



Department of Business Regulation

233 Richmond Street
Providence, RI 02903

Insurance Bulletin Number 2007-9

Personal Lines Residential Property Insurance Hurricane Deductibles, Triggers and Policyholder Notices

The Department issues this Bulletin to offer guidance to insurers in order to allow a smooth transition for Personal Lines Residential Property insurance policies (“applicable policies”) issuing or renewing on or after July 1, 2008 in light of the passage of H 6468B, S 1110B and H 6503B during the 2007 legislative session.

While R.I. Gen. Laws § 27-5-3.7 applies to insurance policies issued or renewed on or after July 1, 2008, in order to provide the most practical use of Departmental resources, insurers are encouraged to refrain from submitting new or revised policy forms, rules and/or rates for applicable policies unless such filing meets the requirements of the statute, i.e., hurricane deductibles, triggers and policyholder notices.

Hurricane Deductibles

For policies issued or renewing on or after July 1, 2008, R.I. Gen. Laws § 27-5-3.7 sets a maximum hurricane deductible at 5% of the insured value of the dwelling (i.e. Coverage A). The statute does not allow an insurer to offer optional hurricane deductibles in excess of 5%. Windstorm deductibles outside of a named hurricane are prohibited in Rhode Island. All deductibles must provide for a premium credit that is actuarially supported. The statute does not mandate deductibles nor does it prohibit the use of flat dollar deductibles. The Department encourages insurers to also offer a flat dollar deductible, at the insureds option, if the insurer is offering a percentage deductible. Any flat dollar deductible offered, however, must not exceed 5% of the insured value.

Notice

Insurers are required to provide clear and prominent notice of the deductibles and/or mitigation requirements and must offer at least two practical examples of how the deductible(s) work. If the insurer is offering both a flat dollar and percentage deductible at least one example of each should be given. The examples do not have to be tailored to the insured value of the specific property but must show clearly how the deductible works in a hurricane scenario (i.e. a 5% deductible on a home with an insured value of \$200,000 means that the insured must pay up to the first \$10,000 of the

covered loss). However, the actual dollar amount of a percentage deductible applicable to the policy must be shown on the declaration page.

The trigger of a hurricane deductible must be clearly stated and must be applicable to losses due to a hurricane during the period commencing with the issuance of a hurricane warning for any part of the state by the National Hurricane Center and concluding 24 hours after the termination of the last hurricane warning for any part of the state. All policyholder notices must comply with Insurance Regulation 97 where applicable.

Waiver of Deductible

With respect to the waiver of hurricane deductible provisions for insureds that have installed approved mitigation measures, the Department is required to consult with the State Building Code Commissioner on acceptable mitigation measures. The Department intends to promulgate a regulation to address mitigation as well as any other mandates required under R.I. Gen. Laws § 27-5-3.7.

Nonrenewal and Cancellation

Insurers should continue to be mindful of the geographic prohibitions established in Insurance Bulletin # 2006-5 as well as prohibition on non-renewals for insureds that mitigate in accordance with the insurers' requirements. This prohibition does not prevent an insurer from nonrenewing or canceling for other reasons allowed by statute or regulation. The Department will not accept over concentration of risks as a basis for non-renewal unless the insurer can clearly demonstrate to the Department that such actions are in accordance with R.I. Gen. Laws § 27-29-4(7) and 27-29-4.1. Any proposed plan of non-renewal must be filed with the Department at least 90 days prior to the proposed date of implementation. It is contemplated that the plan variables i.e. percentage of business non-renewed, the time period for full implementation of the plan, the selected methodology for individual risks to be nonrenewed, etc, will be fair and reasonable to Rhode Island policyholders as well as relevant and proportionate to the risk of adverse impact to the company. Any denial of an insurer's proposed plan of non-renewal can be appealed through the hearing process.

Rate and Form Filings

All filings must provide sufficient actuarial justification for rate variances, premium offsets and premium credits for deductible programs. As always, insurers must demonstrate that rates are not excessive, inadequate or unfairly discriminatory.

Insurers who choose to utilize hurricane models in the setting of rates must identify the model(s) used (including the version of the model(s) used) as well as provide a complete explanation of (1) the reason(s) that the particular model(s) was chosen and (2) the effect of use of the model(s) on the rates requested. Any changes in the model(s) utilized from a prior filing must be fully explained. The Department will

consider refinements and/or additions to these requirements upon receipt of findings by the Rhode Island Commission on Hurricane Loss Projection Methodology, established pursuant to R.I. Gen. Laws § 27-5-3.7.

If an insurer is requesting an increase in premium due to increased reinsurance costs, the insurer must provide a complete explanation of the increased cost. Insurers should explain alternatives to reinsurance (i.e. CAT bonds, surplus notes) which were considered and rejected. Insurers should fully disclose how reinsurance costs are allocated to Rhode Island.

In light of the above, insurers are required to review existing programs to ascertain compliance with this Bulletin and submit revisions where appropriate to currently approved rate, rule or policy form filings to this Department as soon as practicable, but no later than February 1, 2008. This should allow adequate review and implementation for applicable policies for the 2008 hurricane season. The Department does not consider filings made under this law to fall under Flex Rating Statutes. Please see Insurance Bulletin # 2005-9 addressing changes in rating plans falling outside the flex statute.

Further, insurance producers and surplus line brokers should review existing surplus lines business to determine if it qualifies for the voluntary market upon policy renewal. The Department also encourages insurance producers to reach out to their customers to fully explain the coverages and exclusions and assist the insured in selecting the best product for their circumstances.

Joseph Torti III
Associate Director and Superintendent of Insurance
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