

Insurance Industry Responses to Weather

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Weather impacts every homeowner and business owner and therefore their insurer. Insurance companies are in business to pay claims but also to make money for their members and/or stockholders. Insurers use a variety of methods to address weather, including policy conditions, underwriting guidelines, claims management, and tracking and measurement tools. Helping clients understand their options is another value added service of the professional insurance agent.

A single event can cause billions in damage. In 2020, for example, a total of 22 natural disasters were billion-dollar events, including hurricanes, floods and wildfires, costing U.S. insurers over \$95 billion in damages. This is in addition to the smaller events that did not reach \$1 billion in damages each (www.climate.gov).

One very common way insurers respond to weather is deductibles – the part of the loss – usually a specific dollar amount – that the insured shares with the insurance company. However, when dealing with weather-related perils, specifically wind and hurricane, the deductibles are often percentage deductibles. This means that the deductible is a percentage of the insured value, and not a flat dollar limit. Weather-related deductibles can apply to exposures such as wind, hail, hurricanes, or named storms. State regulations vary and proper notification to insureds of the existence of such deductibles and how they work is usually required. In 2012, Hurricane Sandy was downgraded to a tropical storm prior to landfall in NJ/NY. It saved policyholders thousands of dollars. Instead of a percentage hurricane deductible, based on the total insured building or contents value, the flat dollar deductible, based on the actual loss, applied.

Hurricane deductibles are common in the East Coast and Gulf States of the United States. They apply to storms officially des-

ignated as hurricanes by the U.S. National Weather Service. Named storm deductibles apply to storms officially named by the U.S. National Weather Service, and can include hurricanes and tropical storms. In recent years. The Weather Channel has started naming winter storms as well – these would NOT be subject to a named storms deductible unless they are officially named by the U.S. National Weather Service.

Another method used by insurers to address weather-related issues is exclusions – The most common weather-related exclusion that comes to mind is flood. Flood has long been excluded in most standard policies. Why? There are a number of reasons. Damage caused by flooding can be far ranging, very expensive, and difficult to estimate potential loss amounts. Flood damage is not usually considered sudden and accidental, but gradual. Historically, only certain areas were subject to flooding. More recently people have realized that anyone can be a flood victim since ever increasing construction leaves water with no place to go. Water damage exclusions often extend to such causes as water/sewer backup, flood, tsunamis, ground water, and standing water. Some water damage coverage (such as water/sewer backup for example) can be added to a standard homeowners or business owner's policy. Flood insurance is more commonly a separate policy.

Policies also include weather-related limitations. For hail losses, this may be a time limit for reporting claims. Hail damage is often confused with other damage. Prompt reporting allows proper adjustment. Policies also may require the use of an actual cash value basis for the repair of



hail damage rather than replacement cost.

Specialty programs such as flood insurance address exposures that traditional carriers do not want to cover. Historically, coverage was mainly available only through the government-controlled National Flood Insurance Program. In recent years, more and more carriers have entered the market – some offering more extensive coverage than the NFIP does. Crop Insurance is another specialty program that helps farmers mitigate their exposure and losses from weather-related damage to their crops. In 2020, over 380 million acres of farmland were covered by Federal Crop Insurance Program. There are currently over a dozen USDA - approved crop insurance carriers.

Other specialty programs provide coverage against weather-related losses to short term events such as fairs, weddings and parades, and long term events such as construction projects, energy providers and municipalities.

Weather-related issues are a major concern to insurers. Improved risk assessment, underwriting and claims management tools are changing how the insurance industry responds. Helping clients understand how their coverage may be impacted by weather claims is another sign of the true insurance professional.

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