

## June 5, 2023 – Wealth Planning Commentary

### Insuring a home in a State prone to catastrophes is challenging

Last month State Farm stopped accepting new applications for all business and personal Property & Casualty (P&C) insurance in California. Wildfires have devastated homes in the state for years and the number of homes that are uninsurable is increasing. State Farm is not the first or only carrier to stop selling new policies in CA. The list includes Liberty Mutual, AIG and Chubb. State Farm's announcement is significant because it is the largest home insurer in CA. Many property owners in the state will scramble to insure their property. State Farm is **currently** honoring existing P&C policies, but that could change in the future.

Homeowners policies expire after a year, and typically a renewal letter is sent before the term ends. Unfortunately, sometimes carriers send a non-renewal, and these are becoming more common in areas with periodic catastrophes such as CA. A non-renewal means that the insurance company will no longer insure a home when the policy expires. Insurers may decide to send non-renewal notices for a variety of reasons and are legally allowed to if the reason is for business purposes. Legitimate business purposes include: the insurer no longer covering properties within a specific state, changing a risk profile, termination of a certain type of policy or that some properties are too high in value to insure. State Farm's reasons for pulling out of CA include historic increases in construction costs outpacing inflation, rapidly growing catastrophe exposure, and a challenging reinsurance market.

A CA resident may obtain coverage through the state FAIR plan which provides basic fire insurance coverage for high-risk properties when traditional carriers will not. Dwelling coverage is limited to \$3mm. CA is not the only state experiencing a pullback from insurance companies. P & C coverage in Louisiana and Florida is also in jeopardy due to the increased frequency and devastation of hurricanes. Florida created the Citizens Property Insurance Corporation to fill the Gap. The state insurer provides windstorm coverage for homeowners that cannot find private insurance. Citizens is now the state's largest insurer and includes a network of small insurance companies backed by the government. However, the state-run insurer will not cover homes with a replacement cost of more than \$700,000 in most zip codes.

Property and casualty policies in high-risk areas popular among wealthy property owners have become unusually expensive and increasingly hard to get. For high- and ultra-high-net-worth clients who live in these areas, that means insuring a home has become a lot more difficult and could consume a significant portion of their assets. There are several safeguards clients can adopt to help reduce their costs and minimize their risk. This is where wealth planners come in. Please read our article on rising premiums and the changing P&C insurance landscape [last year](#). The points in this article are more relevant now than ever.

Please reach out to your Wealth Manager to help understand your options.

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