


# A Stability Strategy for a Difficult Home Insurance Market

The home insurance market is changing. Here's how to safeguard your closings from potential disruption and concern.





The question of home insurance availability and cost is on the minds of many home builders and their customers today. This Industry Perspective examines the issue, helping builders better navigate a challenging insurance market that's undergoing unprecedented change.

### Stable and sustainable.

Those two words define the ideal home closing process. Yet today a new concern has emerged that threatens smooth, orderly closings: home insurance.

It's no secret why. The increasing ferocity and frequency of extreme weather has challenged insurance carriers' risk modeling, changing in part the way home insurance has traditionally been viewed. This new paradigm can impact home builders three ways:

1. **Home buyers** struggle to find insurance coverage at the price and coverage they want.
2. **Mortgage lenders** won't finance the home without the insurance requirement.
3. **Insurance carriers** respond to [risk uncertainty over extreme weather](#) (wildfires, floods, high winds, hail, etc.) with curtailed coverage, higher rates or abandoning the market altogether.

**What's a builder to do?** The new normal isn't confined to a handful of coastal states, either. Builders nearly

everywhere, including the Midwest, now must think twice about a closing necessity that was once little more than a procedural formality.

**The good news?** Home insurance isn't going anywhere. Coverage is available through several common sources, including:

- Admitted Carrier
- Non-Admitted Carrier
- State-Sponsored Plan

Here's a look at each category, along with expert commentary from Naimish Patel, president of personal lines at [MSI](#), one of the top three independent managing general agencies in the country, and Alan Umaly, president of [Westwood Insurance Agency](#), a leader in embedded home insurance for builders and serving most of the nation's top 20 homebuilders. Also highlighted is the Reciprocal Insurance Exchange, a form of insurance organization that has been stepping into the gap, helping make home insurance even more available and affordable.

## Admitted Carrier

An admitted carrier is an insurance underwriting company that is licensed and regulated in the states they operate in. Admitted carriers include Allstate, Travelers and other familiar names and insure many U.S. homes. “They’re mainstream companies well known to the public,” explains Umaly. “The state department of insurance reviews the carrier’s rate filings and products and, most importantly, will help cover policyholders’ claims should the carrier become insolvent.”

The challenge for admitted carriers is the [rapid escalation of extreme weather](#). “This situation has compounded over many years,” informs Umaly, a 32-year industry veteran. “Adjusting rates to meet new weather-related risks can’t be addressed through a single rate filing. This has prompted some carriers to exit markets like California and Florida. The risk of loss is too great; it’s not sustainable. This limits capacity, putting pressure on builders and buyers to find insurance alternatives.”

## Non-Admitted Carrier

As the name suggests, a non-admitted carrier is an insurance underwriting company that is not licensed by the state it operates in. A non-admitted carrier is not required to have its rates and products approved by the state. Unlike admitted




carriers, the state will not pay policyholder claims if the non-admitted carrier becomes insolvent. “Non-admitted is a safety valve for the industry,” describes Patel. “Our policyholders generally can’t find insurance from traditional insurance sources. In times of market stress, non-admitted carriers help meet the home buyers’ need because they have more flexibility to set rates and tailor coverage. It’s stability for an unstable insurance market.”

What may seem odd is how news reports seldom mention non-admitted carriers as a viable insurance option in distressed markets. Typically, reporters only mention state-sponsored programs, like California’s FAIR plan, as plan B for home builders and

buyers. That’s unfortunate, says Patel.

“The Pacific Palisades fire is an example of an area traditional carriers avoided,” the long-time industry leader explains. “We insure properties in that area. If it wasn’t for the non-admitted market, some homeowners might have lost their life savings.”

Both Umaly and Patel agree the idea of non-admitted shouldn’t be read as low quality or second-rate. To the contrary, companies like Patel’s MSI work with numerous non-admitted underwriting companies that earn top marks from respected independent rating authorities like A.M. Best. “There should be zero concern at closing time,” affirms Patel.



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### State-Sponsored Plan

Often described as the “home insurer of last resort,” state sponsored insurance programs like Florida’s Citizens Property Insurance Corporation, and California’s FAIR plan (Fair Access to Insurance Requirements), can only be considered after all other options have been exhausted. Because of market challenges, [more than 30 states now offer a state-sponsored home insurance alternative](#).

“State-sponsored plans are usually a poor solution,” observes Patel. “There are often coverage restrictions or limitations.”

Umaly, as a California resident and home insurance expert, knows the FAIR plan well. He offers a simple and direct assessment: “In ranking home insurance coverage, state-sponsored should be last.”

### Stepping into the Gap: the Reciprocal Insurance Exchange

You’re likely already familiar with USAA and Farmers Insurance, two of the largest carriers built on the reciprocal insurance model. Reciprocal insurance exchanges may be admitted or non-admitted. “In a reciprocal, policyholders act as the insurer and the insured, meaning all risks and rewards are shared by the subscribers, as policyholders are called,” offers Umaly. In effect, policyholders shoulder the risk instead of the insurance company.

In today’s hard insurance market (higher cost, reduced capacity), reciprocals are helping to fill the gap left when other carriers curtail coverage, increase rates or abandon the market altogether. Reciprocals can be another way forward for builders and home buyers in higher-risk weather regions. “I believe this is one way for insurance companies to create more insurance capacity,” Umaly suggests.



## Bottomline

The home insurance market is evolving fast. Builders should align themselves with an insurance expert with the industry insight, adaptability and technology to represent builders' interests in the best possible manner. As Umaly says, "It's my job to find a viable home insurance solution for every customer of the builders with whom we work."

**Stable and sustainable.** There's never been a better time to safeguard closings with home insurance you can count on.



To learn how to minimize home closing disruption, visit

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