Alternatives to Addressing the Homeowners Insurance Issue

Problem:

Homeowners in the wildfire-urban interface are facing challenges getting insurance in the admitted market. This is also becoming a challenge in the surplus lines market and is a particular problem for high-net worth individuals who have expressed a willingness to pay more for insurance if it is available.

Proposal:

Create a regulatory "sandbox" for high-net worth market segments to test new property insurance products and methods while ensuring consumer protection. The "sandbox" would ease insurance regulation which may be stifling innovation and allow companies to focus on new product design, including policy terms/language (e.g., coverage limits, exclusions) and pricing factors, and claims handling. Another option may be policies with a higher wildfire deductible. Unfortunately, existing regulatory requirements pose challenges that often may limit a carrier's willingness to introduce such a product.

Over the last few years, several high-net-worth providers that exited the market in California noted that high-net worth clients need a different product and also servicing approach. It involves much more individual attention, from both a service experience/expectation and also ensuring the coverage is tailored to adequately cover unique risks… both structures and personal property (e.g., unique furniture, artwork, jewelry or other rare collectibles), which then also may require uniquely different underwriting/mitigation and claims handling. All of this can result in much higher costs and thus substantial capital needs.

Some carriers have recently pivoted to write these risks on a non-admitted basis due to high losses in peak catastrophe zones. This niche segment of the market requires greater flexibility in price and service; and writing on a non-admitted basis can facilitate better loss aggregation, or so carriers may treat separate losses under a single policy as a single insurable event. This highly tailored approach to insuring and reinsuring properties is more imperative in high net worth markets where policyholders may own multiple multi-million-dollar properties in geographic regions most prone to tropical storms, earthquakes, wildfires, and floods.

The proposal would require that the products be exempt from the rate and filing regulations currently in place. This is a key point. The goal is to ease regulatory barriers to allow companies to innovate and try to address the issues we are seeing in Nevada. Likewise, any additional requirements would exacerbate current challenges and could be detrimental to the efforts. Such an approach may be more akin to how large commercial property accounts are managed and provide greater regulatory flexibility.

The proposal could be limited to high-net worth homeowners or could be limited to "distressed areas." High-net-worth individuals have expressed a willingness to pay higher premiums to get the coverage they need and typically work with agents who can help design the appropriate product.

The proposal should be a pilot project and run for four years with a study at the end to determine if the proposal made insurance more available and whether the policies served the needs of the customers it was designed to benefit.

Another approach to maybe consider is to separately define personal lines policies that fit a high-net worth threshold (e.g., total insurable value) and structurally change the regulatory oversight, to ensure greater flexibility long term. That might do more for longer term market confidence and could similarly serve as a model for other western states that are seeing growth of high-net worth properties in the WUI.