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Understanding Percentage Wind/Hail Deductibles

In recent years, insurance carriers in Minnesota have responded to increased claims from hail storms by instituting higher deductible policies at communities vulnerable to hail damage. Due to the three significant hail storms that impacted the Twin Cities in the summer of 2019, this trend is likely to accelerate. We anticipate that standard *per occurrence* property deductibles which have been historically $25,000 or less per occurrence (or per building) will be largely or entirely unavailable in master insurance policies for communities vulnerable to hail damage.

Per Building percentage based wind/hail deductibles have now become the standard in the marketplace. These deductibles apply as a percentage of the insured valuation of each building and generally range from 2% - 5%. As insurable losses continue to develop and negatively impact the underwriting cycle, it may be difficult to find carriers willing to offer deductibles that are less than 5% per building for wind/hail. That trend could severely limit and may potentially eliminate a payout from the master insurance carrier in the case of a large exterior loss unless it is catastrophic.

The analysis below is provided as an aid to help you understand the potential economic impact of a high *Percentage Based* deductible instead of a *flat-dollar* deductible should your Board be given a choice of this this deductible structure or have no other option.

Example:

- 10 Building Community
- Total Insured Property Values: $50,000,000
- Each Building Valued at $5,000,000
- Scenario: Hail Storm causes $300,000 in damages to each of the roofs on all 10 buildings, totaling $3,000,000 in damage.

Deductible Options	**$25k Per Occurrence**	**$25k Per Building**	**2% Per Building**	**5% Per Building**
Association Out of Pocket Amount	$25,000	$250,000 ($25K per building x 10)	$1,000,000 ($100k per building x 10)	$2,500,000 ($250k per building x 10)
Claim Payout Amount	$2,975,000	$2,750,000	$2,000,000	$500,000

Typically, the total annual property premium offered with flat dollar value *Per Occurrence* or *Per Building* deductibles will be greater than premiums for *Percentage Based* deductibles. Please take careful consideration in choosing the appropriate deductible for your association to the extent that you have a choice and pay close attention to the potential economic consequences of higher *Percentage Based* deductibles.

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Note: Under Minnesota Common Interest Ownership Act (MCIOA) insurance carriers must provide full replacement cost insurance rather than Actual Cash Value insurance, which is similar to the blue book value on a vehicle. At the time of loss, it is favorable for an individual association and its members to have full replacement cost insurance for a building element such as a roof that is near the end of its normal life expectancy. At the same time, replacement cost coverage for old building elements may be a windfall to the association when it has accrued or should have been accruing funds in its reserves for these capital replacements. At a marketplace level, the many large payouts driven by full replacement insurance for large storms has been the singular, large driver of high per building deductibles as well as rising premiums.