

FAIR Plan

Expect Surcharges on Your Policy for L.A. Fires

EVEN IF you have a business or a home that was not affected by the recent wildfires in Los Angeles, you will likely see a surcharge to help pay for them on your next property insurance policy renewal.

The state-run California FAIR Plan, which is the market of last resort when policyholders are unable to find coverage from private carriers, expects its total loss from the Palisades and Eaton fires to come in at \$4 billion.

Under its charter and state law, if it exhausts its funds, the plan can surcharge all commercial property and homeowner's insurers in the state after approval from the state insurance commissioner.

Commissioner Ricardo Lara approved the Fair Plan's request in early February to surcharge insurers a total of \$1 billion, which will be assessed depending on each insurer's market share. Under state law, those carriers are allowed to pass half of their assessment on to their policyholders in the state. It's unclear how much each policy will be surcharged, but the fee will partly be based on the size of each policyholder's annual premium.

Without the assessment, the FAIR Plan would run out of funds by the end of March and be unable to pay all of the claims from the fires, as well as claims from unrelated or future events and operating expenses, including the cost of increasing staff to respond to the disaster.

The state of play

The L.A. fires are one of the costliest natural disasters in the history of the country. Consulting firm Milliman estimates that the wildfires will cost \$23 billion to \$39 billion in insured losses.

As of Feb. 11, the Fair Plan had paid out about \$800 million in claims, leaving it with about \$1.2 billion in cash on hand.

It has also tapped reinsurance, which is basically insurance for insurance companies. It has multiple layers of reinsurance, but it cannot access all of them until it spends more of its funds on claims. It now has access to the first tranche of coverage worth \$350 million after it met its \$900 million deductible.

The FAIR Plan can access additional layers of reinsurance based on the claims incurred and outstanding reserves, up to a \$5.78 billion limit. To access all layers of available reinsurance, the plan would have to pay out about \$3.5 billion, including the \$900 million deductible, and copays. That's more than its cash on hand.

After accounting for its reinsurance package, the FAIR Plan expects to pay out \$2.3 billion of the remaining \$3.1 billion reserved for unpaid losses from the fires.

How it will affect your policy

To help the plan pay for the \$1 billion shortfall, it will surcharge each property insurer in the state based on their market share two years prior to the assessment.

The surcharge will likely be added during your next policy renewal. ❖



Property Insurance Won't Cover Landslides

BUSINESSES AND homes located in areas that have been hit by wildfires have another risk they face after the fires subside: flooding, landslides, debris and mudflows. These events are not covered by a standard business property or homeowner's insurance policy.

Areas affected by wildfires have a significantly increased risk of landslides, mudslides and mudflows due to the destruction of vegetation, which leaves the soil susceptible to erosion during times of heavy rainfall.

Even a moderate amount of rain can trigger them in recently burned areas, particularly on steep slopes.

Business owners and homeowners whose properties survived the recent L.A. fires need to reassess their insurance coverage as their property policies won't cover damage from these events. If they don't, they would have to pay for repairs or rebuilding out of pocket should a landslide or mudflow occur.

The rationale for non-coverage

A landslide covers a wide range of ground movements, such as rock falls, deep failure of slopes and shallow debris flows. Typically, these movements are triggered by factors like heavy rainfall, earthquake or changes in groundwater which destabilize the slope integrity.

A landslide is considered an "earth movement" event so, like an earthquake, coverage is excluded from standard homeowner's and business property policies.

There are also mudflows, or mudslides, which are like a river of liquid mud flowing down a hillside, usually because of a loss of brush cover (typically from a fire) and subsequent heavy rains.

These events are considered as floods, which commercial property or homeowner's policies won't cover.

Coverage options

In order for these events to be covered by insurance, a property owner would have to secure specialized coverage depending on the potential risk.

Differences in conditions coverage – To cover damage from landslides, you would need a "differences in conditions" policy. These policies cover damage that a standard property policy will not, like earthquakes and landslides. Each policy will name the perils it covers.

Please note that if you have earthquake coverage, it will not cover damage from a landslide or mudslide.

Flood insurance – If you feel your property is more prone to flooding or mudflows as a result of a degraded landscape after a wildfire, you can secure flood insurance, which is available from the National Flood Insurance Program and some private insurers.

The takeaway

If you are concerned that your property could be in danger of these events, call us to review your insurance options. Think about:

Conducting a risk assessment: Evaluate your property's vulnerability to mudslides, landslides or mudflows, particularly if it is located near slopes or areas with loose, wet soil and is prone to heavy rains.

Taking preventive measures: You can mitigate the risk of these events by implementing landscaping and architectural designs that help stabilize the ground and manage excess water.

Reviewing your coverage options: Call us to review your current homeowner's insurance or business property policy to assess your coverage. That, combined with your risk assessment, can help us determine if you may need either a differences in conditions policy or flood insurance. ❖



More Contractors Increase Their Deductibles

AS BUILDER'S risk insurance premiums rise, contractors are taking on more of the risk by increasing their deductibles, according to a new report.

Some contractors are willing to take on more of the risk if they strong internal risk management protocols. However, increasing a deductible comes with risk, particularly if you end up having multiple claims.

What's driving higher rates?

- Claims costs are skyrocketing as the cost of rebuilding and materials has continued rising.
- Increasing litigation.
- Larger and larger liability lawsuit settlements and jury awards, and an increase in "nuclear" verdicts of \$10 million or more.

Michael Cusack, executive vice president of insurance broker Alliant Specialty, told *Insurance Business* magazine that some contractors are willing to take on more of the risk if they have strong internal risk management protocols.

"Contractors are taking on more deductible risk and manage that risk effectively using in-house protocols, and the ones that can do that will be the most successful," Cusack told the trade publication.

Considerations

Builders risk insurance typically covers buildings and structures under construction along with the materials, supplies, and equipment. It will also cover "soft costs" indirectly related with a delay in building being completed, such as lost sales, additional interest on loans and other costs.

Raising your deductible amounts saves money on your premium payments. The extra money can help you grow your business, invest in new equipment, and even increase your available cash flow.

But the best use of the extra cash is to create a contingency fund that you can draw on in case you incur a claim.

If you are comfortable assuming some additional risk, and have resources you can draw on if needed, talk to us about the possibility of raising your deductible.

If the savings are enough to cover the deductibles on one or two claims, it may be worth making the change.

To make taking on more risk financially viable, prioritize risk management and safety at your worksites.

By conducting regular safety training, providing personal protective equipment and strictly enforcing safe work practices, you can reduce the risk of on-site accidents a. One other major risk to contractors is theft and vandalism.

Protecting against theft, vandals

There are cost-effective solutions to increase site security and reduce risks, such as:

- Online cameras and smart sensors on the job site can enable continuous monitoring for unauthorized access, unlawful activities, CO2 levels and real-time water leak detection systems like WINT's water intelligence platform.
- Adequate lighting is much cheaper to procure, and built-in motion sensors can help save energy (while deterring potential trespassers to the site).
- GPS tracking tags on vehicles, equipment and even valuable materials can make it easier to recover them if they are stolen.
- Mobile applications for your workforce management can be helpful in creating ongoing, interactive safety training and risk-reporting programs to reduce the risks of human error and negligence.

Talk to us first

Builder's risk premium calculations can be complex, and taking the step to increase your deductible has to be done with forethought and care.

Call us to review your policies before renewal and we can do a deep dive into your policy and risk management practices to see if increasing your deductible is a good move for you. ❖



Businesses Struggle with Risk Protection Gaps

NEARLY HALF of mid-sized businesses feel unprepared for key threats despite implementing various risk management strategies, according to Nationwide Insurance's latest "Agency Forward" survey.

The survey found that while 90% of businesses have formal risk management policies that are reviewed regularly, 21% lack a business continuity plan — leaving them exposed to potential disruptions that could severely impact their operations.

Additionally, 45% lack a disaster preparedness plan, while only half have a fleet safety program in place.

These shortfalls create vulnerabilities that could lead to financial and operational setbacks.

The survey found that companies allocate an average of 6% of their budgets to risk management and safety. Industries with higher risk exposure, such as construction and manufacturing, dedicate a larger share — 19% and 13%, respectively.

Key concerns

- Costs and finances,
- Supply chain disruptions,
- Cyber-security threats, and
- Economic and regulatory factors.

Leveraging technology to manage risk

Technology is playing a growing role in risk management, with 76% of surveyed businesses utilizing some form of digital solution.

Owners reported improved efficiency and compliance to regulations, enhanced data analysis and reporting and better real-time monitoring of risks as a result of their technology use.

While only 11% have fully integrated technology into all aspects of risk management, 65% use it selectively.

The most common digital tools include:

- Cyber-security solutions (78%),
- Compliance and reporting software (67%), and
- Supply chain management software (58%).

How companies can better manage risk

To close these protection gaps and strengthen their resilience, businesses should consider the following strategies:

Develop a comprehensive continuity plan – A plan can provide a roadmap for handling and reacting to disruptions and risks.

Review compliance with regulations and laws – It's important that your human resources team stays on top of regulations and legislation to ensure the organization doesn't run afoul of them, which can result in penalties and fines.

Enhance disaster preparedness – Proactive planning, like an emergency response plan, can prevent severe financial and operational consequences after a natural catastrophe.

Analyze workplace accident data – Managing workplace safety is key to any company's risk-management efforts. You should track incidents and thoroughly investigate each accident or near miss to find out what led to the event so you can take steps to prevent future incidents.

Invest in technology for risk mitigation – Consider expanding your use of AI, predictive analytics and cloud-based risk management platforms to identify and address vulnerabilities.

Regularly review and update risk management policies – As regulations and business risks evolve, you should regularly assess your policies to ensure they remain effective and aligned with industry best practices.

Integrate risk management with business strategy – Risk management should not be seen as a separate function but as a core component of business success. Leaders should align their risk strategies with company objectives to ensure a seamless approach to resilience. ❖

