

NWC ALLIANCE NEWSLETTER

Standing together

Fire!

How Fire is Affecting Insurance for Builders



Thank you to our reader Jeff from Utah for suggesting this topic. We are always interested in topic suggestions for our newsletter and we think many agents as well as our friends in the construction industry need to be aware of the challenges of building in wildfire zones.

In the construction industry, as in life, the only constant is change. It seems it was only about 18 months ago that we first began to notice some carriers beginning to use wildfire zones in their builder's risk underwriting. What started with one carrier has spread to others and now most carriers use some sort of wildfire evaluation in their underwriting process. As a result, some home builders and their agents have been experiencing increased premium costs, declinations, and conditions of coverage we have not seen before. The problem is getting worse and impacts more than just builder's risk.

Just this month our principal, Treacy Duerfeldt, was appointed to the National Association of Home Builders task force on climate change. At the first meeting the NAHB staff educated the task force on the trending data, including how it will get worse and what geographic areas have the most concern. Insurers already have this information.

The most immediate issue for this task force isn't builder's risk (yet), but the cost of homeowners insurance in certain parts of the country. If a builder's fire-hardened home is built in the wrong place, the homeowner's insurance premiums can sour the deal. For example, one \$800,000 "entry level" home in Orange County, California was ineligible for standard insurance and the annual surplus line premiums were \$12,000. Ouch. Clearly, agents will need to focus on developing admitted markets for harder to place homeowners risk. Builders will also need to think about where they build. Is it in a wildfire zone?



Fortunately, when it comes to builder's risk, there are still viable options to explore, even when building in a wildfire zone. Wise Insure, our wholesale broker, is appointed with many builders risk carriers, including some that don't currently evaluate risks for wildfire. There is no single builder's risk carrier that will be the best choice for every situation. We have the ability to select the best markets for each particular risk.

When traditional markets don't work, we also know how and when to pursue creative options for coverage, especially when working on large renovation projects. When we use these creative approaches, we solve problems other wholesalers can't. And we are always careful to describe any challenges a creative approach might create.

Wildfire isn't the only builder's risk challenge you can run across. In fact, flood is the evil twin of wildfire: just look at what the hurricanes did to our coastal regions this year. Both issues can create insurance challenges. When you run into challenges that can't be solved by traditional markets, either admitted or surplus, agents may be forced to rely on [FAIR \(Fair Access to Insurance Requirements\)](#) programs when addressing either fire or flood issues. These programs, available in most states, act as a sort of assigned risk pool, forcing admitted insurers to help out. Unfortunately, many of these programs offer limited causes of loss and/or lower limits. Agents need to understand these programs and consider Difference In Conditions (DIC) policies to augment coverage when the FAIR option falls far short. If you need information for your state, be sure to visit the [FAIR \(Fair Access to Insurance Requirements\)](#) website.



Wildfire and flood zones are here to stay. Builder's risk and homeowner's underwriters are seeing the trend and tightening their guidelines. At Wise Insure we are acquiring more markets and have the expertise to get creative with solutions. With our involvement on the NAHB Climate Change Task Force, we have a front row seat to understanding wildfire issues and are working on solutions.

If you are an agent who wants to become an expert at working with the construction industry, be sure to check out our [Construction Insurance Risk Education](#) program. Writing insurance for construction risks is nuanced, and often different from other commercial risks. In many cases, there are specific coverage points that are essential to effectively selling insurance to contractors. Understanding these coverage points can be the difference between closing an account and losing an account.

Wise Insure is the wholesale brokerage division of the NationWide Contractors Alliance. If you want to learn more about how Wise Insure can help you address GL, builders risk, or the other needs of your construction clients, [Contact us today](#) or call 360-464-2531.

