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Homeowner's Insurance

California Homeowners Aren't Alone: The Crisis Is Nationwide

IF YOU'VE BEEN dismayed at being dropped by your homeowner's insurer or have seen your premiums rise dramatically the past few years, you should know you're not alone.

While the insurance crisis is especially severe in California, homeowners across the country are seeing their premiums rise as the cost of home repairs and other factors affect claims costs. There are a number of factors impacting homeowner's insurers nationwide and policyholders are bearing the brunt of these rapid changes.

Besides the cost of rebuilding, more frequent and intense storms, heat and fires are forcing many homeowners to make hard decisions, including selling their homes due to unaffordable insurance premiums. Many homeowner's insurers are also in a jam after suffering years of higher-than-expected claims, resulting in billions of dollars in losses.

A convergence of events

These factors contributing to the mess:

Climate change – The main factor that's hurting the insurance market is climate change, which has made storms and other natural catastrophes more severe. States that are most at risk, like California, Florida and Lousiana, are now in full-blown crises. But the problem is not isolated to those states.

NEARLY HALF OF U.S. HOMES AT RISK

Some 45% of U.S. homes – or $22 trillion worth of property – face at least one type of severe or extreme climate risk, including:

- Flood
- Wind
- Wildfire
- Hurricane
- Tornado
- Derecho

Higher replacement costs – Rebuilding costs are increasing; CBRE has estimated that construction costs rose 14.1% in 2023. It's estimated the cost of rebuilding a home jumped 36% between 2019 and 2023. Higher building materials costs and labor shortages are driving those increases.

Higher reinsurance costs – Insurers buy their own coverage called reinsurance, which kicks in when claims reach a certain level.

Reinsurance typically applies to large loss events. With increasingly erratic weather worldwide and large losses from events like earthquakes and civil unrest, reinsurance premiums jumped as much as 50% this year.

Some reinsurers are refusing to cover carriers writing business in certain states or geographical areas, forcing primary insurers to cover that extra risk themselves.

Fallout is far and wide

A *New York Times* report found the insurance industry lost money on homeowner's insurance coverage in 18 states last year.

Home insurance rates jumped by 34% from 2018 to 2023 on average nationwide, going as high as 60% in certain places, according to *Realtor.com*.

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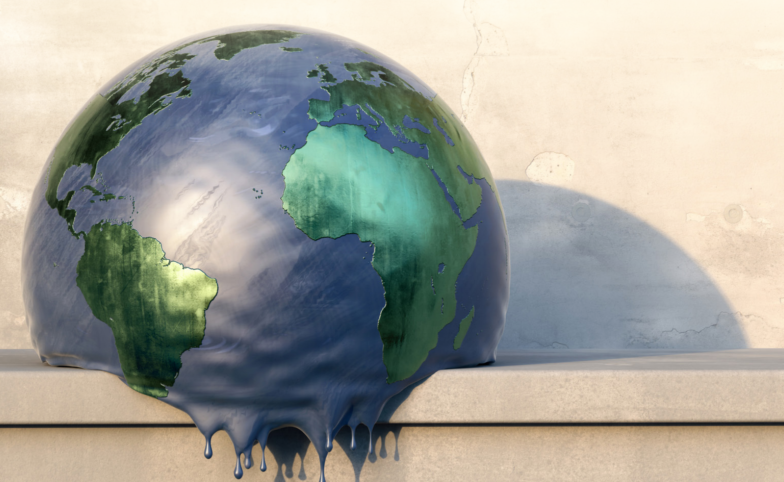

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2025 Changes

Auto Insurance Minimum Liability Levels to Double

STARTING JAN. 1, 2025, California is increasing the minimum liability coverage levels that drivers in the state will be required to have on their auto insurance policies.

The new minimums, double current levels, are meant to keep up with inflation, particularly the cost of car repairs and medical costs. While the minimums have long needed to be increased (they've been in place since 1967, amazingly), they may still not be enough if a driver is found at fault in an accident with a modern vehicle.

NEW MINIMUM LIABILITY COVERAGES FOR 2025

- $30,000 for injury/death to one person, up from $15,000.
- $60,000 for injury/death to more than one person, up from $30,000.
- $15,000 for damage to property, up from $5,000.

Why the change?

The new statutory limits are designed to ensure that individuals involved in accidents have sufficient coverage to meet the cost of vehicle repairs, medical expenses and other accident-related costs if they are at fault in an accident. All of these costs have skyrocketed in the last four years.

The new limits also reflect the fact that even minor accidents can result in significant repair costs, particularly in vehicles loaded with new technology.

The takeaway

If you are currently insured for the minimum levels required by the state, you should consider increasing your liability beyond the new 2025 minimums, which also may not be enough in case of an accident.

If you are found at fault in an accident and the claim costs breach your policy limits, you will be responsible for the rest, which you'd have to pay out of pocket.

You could be in a sticky situation if you crash into a luxury vehicle or if the victims need significant medical care as a result of the accident.

But if you do want to keep with the legal minimums, you'll likely see your premiums increase along with the new levels.

We can work with you to compare rates with other insurers to see if there is better pricing out there.

If you are seeing higher rates, you can also consider increasing your comprehensive and collision deductibles, or even eliminating these coverages altogether on any older vehicles that you have paid off.

These strategies can help offset the premium increases associated with higher liability limits. ❖

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Insurers Get Choosy About Who They Will Cover

While people who live in areas susceptible to natural catastrophes are in the firing line, the crisis is even affecting homeowners in areas that aren't. For example, several carriers have pulled out of Iowa and dropped tens of thousands of policyholders this year alone.

Some carriers have also ceased writing business in places like Minnesota, Indiana and Ohio, and others have raised their criteria for underwriting, like not covering homes over 25 years old or those with roofs older than 10 years, or for homeowners who have filed claims in the last three years.

Fewer insurers are willing to cover homes in high-risk areas, leaving few homeowner's options for coverage.

Those who can't get coverage are forced to go to their state's market of last resort, which can be expensive with less coverage than a typical homeowner's policy.

What's next

Regulators and legislators are scrambling to come up with solutions. In California, the Legislature and the insurance commissioner have been made changes that have the backing of some of the country's largest home insurers.

Under the plan, insurers will commit to writing more policies in areas with high wildfire risks, in return for being allowed to use catastrophe modeling to project future losses when filing rate increase requests. It includes other incentives as well. ❖

The Insurance Gaps While Driving for Uber, DoorDash

TO MAKE ends meet, or to build up their nest eggs, many people have turned to moonlighting driving for ride-hailing app Uber or delivery apps like DoorDash or Instacart.

The money can be good, but it's important to understand the insurance implications of using your own vehicle to shuttle passengers or food to earn income.

Uber, Uber Eats and DoorDash carry their own insurance that will cover drivers for damage they cause to a third party's property, or injuries to passengers or other individuals. But other companies' coverage varies and puts the insurance responsibility on the drivers.

Ride and food delivery apps that do offer insurance have policies that are specific about the times during which they will cover passengers or drivers. Many companies will cover you from the time you've accepted a job to the time the food is delivered, or the passengers reach their destination and exit the vehicle.

For all those times you are not covered, you would likely not be able to count on your personal auto policy to cover an accident for which you are found at fault.

The coverage gap

Most insurers use the standard personal auto insurance policy created by the Insurance Services Office, which excludes coverage if the vehicle is used for business purposes, including accepting passengers and making deliveries for income.

Policies preclude coverage for any liability, medical payments and physical damage arising from this type of activity. Even insurers that don't use the ISO forms and instead have their own will typically exclude coverage for business purposes.

This creates a coverage gap. If you drive for an app that requires your insurance to cover damages of an accident, they would likely decline the claim, leaving you paying out of pocket. As well, if their insurance limits are insufficient, you'd be left holding the bag, which could be a hefty tab in case of a destructive accident.

APPS AND INSURANCE

DoorDash – Up to $1 million in bodily injury or property damage in "active delivery" mode. During waiting periods, up to $100,000 for third party bodily injuries and $25,000 for property damage. It will not cover damage to your car.

GrubHub – GrubHub doesn't offer insurance coverage. You must have your own insurance that meets your state's minimum liability standards.

Instacart – Instacart does not offer insurance for its drivers. You're responsible for having your own personal or commercial liability car insurance that meets your state's requirements.

Uber and UberEats – Insurance that covers at least $1 million for property damage and injuries to riders and third parties.

Insurance that covers the cost to repair your car, up to the actual cash value, with a $2,500 deductible, contingent on your personal insurance including comprehensive and collision coverage.

The takeaway

As you can see from the above examples, insurance issues are largely your responsibility with some apps. Your personal auto policy will not provide coverage, meaning you would be on the hook for any damage or injuries you cause while driving for them.

While some apps provide coverage, the limits may be far below real-world costs, particularly if someone is injured or if you damage a luxury car.

For example, a property damage limit of $25,000 would not be enough if you total a BMW 7 series sedan.

If you are planning to drive for one of these apps or already are, you should call us and ask about your options to avoid the coverage gap or lack of coverage.

It's recommended that you secure additional coverage by purchasing rideshare or delivery service insurance either as a stand-alone policy or a rider on your current policy. This may provide a coverage for the gap you face when driving for one of these companies.

You should also exceed California's liability coverage limits on your personal plan, as they are woefully low. ❖

When Remodeling, Transfer Risk to the Contractor

IF YOU are considering home renovations or a remodel, you need to be aware of the biggest pitfall: liability if the contractors you hire don't carry the necessary insurance.

If a contractor lacks workers' compensation coverage, for example, the homeowner could be on the hook for the cost of medical care and lost wages. The key to avoiding this scenario is to ensure that the contractor is the one bearing the risk and that they have the proper insurance to do so.

You can ensure this through a well-worded contract, which transfers the majority of the construction risk to the contractor.

ESSENTIAL CONTRACT ELEMENTS

- Scope of the work and price of the project.
- Legal names of both homeowner and the general contractor, and their addresses (no P.O. boxes).
- The contractor's license and tax ID number.
- Requiring the general contractor to carry workers' compensation and commercial general liability insurance, and that they provide certificates for both policies.
- The contractor should list the homeowner as an additional insured under their general liability policy.
- A hold harmless agreement or indemnification clause that outlines the contractor's responsibilities if their work results in injury or damage.
- Warranty details.
- Project time frame, including start and end date.
- Homeowner responsibilities.
- Clearly outline the payment structure, including the total project cost, deposit requirements, progress payments, and the final payment due upon completion.
- A detailed description of the work to be performed, including all aspects of the project, including labor (man hours), materials, finishes, dimensions and any other relevant details.

Contractor's insurance

When checking a contractor's certificates of insurance, homeowners should look for the following:

Current dates – Check to see that the coverage is current. If it's past the policy expiration date, you should ask for their new policy certificate. Do not proceed if they can't provide an in-effect policy.

General liability coverage – The contractor should have this insurance, which covers bodily injury to you or third parties and property damage arising out of their operations.

Check also to see if their coverage includes "products and completed operations," which covers damage that may arise out of their finished work. If this is not included, then the contractor's liability ends when they finish the job.

Workers' compensation – This coverage is mandatory for all employers, except under very rare circumstances. It covers medical expenses and lost wages if an employee is injured on the job. If the contractor doesn't have workers' comp, you could be on the hook for these costs.

Sometimes small contractors will tell you that they don't need to have it, but that is typically true only if they have no employees and it's a sole proprietorship.

Your insurance

The final backstop for you is your own homeowner's insurance policy and any umbrella insurance coverage that you have.

These policies can ensure that any contested claims are paid and that your insurer may step up to fight claims against you and push the liability to the contractor or their subcontractors.

If you have an ironclad contract to protect yourself, you won't suddenly find yourself out of pocket for damage that you were not responsible for. ❖