A new North Carolina law that limits the combined liability of property insurance companies for major hurricane events changes the market environment for insurers.

Effective August 27, the law, formerly House Bill 1305, puts a cap of $1 billion on the collective liability of insurers for named storms and helps prevent a funding shortfall of the North Carolina Insurance Underwriting Association. Formerly known as the “Beach Plan,” the Coastal Properties Insurance Pool covers 170,000 properties valued at nearly $74 billion in 18 coastal counties.

The new cap and several other provisions will change insurers’ potential exposure to loss, necessitating insurers to reconsider current underwriting and marketing strategies.

The new law offers an opportunity for insurers to develop a more robust and focused coastal risk management analysis. Through new technology, insurers can benefit from greater availability and sophistication of computerized hurricane catastrophe models and techniques to incorporate hurricane model information, market share and credits of other companies for voluntary coastal writings.

Other important provisions of the law include:

- For personal property, $750,000 is the maximum amount of Coverage A available from the Pool, reduced from the current maximum of $1.5 million. There is also a reduction in the maximum allowable contents coverage to 40% of the Coverage A amount, a minimum 1% named-storm deductible and mandated mitigation credits.

- Limits of $3 and $6 million, depending on the circumstances, will apply to commercial property covered by the Pool. These new limits reduce both the Pool’s exposure and insurers’ assessment potential while giving a boost to the excess insurance market.

- Mitigation credits must be filed by the North Carolina Rate Bureau by May 1, 2010 and the new 1% deductible must be filed by February 1, 2010.

Many insurers have based prior market strategies on the credits that are given to companies that voluntarily insure properties on the coast. In fact, some companies have used these credits to “write themselves out” of their potential assessments. These credits distort the market share calculations of potential assessments under the new Pool as well.

Insurers in this market will need to know what competitors are doing with credits, how that will change after the passing of this new law, and what these changes will do to the insurer’s potential assessment from a major hurricane.

This information is essential for developing a new and sound risk management strategy.

For more information, contact Chris Carlson at ccarlson@pinnacleactuaries.com or (614) 602-6594 or Steve Lehmann at slehmann@pinnacleactuaries.com or (309) 807-2302.

www.pinnacleactuaries.com