

A Perfect Storm for Affluent Homeowners: Facing Extreme Weather Effects on Insurance Rates

Climate change is impacting affluent homeowners in the form of insurance premium hikes and non-renewals. Learn how to safeguard your property and lifestyle with the right coverage.

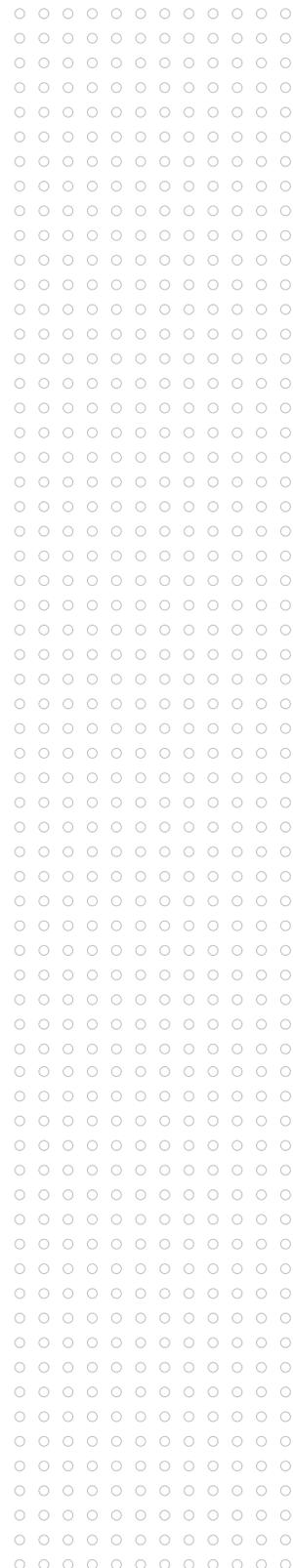
Facing Extreme Weather Effects on Insurance Rates

2020 was a year of extremes, and not just in terms of the COVID-19 pandemic. With 22 weather events that caused more than one billion in damages each — including seven tropical cyclones, 13 severe storms, a drought and a wildfire — 2020’s extreme weather events totaled \$96 billion.¹

Those 22 events were the most billion-dollar weather events ever in a single year. And they hit the entire country, from hurricanes in the Northeast to wildfires in the Northwest, from extreme cold and tornadoes in the South to severe rain and hail storms in the Midwest and Rocky Mountain states.

The result: 20% to 30% across-the-board insurance policy rate increases, regardless if a major weather event actually damaged a property. For a multi-million dollar property, rate increases of this magnitude can be a major roadblock in obtaining coverage.

What’s more, property owners in a high-loss area like the West Coast could be looking at premium hikes of 50% — if they can find coverage at all. Some of these homeowners may also have expensive cars or boats, and their homes may have high-end furnishings and appliances with high replacement costs.



¹ NOAA National Centers for Environmental Information (NCEI), "[U.S. Billion-Dollar Weather and Climate Disasters](#)," accessed May 14, 2021.

Expect to Pay More

In California, some insurers have paid out \$1.70 for every dollar collected in premiums in the last few years.² Where costs have risen this high, insurance carriers aren't renewing coverage and are leaving markets.

Consider the following three reasons insurance premiums have risen, and what homeowners can do about it.

1. LOSS OF USE ADDS UP. In 2020, California wildfires destroyed more than 10,000 homes, businesses and other structures, leaving many homeless while rebuilding or renovating.² Most homeowners' policies will cover additional living expenses, or ALEs, by providing a hotel room, food and other necessary items until homeowners can return to their homes.

While some insurers will set dollar or time limits on ALEs, others provide unlimited coverage. But ALEs can add up: Depending on the policy, the amount spent on ALEs can take away from the total sum for home repairs. If the costs move beyond what's "reasonable," the insurance company could drop the homeowner after repairs are completed.

HOW TO LIMIT LOSSES: Identify your needs prior to a potential catastrophe and examine your homeowner's policy to determine limits for ALEs. Work with your broker to assess your true liability and make sure you have proper coverage.

2. ELEGANCE, ELECTRONICS AND SHORTAGES. Today, many expensive properties are "smart," featuring internet-connected HVAC and electric systems. These same homes are usually filled with expensive appliances and furnishings. Full replacement coverage may be cost prohibitive, leading to underinsuring these items and raising homeowners' out-of-pocket expenses to replace damaged systems, appliances and furnishings.

² Forbes Advisor, "Homeowners And Insurance Companies Will Grapple With Climate Change In 2021," January 13, 2021.



Furthermore, chronic supply and worker shortages exacerbated by the COVID-19 pandemic have increased the cost of rebuilding. For example, in California rebuilding costs rose 10% in 2020.³

HOW TO LIMIT LOSSES: When purchasing high-tech home systems and top-of-the-line appliances and furniture, consider how much coverage is needed to secure them. Understand there is higher risk associated if these items aren't insured to their full replaceable value.

3. UNATTENDED HOMES AND VEHICLES. Often, extreme weather events affect little-used second homes, cars and boats. For example, Florida has the largest stock of second homes at 1.1 million⁴ and is the most expensive state for homeowners insurance. Residents are projected to pay average premiums of \$2,380 for 2021, compared to \$1,960 in 2018.⁵

HOW TO LIMIT LOSSES: During your annual review with your broker, make sure second homes, vehicles and other expensive items are included in your risk management plan. Also, consider buying surveillance equipment, monitoring services, proper storage and professional maintenance to make sure unattended property and possessions are safe and prepared for disaster. This will help maintain status as a good risk for underwriters.

ANOTHER HIT:

FEMA Risk Rating 2.0 means rising insurance costs for properties in risk zones

In April 2021, the Federal Emergency Management Agency (FEMA) unveiled changes to the National Flood Insurance Program (NFIP) for the first time in 50 years. The changes were designed to make flood insurance more equitable for the five million Americans with properties in U.S. flood zones — but that means high-value properties will now be more expensive to insure.

Beginning on October 1, 2021, FEMA will calculate premiums for new policies based on home value and flood risk, with more expensive homes costing more to insure. Renewals will be subject to the new premiums after April 1, 2022.⁶ Previously, FEMA premiums were calculated based solely on flood risk.

Under the new NFIP program, as many as 66% of policyholders will see increases up to \$10 a month, while 7% insureds will see increases between \$10 and \$20 monthly and 4% will see greater increases.⁷ No NFIP insureds will see greater than an 18% increase.⁷

One thing to remember is just because a home is in a low-hazard area, it's not low-risk or can suffer floods. The cost of insurance for such properties is relatively inexpensive.

³ Forbes Advisor, "[Additional Living Expenses Coverage In Homeowners Insurance](#)," November 25, 2020.

⁴ National Association of Home Builders, "[Nation's Stock of Second Homes](#)," October 16, 2020.

⁵ WSJ, "[Insurance costs threaten Florida's real estate boom](#)," April 25, 2021.

⁶ FEMA, "[FEMA Updates Its Flood Insurance Rating Methodology to Deliver More Equitable Pricing](#)," April 1, 2021.

⁷ Program Business, "[Higher value homes mean higher insurance premiums under New Flood System](#)," April 2, 2021.

Coverage First, Purchase a Home Second

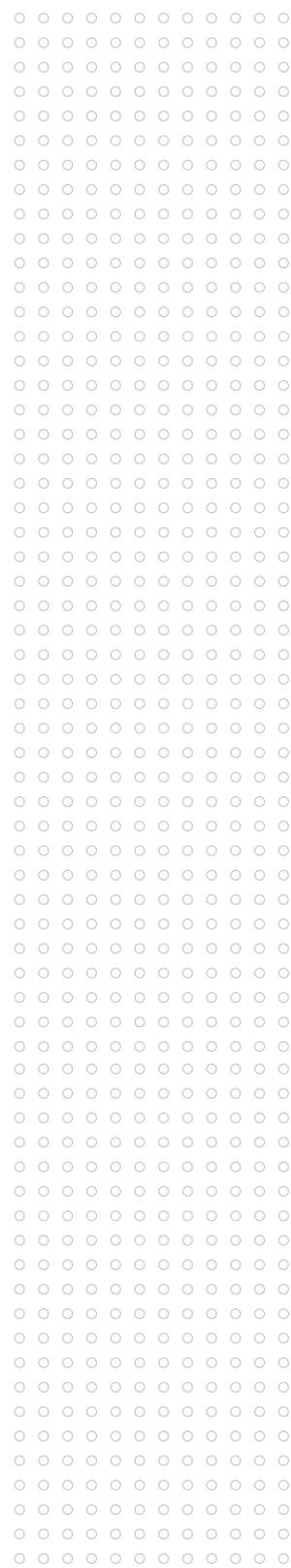
Buyers of expensive homes can save a lot of headaches by getting quotes for comprehensive insurance coverage before a new purchase. If insurance coverage is cost prohibitive or unavailable, walking away may be the smartest move, no matter how desirable the property.

That said, if your carrier drops coverage, hikes your premium, or is no longer underwriting coverage in your state there are steps you can take to avoid the worst:

- **START THE INSURANCE PURCHASE OR RENEWAL EARLY**, at least 90 days ahead of closing, or coverage expiration. Explain to insurers why your home is a low risk and what you're doing to reduce CAT claims.
- **CONSIDER NON-ADMITTED INSURANCE POLICIES.** States will back up "admitted" insurance policies should the carrier become insolvent. However, when you can't purchase an admitted policy, a non-admitted policy is another option. Non-admitted policies will cost more but offer greater flexibility and often higher limits than admitted policies. Several states require proof that homeowners tried to secure admitted coverage more than once before they can obtain a non-admitted policy. Before considering non-admitted products, consult with your broker to make sure this is a viable option.

Safeguarding Property and Possessions from Potential Disaster

Regardless of where your homes and assets reside, it's important to consider how your coverage may be affected ahead of your next renewal. To avoid extreme increases, safeguard your home from extreme weather. Below are ways to protect your home against wildfires, hurricanes and storms.



RISK MANAGEMENT FOR WILDFIRES



Regardless of where your homes and assets reside, it's important to consider how your coverage may be affected ahead of your next renewal. To avoid extreme increases, safeguard your home from extreme weather. Below are ways to protect your home against wildfires, hurricanes and storms.

CREATE A SAFETY ZONE. Wildfires feed on vegetation, so do the following to create a safety zone:

- Clear brush, trees and other vegetation from on and around your house to create a 30-foot safety zone.
- The trees around your house should be pruned within 15 feet of chimneys, stove pipes and the ground. Remove as much flammable vegetation as possible within 100 feet of your house.
- If a property sits on a hill, the safety zone needs to extend down the hill to avoid rapidly climbing fires.
- Gas grills, propane tanks and other sources of fuel should be stored at least 15 feet away from the side of your house.
- Consider new technologies like exterior foam dispensers and roof-mounted sprinkler systems.

USE NON-COMBUSTIBLE MATERIALS. Roofs are vulnerable to embers and flaming debris, so avoid wood, shake and shingle roofing; instead, use materials such as fiberglass, slate, metal or clay. Sun decks and porches are also danger spots that should be constructed using non-combustible materials. Dual- or triple-pane thermal glass and fire-resistant shutters also reduce risk.

KNOW YOUR RISK. Understand the wildfire history of your area and your community's ability to respond. This will help create an appropriate emergency plan and improve response times, including the ability of firefighters to find and reach your house. Make sure house numbers are visible from the roadside.

RISK MANAGEMENT STEPS TO PREVENT HURRICANE OR STORM DAMAGE



Strong winds, flooding and storm-surge hurricanes throw a powerful punch. Here are ways you can protect your home from hurricanes and storms:

COVER AND SEAL WINDOWS AND DOORS. Improperly sealed windows and doors allow water into the home. Storm shutters can put another layer between property and flying objects. Impact-resistant windows can ensure the windows don't shatter and let the storm inside. Plywood can be an affordable and effective window covering in lieu of shutters.

REMOVE POTENTIAL PROJECTILES AND PRUNE TREES. If strong winds can pick up a tree, they can easily turn lawn furniture and other outdoor items into projectiles that can damage your home. Remove or secure anything surrounding your home. Fences and larger unattached structures like sheds or gazebos should be anchored or bolted securely to their foundation. Prune surrounding trees, including low-hanging and weak branches: High winds can turn loose tree branches and limbs into deadly projectiles.

PREVENT FLOODING WITH CLEAN GUTTERS, A WORKING SUMP PUMP, SMART WATER DETECTION AND FOUNDATION CHECKS. Clean gutters are the first line of defense against flooding during a severe storm. If water collects around your house, a sump pump acts as a second safeguard for your basement or crawl space. Basement water detection devices can alert homeowners when water enters the house. Have people on standby to handle leaks before they turn into a flood. Before a storm, check your foundation for any cracks that could be the root cause of flooding during a storm.

INSTALL SURGE PROTECTION. Surges in electric current during a hurricane can overload and damage your electrical devices. Have a surge protector installed to protect the contents of your home.

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