in North Carolina. The average premiums listed above cover all policies sold by a group of large insurance providers over the past 12 months, regardless of the amount of coverage, and they aren't an ideal measure. Looking at the cost of a given amount of coverage (say \$100,000) for the same risks in each state, would give us a better comparison, but the data is hard to come by outside the insurance industry and only available with a considerable time lag. Nevertheless, the law of large numbers comes into play, and, over time, the data series presented above holds up pretty well as a general comparison of the relative costs of insurance among the states.

Cloudy with a Chance of Pain

Even though the United States hasn't been hit by a major hurricane (category three or higher) in the last seven years, 2011 and 2012 were disastrous for the insurance industry. Insurance viability involves averaging income and losses with a

positive result over a long period of time, with good years offsetting bad years in the geographic areas where a company does business. It's important to note that spreading risks geographically as well as over time is an important part of an insurance company's strategy. The insurance industry newsletter *Best Week* reports that 11 states (including those on the East and Gulf coasts) have filed for rate increases of 18% or more on specific homeowner's insurance coverage in the two-month period from December 2012 to January 2013. Florida and several other states have since joined in, so the pressure for an increase is definitely there. North Carolina's loss/income comparison ratio for homeowner's insurance has been considerably higher than the US average in the last five years and way higher than the U.S. average in 2011 as a result of hurricane Irene and of severe tornadoes.

In addition, according to the Independent Insurance Agents of North Carolina (IIANC), the industry's exposure (potential liability), especially in the coastal property insurance pool (otherwise known as the NCIUA beach plan), has been growing at a rapid rate. According to the IIANC, the cost of insurance coverage for wind and hail protection in North Carolina's beach plan, which covers 18 coastal counties, is \$0.43 per \$100.00 of coverage, which is low compared with similar costs of wind coverage in coastal areas of other states. According to IIANC, the comparable rates for wind and hail coverage in other states are \$0.60 in South Carolina, \$0.57 in Florida, \$0.90 in Texas, and \$1.10 in Louisiana. It appears that even if the proposed 30% insurance rate hike for the coastal areas of North Carolina were approved, North Carolina rates would still be below those of other coastal states, many of which also have rate increase proposals in place. North Carolina is playing catch up with a moving target.

A Bit of History

On October 15, 1954, hurricane Hazel made landfall between Myrtle Beach and Cape Fear with wind speed estimates of 125 to 150 mph at Holden Beach, Oak Island, Calabash, Little River Inlet and Wrightsville Beach. The storm proceeded north, through many of the state's most populated areas, along what is now often referred to as the I-95 corridor. The highest measured winds were 98 mph in Wilmington and 106 in Myrtle Beach. Fayetteville and Raleigh/Durham recorded gusts of 110 and 90 mph, respectively, and other inland areas such as Goldsboro and Kinston recorded gusts of 120 mph. The fast-moving storm maintained its intensity as it moved inland, and it reached the US/Canadian border just 12 hours after making landfall. Heavy rains, totaling more than 12 inches in 24 hours in many places, accompanied the storm. Sustained hurricane force winds covered all of eastern North Carolina, Virginia, Washington DC, Maryland and parts of Pennsylvania and New York. Landfall occurred during high tide on a full moon in October, the highest lunar tide of the year. Southeast North Carolina was inundated by a 15 ft. storm surge from Southport to Topsail Beach, with an 18 ft. surge recorded at high tide in Calabash and on the island of Holden Beach. All but 12 of the 300 cottages on Holden Beach were destroyed, along with the fish houses that lined the riverbanks. Brunswick and New Hanover counties were underwater. There were three hurricanes that made direct landfall in North Carolina in 1954 and another three in 1955. Since then, we have had numerous visits from our good friends with names like Bertha, Fran, Bonnie, Dennis, Floyd, Isabelle and Ophelia, but none of them was as severe as Hazel.

General Fact Box

The total value of the insurance coverage provided by homeowners' insurance policies in the state of North Carolina is about \$900 billion (in round numbers). The value of the total insured wind exposure of all properties (homeowner's and commercial) provided in the 18 coastal counties that are in the North Carolina Insurance Underwriters Association (NCIUA) beach plan is just over \$80 billion. For the state as a whole, the industry collects about two billion dollars a year in premiums and pays out about one billion dollars in claims. The remainder covers the companies' operating expenses, the cost of reinsurance, retained earnings, taxes and profits.