



## NC RATE BUREAU HOMEOWNERS INSURANCE RATE FILING OCTOBER 2012

**October 15, 2012**

**Background:**

The North Carolina Rate Bureau submitted a Homeowners Insurance Rate Filing to the North Carolina Department of Insurance on October 1, 2012. Although the Rate Filing represents an overall average statewide 17.7% increase in homeowners' insurance rates to become effective June 1, 2013, a 30% rate increase has been filed for the eastern NC counties of Beaufort, Brunswick, Camden, Carteret, Chowan, Craven, Currituck, Dare, Hyde, Jones, New Hanover, Onslow, Pamlico, Pasquotank, Pender, Perquimans, Tyrrell and Washington.

The North Carolina Department of Insurance has 50 days to respond to the rate filing. At that time, the NC Department of Insurance Commissioner Wayne Goodwin can approve the Rate Filing as submitted; negotiate a settlement with the Rate Bureau if possible; or recommend disapproval of the filing and issue a Notice of Public Hearing.

**Talking Points:**

NC-20 feels that the filed rates are excessive, unfairly discriminatory and not in the public interest and therefore does not support the North Carolina Rate Bureau's October 1, 2012 Homeowners Insurance Rate Filing. **We respectfully request that the North Carolina Department of Insurance issue Notice of Public Hearing on the Homeowners Insurance Rate Filing for the following reasons:**

- There has not been a public hearing on a *Homeowners Insurance Rate Filing* since 1993. A public hearing was held on a *Dwelling Rate Filing* submitted in 2011 and was the first of any residential property filing since 1993. Due to the outcome of the public hearing of the Dwelling Rate Filing in which the NC Insurance Commissioner denied extended coverage increases and the Department concluded that rates should decrease by 11% to 31%, NC-20 feels that this homeowners insurance rate filing deserves the same scrutiny and careful consideration.
- The Dwelling Rate Filing affected approximately 550,000 policies, predominately covering non-owner occupied homes, such as year-round rentals and vacation rental properties. The October 1, 2012 Rate Filing affects approximately 2 million policyholders that live in NC.
- Due to the broad statewide disparity in homeowners rates that will become even greater with this Rate Filing, a comprehensive public review of the data and methodologies used by the NC Rate Bureau are fully warranted. As recorded in the Order on the Dwelling Rate Filing dated January 4, 2011, "The Commissioner believed it vital to public confidence, transparency, good government and the process that there be a full evidentiary hearing of this nature given how long it has been since the last one for such a filing."
- Legislation has been passed since the last homeowners insurance rate filing submitted in December 2008 that has impacted the property insurance rate making process.
- The filing includes data from 2005 to 2009. In the ratemaking process, data typically runs two years behind the date of the filing.

- According to NC General Statute 58-36-10, some of the factors to be considered when establishing rates include: actual loss and expense experience within NC for the most recent three-year period; prospective loss and expense experience; hazards of conflagration and catastrophe; and a reasonable margin for underwriting profit and to contingencies. The entire state is at risk of severe weather and catastrophes as exhibited in a 2011 NC Severe Weather map from NOAA. It is unfairly discriminatory that the spread of risk for catastrophic losses has been narrowed to include only the risk of hurricanes in 18 eastern NC counties.
- Filed Rates for eastern NC are almost 6 times higher than other areas of the state. A large portion of the filed eastern NC rates include modeled loss costs for extended coverage which are based on computer modeled projections. The input data used in modeling needs further review and made available to the public.
- Rates filed for the 18 eastern NC counties included in Territories 7, 8, 48, 49 and 52 include net reinsurance costs that are over half of the filed rate. This is unwarranted and unjustified.
- The filed rates include compensation to the companies for their risk of assessment, with the 18 eastern NC counties paying the largest share. Due to the growing surplus and stability of the Beach Plan, the risk of a one-billion dollar assessment is smaller than in the past. The allowance of compensation for assessment risk in rates is unwarranted and unjustified and results in an increase in rates.
- The rate filing includes a 5% deviation factor. Deviations are discounts that some insurers extend to policyholders. The inclusion of the deviation factor, which adds to the rate, charges discounts back to the policyholders. This should not be allowed.
- Insurance companies have been applying inflation rate factors to dwelling values as high as 10% or more over the last few years. This has artificially increased exposure values and deductible costs. Exposure values need to be reviewed in this rate filing.
- Eastern NC policyholders pay a mandatory deductible of 1% per named-storm losses. In order to afford coverage, many policyholders have opted for higher deductibles with their primary carrier. These larger out-of-pocket expenses are not reflected in the rate filing.
- The cost of homeowners insurance affects the affordability of housing, financing, re-financing and economic development. This Rate Filing comes at a time when citizens are still struggling and trying to recover from the economic downturn of the last few years.
- The filed increases of 30% are especially burdensome to eastern NC policyholders – the NC citizens that live and work in our communities – and will create further hardship to those with a mortgage, especially to young families and those on fixed incomes. The difference between current rates and filed rates in Territories 7, 8, 48, 49 and 52 is as high as \$457 per \$75,000 of amount of insurance compared to only \$30 in Territory 39.
- The NCIUA (Beach Plan) currently provides coverage to over 140,000 homeowners policyholders in Eastern NC. Over 132,000 policyholders have wind only coverage. The filed 30% rate increase will be especially burdensome for those policyholders due to a surcharge factor of 1.05 applied to the rate. In Territory 8, the filed rate would cause wind only rates to be \$1,873.20 per \$75,000 of coverage. A surcharge factor of 1.15 is applied to NCIUA Homeowners policies thus making the filed rate increase equivalent to 45%.

**NC-20 encourages all citizens in NC to voice their opinion about this rate filing.**

**A public comment period session will be held on Wednesday, October 17<sup>th</sup> at the Dobbs Building Auditorium in Raleigh with written comments accepted through Friday, October 19<sup>th</sup> at: NCDOL, Attn: Bob Mack, Property & Casualty Division, 1201 Mail Service Center, Raleigh, NC 27699-1201; or emailed to [2012homeowners@ncdoi.gov](mailto:2012homeowners@ncdoi.gov).**

**Please copy comments to [willo@nc-20.com](mailto:willo@nc-20.com).**