Understanding wind and hail deductibles

Guest editorial
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As catastrophic weather losses continue to drive insurance costs upward, percentage deductibles for wind and hail claims have become increasingly common. While most insurance professionals understand how percentage deductibles function, the minimum dollar deductible that accompanies many percentage deductible endorsements often receives less attention. Understanding how these provisions interact is essential for agents, adjusters, underwriters, and business owners alike.

A percentage deductible is calculated as a percentage of the insured value of the covered property, rather than as a fixed dollar amount. Common percentages range from 1–5%, although higher percentages may apply in coastal or catastrophe-prone regions. The deductible is typically based on the insured value of a commercial building.

However, many policies also specify that the deductible is “X% subject to a minimum of $Y.” This language may seem simple, but it has significant practical implications.

Consider a commercial property policy with a building limit of $2,000,000 and a wind and hail deductible of 5% subject to a $25,000 minimum. 5% of the insured building value equals $100,000. Even though it appears the wind and hail deductible is $25,000, that is the minimum deductible. In this example, the deductible would actually be $100,000, which is 5% of the insured building value.

By contrast, if the building limit is $200,000, the 5% deductible equals $10,000, which is under the minimum of $25,000. In that case, the deductible is $25,000 because the percentage calculation produces the smaller amount.

The minimum deductible effectively establishes a value below which the insured’s financial responsibility cannot fall. The percentage deductible applies only when it exceeds that minimum threshold.

This structure serves several underwriting purposes. First, it ensures that business owners retain meaningful participation in smaller losses, reducing claim frequency for relatively minor wind and hail events. Second, it provides insurers with greater predictability in catastrophe-prone markets, where numerous small claims following a widespread hailstorm can create substantial administrative and adjustment costs.

For business owners, however, these provisions can create unexpected out-of-pocket expenses if they assume that the percentage calculation always determines the deductible. An insured may reasonably expect a 5% deductible on a lesser valued building to produce a relatively low deductible, only to discover after a loss that the minimum provision significantly increases their financial responsibility.

Insurance agents should therefore explain both components of the deductible during the renewal process. Explaining only the percentage without discussing the minimum dollar amount can lead to misunderstandings at the most crucial time when a loss occurs.

The issue becomes even more significant when property values fluctuate. Rising construction costs have increased insured values across much of the U.S. As coverage limits increase to reflect replacement cost increases, percentage deductibles also rise automatically. Because of these increasing values, the percentage deductible will likely exceed the minimum deductible. Business owners should understand that their deductible may increase over time — even if the percentage stated in the policy remains unchanged — and should evaluate whether they have sufficient cash on hand to absorb these larger deductibles following a severe weather event.

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From a claims perspective, adjusters should clearly explain how the deductible is calculated before discussing the amount the policy will pay at the time of a claim. Clear communication can help avoid disputes arising from differing expectations about whether the percentage or the minimum deductible will apply to a particular claim.

Ultimately, the phrase “percentage deductible subject to a minimum dollar amount” is more than technical policy language. It should be fully explained to the business owner by their agent at renewal and by a claims adjuster at the time of loss. The time after a loss happens can be somewhat chaotic and can potentially even be traumatic, depending on the severity. It’s important to understand your policy’s provisions and what your deductible responsibility is before a loss, so misunderstandings don’t elevate the pressure of an already stressful situation.

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