



The Hottest Insurance Classifieds!



Features

Challenges Abound in the High Valued Homes Market

By Ross Buchmueller
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For more than a decade, the U. S. homeowners insurance industry has failed to produce acceptable results. Less publicized has been the challenges faced by insurers of high valued homes. To a large extent, the same culprits that have placed a drag on the overall homeowners market have had their impact in this specialized niche.

For insurers of high valued homes, the challenges are many, starting with:

The Economy

A few years ago, it appeared everyone would soon live in a million-dollar home. The "burst bubble" not only restricts the size of the high value home market, but presents additional risks. In any downturn, there can be an increase in fraud. With foreclosure rates spiking of late, underwriters are paying even greater attention to the selection of responsible and financially secure clients. The use of credit scoring has become more commonplace, particularly as a risk selection tool.

Catastrophes

Despite active lobbying from insurance industry officials, wealthy families still seem to prefer Palm Beach to Peoria and Malibu to Milwaukee. While all homeowners insurers need to factor catastrophe costs into their pricing (and reinsurance), there is an extra cost for a high value specialist. Recently, homeowners insurance for coastal properties have been placed in surplus lines markets, at a significant premium.

The Mold Crisis

The rapid increase in the number of claims for remediation of mold damage is costly in luxury homes. The costs for Additional Living Expenses during this remediation can be stunning. How do you find "comparable living arrangements" for someone forced to move out of a 20,000 sq. ft. mansion while the home is being restored? The answer: Money. There will likely be a continued push to cap damages (where allowed), with options to buy back even more coverage.

Insurance to Value

Simply put, if it is difficult to maintain adequate insurance to value on a standard book of homeowner business, it is an even greater challenge for unique, luxury homes. Greater use of home inspections and increased inflationary roll-ons will become commonplace. There are also fewer insurers offering guaranteed replacement cost coverage.

Construction Risks

The high value segment faces the additional risks of a clientele who frequently renovates or expands his/her home. Does the contractor have adequate insurance? Is there a considerable deductible? What safety precautions have been taken? Underwriting for homes under the course of construction or renovation has become considerably more selective and the premiums more expensive.

Higher prices. More selective underwriting. Tightened policy language. Increased values. This does not paint a pretty picture for insurers.

For independent agents and brokers focused on this segment, all is not bleak, however. For starters, there is considerably less competition among the captive agency companies. After decades of personal lines market share sliding to direct and captive agency companies (including at the upper end of the market), many independent producers are winning back clients and market share.

In capitalizing on the opportunities created by this hard market, here are some tactics promoted by specialist producers:

Deductibles

In order to control the rising cost of homeowners insurance, many agents are advising clients to investigate which companies offer generous credits for higher deductibles. While it is common to see deductibles between \$2,500 to \$10,000; it is not unusual to see deductibles of \$100,000 or greater for very large properties. The premium credits vary. Some companies offer "uncapped" credits, where the premium savings is greater as the value of the home increases.

Financial Ratings

The United States saw more than 30 insurance company insolvencies in 2002. Even prominent insurers of high-value homes have seen their credit and financial strength ratings downgraded of late. It has become more important than ever to emphasize the security of financially strong insurers.

Greater Distinctions Amongst Providers

Only a few years ago, there were a small number of providers in this segment with very similar offerings and philosophies. Today, there is more choice and much greater differences amongst high value insurers. From different coverages, pricing strategies and underwriting appetite, the days of "me, too" programs are fading. As some of these new markets entered after the crisis began, these new programs may offer fresh alternatives to existing programs.

The Importance of "Total Accounts"

While the homeowners offerings are becoming more expensive and more selective, there are exciting new initiatives for other lines of business. For example, it is easier today than ever to obtain higher limits of umbrella liability for high net worth individuals. With car insurance still largely competitive and exciting new coverages such as Employment Practices Liability for Domestic Staff, there are opportunities to impress and delight customers on a "total account" basis.

An Uncertain Future?

The future of the high value home insurance market is very uncertain. Many longstanding insurers are facing rating downgrades as they struggle to cover their cost of capital. State by state, these insurers are responding to their declining profit margins by implementing significant rate increases and scaling back valuable coverage.

For agents and brokers, the opportunities are plentiful to capitalize on the "hardening" of the market. There are a few insurers offering creative solutions and capacity. Clients are searching for choice, quality and expert consultation. Those producers who implement proactive retention and sales strategies will easily capture more of the high-end market share.

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