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Commissioner Donelon Requests State Farm to Offer Policyholders Option of Lower Hurricane Deductible

Insurance Commissioner Jim Donelon met with State Farm Fire and Casualty Company (State Farm) officials today and asked them to offer their policyholders in Louisiana the option to have a two percent hurricane deductible on their homeowners' insurance policies by paying the actuarially needed difference in premium if they choose. Today's request follows State Farm's decision to implement a statewide five percent hurricane deductible for all renewal policies beginning December 1, 2013. State Farm policyholders are being notified of this change in their policy renewal notices as required by law. Today's meeting was initially requested by State Farm officials to notify the Louisiana Department of Insurance (LDI) of an upcoming rate filing.

"Hurricane deductibles have unfortunately become the norm for coastal states from the Gulf of Mexico all the way up the Atlantic coast to Massachusetts," said Commissioner Donelon. "In an effort to ease the potential financial burden on consumers as a result of this higher hurricane deductible, I have asked State Farm to give their policyholders statewide the option to buy back the lower two percent deductible."

La. R.S. 22:1333(C), commonly referred to as the "three-year rule" prevents an increase in the policy deductible for a homeowners policy that has been in effect for more than three years except for cause listed in statute. However, the same law allows for an increase in deductible if the increase is imposed statewide. Insurers are not required to receive approval for a deductible change from the Department of Insurance but they are required to give the policyholder a discount for raising the deductible to account for the policyholder taking on more risk.

The discount required by this hurricane deductible varies by geographic location and is dependent on the policy. According to State Farm, the average statewide premium discount for having a five percent hurricane deductible with a State Farm policy is 6.5 percent as approved in 1998. If State Farm agrees to Commissioner Donelon's request, homeowners could have more control over the amount of future property damages they are willing to self-insure in the event of a hurricane.

"A policyholder with a five percent hurricane deductible on a \$200,000 home would pay \$10,000 out of pocket before their insurance took effect. If that same policyholder had a two percent deductible, they

would pay \$4,000. The tradeoff is that the homeowner who opts for the lower deductible will also lose the accompanying premium discount that comes with a higher deductible,” explained Donelon.

At today’s meeting, Commissioner Donelon also reminded State Farm officials of the upcoming deadline for them to file updated information on their currently approved all-peril and wind-only deductible credits (e.g. hurricane, named storm or wind/hail deductibles). In December 2013 Commissioner Donelon issued [Bulletin No. 2013-08](#) to all property and casualty insurers ordering detailed information on wind mitigation and deductible credits be submitted to the LDI by December 31, 2014.

The bulletin states that each insurer provide this data in any rate filings submitted beginning January 1, 2014; if they are not submitting a rate filing they must make a separate filing with the LDI no later than the end of this year.

Commissioner Donelon advises policyholders, whether they are with State Farm or another company, to closely review their insurance policies and be aware of deductibles that they have in place particularly during hurricane season.

About the Louisiana Department of Insurance: *The Louisiana Department of Insurance works to improve competition in the state’s insurance market while assisting individuals and businesses with the information and resources they need to be informed consumers of insurance. As a regulator, the LDI enforces the laws that provide a fair and stable marketplace and makes certain that insurers comply with the laws in place to protect policyholders. You can contact the LDI by calling 1-800-259-5300 or visiting www.ldi.la.gov.*