

Business Update: Reduced Named Storm Deductibles

A “named storm” usually refers to hurricanes, but may also include hail or other types of storms likely to cause damage. Named Storm Deductibles work differently from ordinary policy deductibles. They’re not flat amounts, but rather a percentage of the policyholder’s total buildings’ value.

As long as the Named Storm Deductible percentage remains quite low, this method works well. But, if the Named Storm Deductible percentage climbs too high, it could be possible for the policyholder’s buildings to sustain so much damage from a storm that the organization could not afford to rebuild.

Renewals with a Big Risk

In the past, some Episcopal organizations chose to negotiate their insurance renewals by adding a percentage point to their Named Storm Deductible amount instead of taking an increase in their premium.

“Over the course of a decade, some of our insureds added percentage points to their Named Storm Deductibles year after year until they held policies with Named Storm Deductibles as high as 15%,” Steve Follos, Vice President and General Manager, Church Insurance, says.

Let’s say an organization in North Carolina had a 15% hurricane deductible and a \$2 million building that was destroyed by a hurricane. That organization would have to pay \$300,000 out of pocket before Named Storm Insurance would cover the loss. For some organizations, raising \$300,000 to rebuild was simply impossible. “Sometimes the deductible was even higher than the annual operating costs,” Steve says.

“These percentages started in the 1 to 2% range, but insureds negotiated their renewals by increasing the percentage of their Named Storm Deductible over and over again. It worked out wonderfully for clients—as long as a hurricane or other large storm didn’t hit.”

Reductions to Named Storm Deductibles

Church Insurance leaders have reviewed this approach to Named Storm Deductibles and determined they need to be reduced in order to best serve Church Insurance clients. Clients in the Virgin Islands and Hawaii have had their Named Storm Deductible percentages reduced from 15% to 5%. And, in the 48 contiguous states, Named Storm Deductibles are generally capped at 2%.

In the same example as above, an organization with a \$2 million building and a 2% Named Storm Deductible would have to pay only \$40,000 out of pocket before its Named Storm Insurance kicked in. That’s a significant decrease—and could mean the difference between shutting down and rebuilding for some organizations.

“We felt that the change to 2% was the most affordable option and one that fit Episcopal organization budgets the best,” Steve says. “But, for example, if a church and its diocese agree that a higher deductible is a better fit, they can still purchase that.”

This change has already occurred for Church Insurance policyholders with Named Storm Insurance. "We liberalized it so everyone received this change effective June 1, in time for hurricane season. The good news is that this change will not directly result in an increase of premiums. Of course, premiums do change based on a variety of factors including a revaluation of property, changes in coverage and other factors." Steve explains.

"This change helps Episcopal organizations to be more secure. The risk they're taking is no longer too big for them to handle in case of catastrophe."