

ARTICLES

California's New Normal policies: mind the details

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In March of this year, I [touched on the changes](#) that are affecting the insuring of high net worth homes following the recent years of natural catastrophes. That article discussed ways homeowners could reduce their risk exposures and better make the case for continuing insurability. Now, I'm focusing on how those disasters are shifting the carrier landscape - pushing traditional carriers out, narrowing options and spawning a New Normal in how policies are written with increased premiums and limitations.



First, if you're a California homeowner with a replacement value greater than \$2 million situated in a brush zone, getting home insurance coverage will be more complicated. In some cases the only option available is to place limited coverage through the California Fair plan or a non-admitted insurer such as Lloyds of London.

The California Fair plan offers a named peril policy which only provides coverage for fire, lightning, explosion and smoke up to a \$1.5million in *total* maximum coverage. If your home's value exceeds the \$1.5million total maximum, your broker should also secure an excess home policy providing additional coverage that exceeds the maximum limit. To fill in other gaps when insuring through the Fair plan, your broker should also offer a difference in conditions policy which provides additional coverage, such as theft coverage for your personal property.

Non-admitted home insurance carriers are regulated by the state surplus lines office, are not protected by the California State's guaranty fund, and follow less stringent requirements than admitted insurers. During a hard market, the home insurance coverage offered by non-admitted companies such as Lloyds of London are not as comprehensive as previously experienced with a high net worth insurer.

Understanding coverage differences is key. Here are some important points to consider in this narrowing coverage market:

- **Partner with an expert - a broker you trust:** Finding a broker aligned with your insurance goals who you trust is important. The mutual goal should be balance sheet protection and making you whole quickly following a catastrophic loss. A broker should be proactive, accessible, knowledgeable, great listener, possess a holistic understanding of your risk exposures, and swiftly solves your

insurance problems. How do you find a good broker? Wealth advisors, financial planners, trust and estate attorneys, and accountants, carefully vet out their relationships and can be a great resource to finding the right advisor for you.

- **Read your home insurance contract:** Understanding the coverage differences between programs, offered by your traditional high net worth insurer, compared to programs offered by non-admitted insurers, is paramount. Here are just a few important points:
- **Building ordinance coverage up to the policy limit.** Homes rebuilt following a covered loss must be rebuilt to current code as it relates to earthquake retrofitting, or being ADA compliant. This can be costly. Many non-admitted insurers only provide coverage up to a certain limit, say \$10,000, rather than to the policy limit as previously covered by high net worth insurers.
- **100% extended replacement cost coverage on the home:** This is an endorsement which provides a home replacement cost cushion in case of total loss. Typical contracts provide 100% in addition to the declaration page amount. Many non-admitted insurers cap the replacement cost cushion at 25% or only up to the limit shown on the policy.
- **Large loss deductible waiver:** In a loss greater than \$50,000, all standard carrier contracts will waive the deductible. Most non-admitted carriers do not include this coverage.
- **Worker's compensation coverage to insure the house staff:** High net worth insurers have the ability to endorse workers' compensation coverage. In many cases in California, non-admitted insurers do **not** provide worker's compensation coverage. For the client with large home who employ domestic staff, an alternate solution will be needed to provide worker's comp for the nanny, personal assistant, and others when using a non-admitted insurer.
- **Pay attention to subjectivities:** When a policy is re-written to a non-admitted market, that company will often require that alarm systems are installed, or proactive loss mitigation measures are taken such as creating brush clearance around the property. It is critical that these subjectivities are adhered to because not doing so could affect claim settlement should a catastrophic loss occur.

The emerging "New Normal" in providing coverage for successful families and individuals is a climate of ongoing challenges. Lean on the experience of your trusted broker to clarify the important differences and your best options. Hopefully we are just weathering an interim season while the insurance market recalibrates and becomes more buyer friendly.

Need some help navigating the New Normal? Drop a line to me direct or connect with one of experts: privateclient@risk-strategies.com

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