

[Get a Crash Course on Hurricane Deductibles](#)

Fox Business

An insurance industry that has taken its lumps from hurricanes has come to treat them differently in recent years. As a result, a home insurance policy in hurricane country today often comes with a special and potentially steeper hurricane deductible that kicks in when claims are related to the punishing storms.

Last fall, Superstorm Sandy threw the little-known issue of hurricane insurance deductibles into the spotlight as homeowners along the East Coast scrambled through their policies to see how much the storm would cost them out of pocket. It came as good news to many that hurricane deductibles did not apply because the storm was downgraded to a “post-tropical cyclone” shortly before making landfall near Atlantic City, N.J.

Hurricane deductibles were born out of Hurricane Andrew, which crashed into South Florida in 1992 and left insurers holding the bag for more than \$15 billion in losses. At the time, it was the costliest hurricane in U.S. history, although Hurricane Katrina now tops that list, according to the Insurance Information Institute, a New York-based trade group.

How hurricane deductibles work

Hurricane deductibles, a second deductible on some home insurance policies, apply only to damage caused by hurricanes and typically run between 2 percent and 5 percent of a home’s value.

So, if you own a home that is insured for \$300,000, a standard homeowners deductible might be a straight \$500, meaning you pay the first \$500 of the claim out of your own pocket. However, a 5 percent hurricane deductible would leave you on the hook for \$15,000 in damages before the insurance takes over, as long as the damage was the direct result of a hurricane as defined by the policy.

In some states with hurricane deductibles, homeowners may be able to get a traditional dollar-amount deductible by agreeing to pay a higher premium, though in high-risk shore areas, the percentage deductibles may be unavoidable.

No hurricane deductibles for Sandy?

In the curious case of Sandy, the fact that the National Weather Service officially downgraded it from a hurricane just hours before it made landfall saved homeowners plenty by failing to trigger the hurricane

insurance deductibles.

Sandy's storm surge and high winds flooded New York City and coastal communities, leaving millions without power and causing an estimated \$10 billion to \$20 billion in damage. Still, what could become one of the 10 costliest U.S. "hurricanes" on record lacked the sustained wind speeds of 75 miles per hour necessary to even qualify as a hurricane when it hit the East Coast.

Noting Sandy's diminished status, eight states (New York, New Jersey, Connecticut, Maryland, Delaware, Pennsylvania, Rhode Island and Maine) and the District of Columbia issued no-hurricane-deductibles-for-Sandy decrees.

Expert: States act within their power

Initially, some onlookers viewed the decrees as an attempt by elected officials to meddle with the terms of legally binding home insurance contracts. But Peter Kochenburger, executive director of the Insurance Law Center at the University of Connecticut School of Law, notes that those contracts are already subject to state oversight.

"Insurance contracts have to comply with state laws," he explains. "When people say you can't interfere with the sanctity of contracts between insurers and policyholders, of course you can; that's what regulation is all about."

Even when a hurricane deductible does not apply, homeowners can still find themselves on the hook for hefty out-of-pocket costs. David Bresnahan, client manager for The Horton Group, an Illinois-based insurance brokerage, points out that some homeowners hit by Sandy were surprised to find themselves subject to a similar percentage-based "windstorm deductible," which applies regardless of any hurricane declaration.

"At the end of the day, the carriers are going to make a decision that might be based on underwriting standards, and it might be based on the public relations impact," Bresnahan says.

Consumer group is hopeful

Amy Bach, executive director of United Policyholders, a San Francisco-based insurance consumer group, says insurers faced with Sandy-style line calls would be wise to waive their hurricane insurance deductibles. In her view, that's a small price to pay in a storm where many of the claims may be excluded from homeowners policies, either because they involve flooding, which falls under the National Flood Insurance Program, or because they arose from a combination of insured and uninsured perils.

Abiding by a governor's declaration and not applying hurricane deductibles is smart for insurance companies because it generates favorable publicity, Bach says. And insurers are bound to face the issue again. "Sandy is not the first time that a state has taken that approach. With Tropical Storm Irene, New York did exactly the same thing; they declared it a tropical storm rather than a hurricane."



She says homeowners should never hesitate to contact their governor or state insurance commissioner in writing if their home insurer declines to honor a state decree to waive their hurricane insurance deductible.

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