

# Keep Minimum Catastrophe Deductibles to the Minimum

The market typically requires separate catastrophe deductibles on property insurance policies that have locations in high-hazard zones. These deductibles require the insured to retain more loss for catastrophe perils than for noncatastrophe perils. Catastrophe deductibles are usually stated as a percentage deductible subject to minimums. The minimums are intended to keep the insurer from paying small catastrophe losses, but depending on the wording, the risk manager could retain more of the loss than anticipated.

Let's assume an insured has five locations, each with building, contents, and business income values. The policy has a percentage named windstorm deductible subject to a minimum of \$100,000. All five locations had minor wind damage from a hurricane, and the minimums were triggered. Here are some variations on the way minimums can be applied.

- If the minimum is applied per occurrence, the minimum would be \$100,000.
- If the minimum is applied per occurrence, per location, the minimum would be \$500,000.
- If the minimums are applied per occurrence, per location, per unit of insurance (i.e., building, business personal property, and business income), the minimum would be \$300,000 per location or \$1.5 million total.

Keep in mind, too, that any flood damage would usually be subject to separate flood deductibles.

Finally, for large programs with multiple insurers, risk managers need to check their policies to ensure the minimum deductible wordings are concurrent.