

What a Difference a Deductible Can Make!

NOT ALL DEDUCTIBLES are the same. Policy language and loss details can significantly impact the deductible amount that applies to a loss. Deductibles may be per loss, per item, or per coverage type, or they may be a percentage of a coverage limit. Understanding the different deductibles and helping clients understand how they apply is another value-added service of the professional insurance agent.

There are several purposes for deductible. Use of a deductible means the insured is sharing in the loss. Deductibles are also a method to reduce the premium. Perhaps most importantly, the use of a deductible may enable an

insured to obtain coverage that is otherwise not available. A prime example of this is hurricane or wind deductibles. In areas that are susceptible to hurricanes and tornadoes, often the only way a policy will be written is through the use of a hurricane or wind deductible. The deductible may be triggered by wind speed or the fact that it is a named storm. Some wind deductibles may apply regardless of the wind speed or whether or not it is a named storm.

Superstorm Sandy in the fall of 2012 presented an interesting scenario. Although the wind speeds were in excess of 75 mph, and therefore hurricane force, the storm type was determined to be a tropical cyclone, rather than a hurricane. This meant that properties with hurricane deductibles in the thousands of dollars were now only subject to their standard property coverage deductible, in many cases \$500 to \$1000.

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CAR	DEDUCTIBLE	CAR	DEDUCTIBLE
CAR1	\$ 100	CAR2	\$ 100
CAR1	\$ 500	CAR2	\$ 500

Hurricane deductibles became more common after Hurricane Andrew devastated Florida in 1992, causing \$16 billion in insured losses, \$26 billion in overall damage, and leading to the bankruptcy of eleven insurance companies. At the time, it was the costliest hurricane in U.S. history. Many hurricane and wind deductibles are percentage deductibles. This means that the deductible applies as a percentage of the applicable coverage. For example, most wind or hurricane deductible are based on a percentage of the building coverage. With a \$500,000 policy limit and a 2% wind/hurricane deductible, the insured is responsible for the first \$10,000 of any wind or hurricane related loss. Standard deductibles for causes of loss other than wind range from \$500 to \$2,000.

A deductible may be applied to the entire loss, or to the applicable limit itself. Applicability of a deductible may change given the claim scenario. For example, glass coverage in personal

auto is normally a comprehensive claim, carrying a deductible. However, if the glass breakage is part of a collision, the glass loss may be considered part of the collision loss. Only the collision deductible will apply, rather than having a separate deductible for the glass portion.

Deductibles should be chosen based on the client's ability to pay the deductible should a loss occur. Premium savings may not be enough to justify a higher deductible. Superstorm Sandy and the aftermath provides an excellent opportunity to re-emphasize to your clients how loss payments would be different if a hurricane deductible were applied. Don't let large deductibles be an unwelcome surprise to your clients. Giving them a clear understanding of the deductibles on their policies and how they apply is another sign of the true insurance professional.

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