Understanding Catastrophic Event Property Deductibles

A catastrophic event property deductible (CAT deductible) differs from a traditional property insurance deductible. Having emerged as a way for insurers to offer property insurance in high catastrophic risk areas, CAT deductibles are often a significantly higher out-of-pocket expense to the policyholder and apply only to specific perils (e.g., named storm, hurricane, convective storm, flood, earthquake, winter freeze, etc.).

The three most popular forms of CAT deductibles are:

- **High, fixed dollar amount deductibles:** A CAT deductible may be expressed in terms of a large, fixed dollar amount. The fixed dollar amount will apply to certain property, per location or, more commonly, per occurrence.
- **Percentage deductibles:** Percentage deductibles apply to the value of property susceptible to named storms (such as hurricanes, typhoons, tropical storms and cyclones), earthquakes, floods and sometimes traditional wind/hail events. It may also apply to business income and extra expense (BI/EE).
- **National Flood Insurance Program (NFIP) limit deductibles:** A flood deductible may be expressed in terms of NFIP limits. For example, the deductible may be "equal to the maximum NFIP limits available per building and its contents whether purchased or not" or "equal to the amount recovered under an NFIP policy." It's important to note that the meaning of these provisions is not the same, and the potential impact to a policyholder could be significant as the NFIP has different programs and maximum limits available.

CONTACT

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Several factors are considered when determining a CAT deductible, including:

Property value

The property values used to calculate percentage-based deductibles will be determined based on specific policy wording. These deductibles can apply per CAT occurrence based on one of the following parameters:

- **Per Building:** The property for which a claim is made
- **Per Location:** The entire location (even if a claim is not made for the entire property)
- **Per Unit:** The “per unit” value of damaged property (often defined as an individual building or structure, personal property of said building, inventory, business interruption values or property in a yard)
- **Per TIV/SOV:** All property at risk regardless of whether the property is damaged or a claim is made

Valuation date

The valuation date of the property can be important. Some deductibles are based on property values as of the date of loss while others rely on the date listed on the statement of values on file with the insurer at inception of the policy.

Geographic area

The geographic region in which the property is located must be considered. Flood and earthquake geographic qualifiers are expressed in terms of “zones,” while hurricane and named storm are expressed in terms of “wind tiers.”

Geographic areas may be defined as an entire state (e.g., Florida) or by counties and are placed in various hazard tiers for purposes of applying deductibles and limits of insurance.

- **Coastal areas along the Gulf Coast and Atlantic Ocean** often have a higher percentage deductible than non-coastal areas 150 miles or more inland.
- **Property in high hazard earthquake zones like Alaska, Hawaii, California, Pacific Northwest or New Madrid** may require a higher percentage deductible than property located in other areas of the United States.
- **Property located in high hazard flood zones** could also have a higher deductible percentage than property located in a region of the country which rarely floods.

Timing

A CAT deductible may include the following timing conditions:

- **Hour event occurs:** The CAT deductible may apply if there is loss, damage or destruction occurring within 24 hours before the storm is named by an appropriate weather service. The CAT deductible may also apply if the loss, damage or destruction occurs within 72 hours after a named storm is downgraded.
- **Overlap of policy terms:** A CAT event may occur at the end of the policy period and overlap with a new policy period. An insurer may include a specific provision as to how their policy applies should this situation happen. Unfortunately, some of these provisions may be punitive to a policyholder.
- **Definition of occurrence:** A standard definition of occurrence is “Any one loss, disaster, casualty or series of losses, disasters or casualties arising out of one event.” Occurrence may be further defined to include an hour period of the occurrence. On shared and layered programs, it’s important to make sure all carriers follow the same occurrence definition. Be sure to review Occurrence Limit of Liability endorsement that carriers may attach to their policy.

Wind and hail storm deductibles

Some insurers may require a CAT deductible apply to other wind/hail storms as well. This is a deviation from traditional industry practice. Other types of storm events occur throughout the country. While the risk profile of an insured is always a factor in determining what the deductible structure will be, it is important for policyholders to understand whether their insurer requires a CAT deductible approach to common storms.

Aggregate deductibles or calendar year deductibles

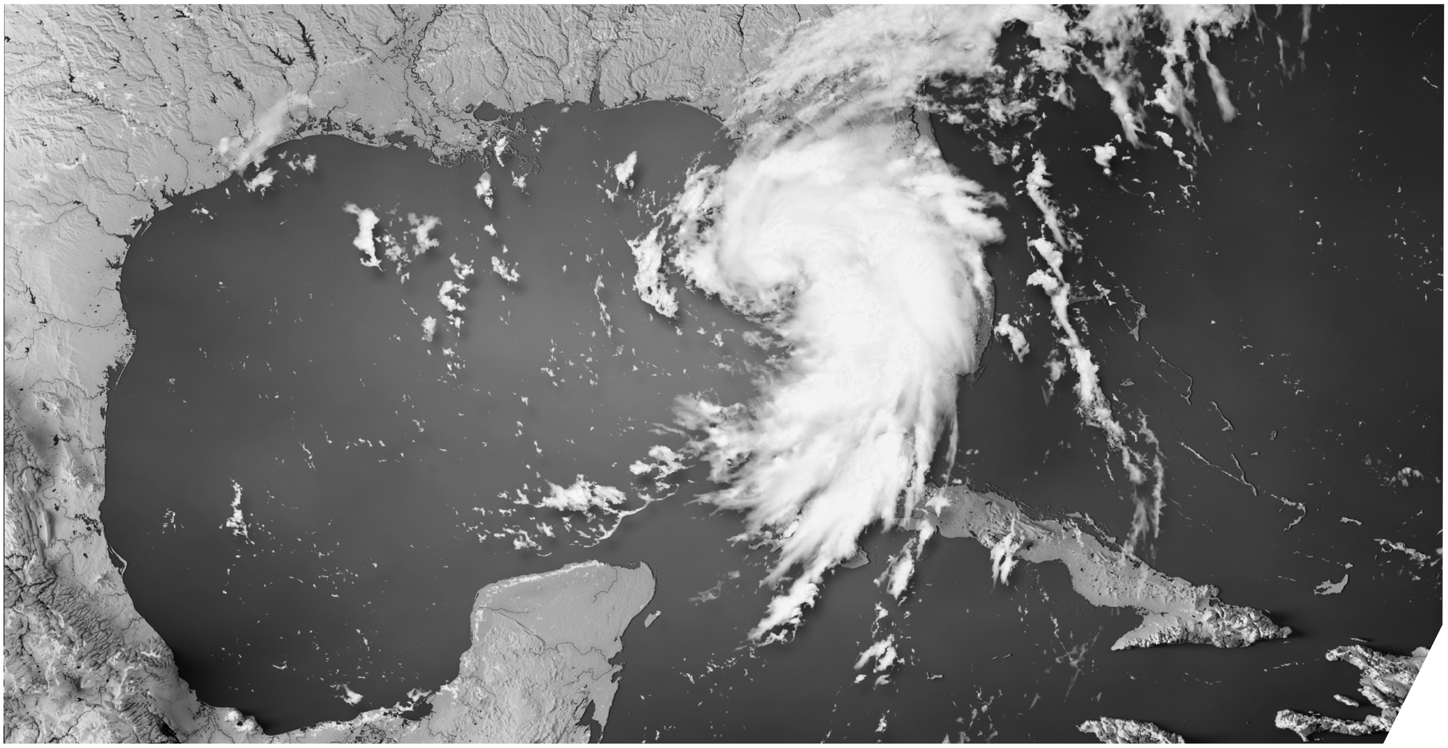
When a policyholder has high property deductibles, some insurers will negotiate an aggregate and trailing or maintenance deductible. The aggregate deductible will place a cap on the amount a policyholder will pay in high deductibles during a policy year. Once the aggregate deductible cap is reached, the deductible going forward during that policy year for future loss events is often a significantly lower amount. The application of an aggregate deductible with a trailing or maintenance deductible will differ between insurers and isn't offered by all insurers.

Stacking deductibles

Policyholders should understand how their policy will respond when more than one deductible may be applied after a loss event. This is particularly important when a policy has one or more CAT deductibles because of the substantial cost-shifting to the policyholder.

All other perils deductible when there is no property damage

CAT events do not always result in loss of property or BI/EE values reflected on a Statement of Values. Sometimes, the loss to a policyholder will only affect sub-limits on the policy (e.g., debris removal). Deductible wording may allow insurers to apply the CAT deductible to this kind of loss



Hurricane or Named Storm – does it matter?

The policy will define whether an event is considered a hurricane or named storm.

- **A hurricane CAT deductible** will apply when the loss, damage or destruction of property is caused by a storm that is officially declared a hurricane by a government agency such as National Weather Service (NWS) or National Hurricane Center (NHC).
- **A named storm** may include a hurricane as well as other named storms, such as tropical depressions and typhoons.

It can be hard to determine if the storm is a hurricane or some other storm category when loss, damage or destruction occurs – creating challenges and frustration during the claim adjustment process. To avoid confusion, many insurers prefer to use a named storm CAT deductible instead of a hurricane CAT deductible.

Note: When there are two hurricanes or named storms back-to-back that impact the same area (e.g., Hurricanes Milton and Helene in 2024), there will likely be two separate deductibles for the insured.

Regulatory concerns

Insurers must follow state laws and regulations when the insurer binds property coverage in a state. Failure to follow state laws and regulations may result in deductible provisions being found null and void.

While there are exceptions or carve-outs in laws and regulations for non-admitted insurers (excess & surplus lines), it should not be assumed that non-admitted insurers have no obligations to consumers.

What to look for when comparing CAT policies and deductibles

CAT deductibles can place a substantial cost-shifting burden on policyholders. Policy wording is crucial to determine the potential financial impact of high deductibles. It should not be assumed that all parties involved will interpret the wording the same way. For example, when considering a percentage deductible, additional criteria may set one insurer's application of the deductible apart from another's.

Similarly, when considering an NFIP-limits deductible, the harshness of this deductible approach may be tempered with a deductible application road map that includes, but is not limited to, the following elements:

- The policyholder has the right, but not the duty, to insure property with the NFIP.
- Loss that is not recovered under the NFIP policy should be insured in the flood coverage on the property policy (unless otherwise excluded) because the NFIP is very limited as to the property insured and how it is insured (e.g. actual cash value basis).
- Permission to have NFIP as underlying insurance to reduce or eliminate the property policy flood deductible.

If the flood deductible wording reflects the "amount recovered under the NFIP" instead of the "amount available under the NFIP," then further boundaries may be set when the amount recovered is more than or less than the flood deductible. Additionally, this determination may be made on an occurrence basis and not "per building" basis, as NFIP is written.

Be prepared

Planning is critical. Severe weather can be unpredictable and strike at any time. Help your clients be prepared in the event their property is damaged by a hurricane, tornado, hailstorm or similar disaster.

You can **download our claims checklist for severe weather damage** and follow these **claims tips for severe weather season.**

We also recommend ensuring that a designated adjuster is written into the policy. It can make a measurable difference in the handling of your client's claim. Your insured will want to schedule a call with the designated adjuster prior to a loss, providing them with a copy of the policy/SOV/schematic prior to the call, setting expectations and asking questions.

And in the case of loss, be proactive. As soon as a concern arises during the adjustment process, encourage the insured to reach out. Early communication can be instrumental in keeping the claim on track.

Takeaway

Amwins is here to help ensure that you and your clients are in the best position possible for safety and recovery in the event of a catastrophic event. We believe that a strong defense is a good offense, and the time to help your clients understand their exposures is before they find themselves in the path of a natural disaster.

Amwins offers a wide range of services to aid you, from CAT modeling to claims advocacy, as well as parametric solutions and exclusive property capacity that continues to grow. As always, we are committed to keeping you informed and armed with strategies for success.

Reach out to your Amwins broker or underwriter.

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