Insurance Times: High times for high-end homes market

September 3, 2002, Vol. XXI No. 18

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Insurance Times

It used to be that anyone could tell where the high-end homes in Massachusetts were: dotted on places like the North Shore, Newton, Nantucket, Lexington or sections of Cape Cod.

But the 1990s economic boom redefined that. As wealth expanded, so did the map of Bay State and other states' high-end homes.

"Now it's expanding," said Chuck Quealy, vice president of Roblin Insurance in Needham.

Andrea MacKay of Arbella Insurance puts it this way: "High-valued homes are going up all over the state … Newer homes are big. They're not building small homes anymore."

As the market for wealthy homes continues to grow, the region's insurers and agents say the high-end housing market is stable and business with these clients continues to be fruitful.

A hardening market has forced rate hikes across the board and the high-end housing market is no exception, insurers and agents say. But rate hikes have increased moderately, around 5 to 10 percent on average.

What's more rising real estate values and the corresponding expansion of wealthy homeowners has fueled certain trends.

High-end homeowners have increasingly unique coverage needs because – quite simply – they own more higher-end stuff. They increasingly own second homes or properties, which themselves are high-end purchases, they say.

The same owners are also spending more money restoring or rebuilding their homes, decorating them with expensive furnishings and investing in paintings and fine jewelry.

"Not only have we seen people spend more and more on their homes. They spend more to furnish them, they collect more things to put in them," said Mary Ann Avnet, a Chubb vice president and manager of marketing and customer relations for the company's personal lines business.

One thing that varies is the definition of how much a "high-end" home is worth, from company to company and location to location.

Some agents and companies place that number at $500,000 and others start as high as $1 million.

That's in part because of relative property values in different regions, said Karin Branscombe, vice president of Quaker Special Risk, in Worcester, Mass., an excess and surplus lines broker who handles high-end homeowners insurance when agents can't find a standard market.

"A Connecticut coast or New York coast has different values than, say, a Maine coast, so the million-dollar home in Connecticut may be only half a million in Maine," she said.

The following is a look at the high-end insurance market, from the perspective of insurance agents and companies.

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Chubb is among the larger insurers specializing in the high-end homeowners insurance market.

“All of our products are really designed, Chubb’s Avnet said, “to play into the niche of a person with a significant amount of assets.”

That market, particularly in New England and metro-Boston, has been good for the company in recent years, she said.

“We have a wonderful contingent of appointed agents in that area.”

Chubb generally considers a high-valued home to range from $500,000 to $750,000 and up, she said, but it can vary between states. A high-valued home in Massachusetts, she said, tends range above $500,000.

According to Avnet, the definition of high-valued home has changed over the last decade as residents have spent more on their homes to renovate or build, and to furnish them.

“When the economy was strong more and more people did significant renovations,” she said, “… or :knocked down smaller structures and built bigger” homes.

Underwriting issues for high-end homes are “the ones common to all homes,” she said, ranging from ensuring proper replacement cost coverage to fire protection, access to public water, or the age of a home. Previous loss experience either from the homeowner or the home’s history is also important.

The unique factors of high-end homes matter more, she said, when homes are worth millions of dollars. Then, additional underwriting factors matter more, she said, including protection from break-ins, renovations, or whether the home is occupied or not because the owner travels so much.

Chubb’s customers increasingly are taking higher deductibles, as well, she said, avoiding $500 or $1,000 deductibles and choosing $2,500, $5,000 and even $10,000 deductibles. Chubb waives the deductible on losses over $50,000, so customers seem to be deciding to avoid smaller claims for the sake of serious ones.

Chubb also offers high-end homeowners loss prevention credits beyond the standard ones for burglar, fire or smoke alarms. Those credits cover superior protection, sprinklers, home renovations, gated communities or gated communities with patrols, masonry construction or fire resistant credits, full-time caretakers, gas leak detectors, back up generators and other items.

Chubb has also developed a roster of residential appraisers to handle homeowners’ clients who have “millions of dollars of risk in one location,” Avnet said. They help customers determine what insurance is needed for their homes and also give advice on loss control and safety.

The appraisals also allow Chubb to avoid extended replacement cost caps, Avnet said.

Instead of using the standard homeowners policy, Chubb uses its own policy named “The Masterpiece Filing,” which Avnet eliminates the need for a lot of endorsements.

Agents handling homeowners insurance typically earn a 15 percent commission from Chubb.

High-end homes covered by excess and surplus lines or a residual market tend to be in coastal areas, she said, like Nantucket, Cape Cod and nearby islands and other coastal regions.

But Chubb still tries to meet clients needs in those areas, she said.

“We recognize that some of our customers will be buying secondary residences there,” she said.

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Arbella Insurance doesn’t specialize in high-valued homes but insures a number of them.

Arbella considers a high-end home to be “anything above the $500,000 range” according to MacKay, vice president for the company’s personal lines underwriting.

One of the biggest issues involved with insuring a high-end home, MacKay said, is determining full replacement value.

“We find (when) we get into that level of home there are so many interior attributes that almost everyone has to be individually assessed,” MacKay said.

"… Higher valued homes have an awful lot of decorative moldings, granite counter tops, many built-ins (bookcases or woodwork)."

On the other hand, she said, a home can become high valued simply "because of sheer size…"

Premiums have gone up for most homeowners policies, and at Arbella, they've jumped 5 percent "pretty much across the board," she said.

That's not a big jump, MacKay said, but some smaller insurers have seen reinsurance rates hike dramatically since the Sept. 11 terrorist attacks. That matters to the homeowners market, she said, because some smaller insurers would share with reinsurers the cost of covering high-valued homes – so their costs are jumping higher -- as much as double or triple in some cases.

Arbella doesn't mandate higher deductibles for higher-valued homes, but many customers request them as high as $1,000 or more, which lowers premium, MacKay said.

Agents don't get special commissions for high-valued homes at Arbella. Rather, she said, they are paid based on the total amount of written premium they have with Arbella.

Claims experience isn't any worse with high-valued homes, MacKay said, but they have higher risks, from fire and also having jewelry, antiques or fine arts inside.

Some expensive homes end up in a residual market like the FAIR plan, she said if they're close to water or the condition of the property isn't insurable in the voluntary market.

But that's rare in higher-end homes, she said.

High-end homes get standard credits like other homes do, he said, for smoke alarms, fire protections, burglary alarms and the like.

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As vice president and a principal with Associated Insurance Industries in Hamden, Conn., Joe Bishop handles a lot of medical malpractice risks. These accounts have in turn lead to a high volume of homeowners insurance for higher-end dwellings.

Bishop says a small mutual insurer might consider homes over $350,000 to be high-valued. But other companies might consider that to be minimal replacement value and classify high-end homes as being worth $1 million or more.

As property values have gone up, minimum replacement costs have also jumped, Bishop said. Chubb, for example, upped its minimum replacement cost to $350,000 from $300,000, he said, in part, he believed, because of higher values.

Insurers writing high-valued homes stress the importance of maintenance and upkeep when underwriting a property, Bishop said.

They also focus on managing different exposures with deductibles, addressing issues such as flood prevention, storm protection like shutters, or a 2 to 5 percent wind deductible.

"They're looking for a home that's well maintained and indicative of a higher standard," he said.

Premiums, Bishop said, have jumped 5 to 10 percent, partly because of the inflation value of properties.

High-end residential clients, he said, tend to take higher deductibles, from $500 to $1,000 and even up to $2,500, depending on the size of the property.

Insureds can get credits, he said, for areas including "superior construction," the quality of alarm systems, new construction and other areas

Typical commissions from high-valued homes range between 15 and 20 percent, he said, versus 10 to 15 percent for regular market homes.

Claims experience is generally good on the high-end side, Bishop said. But losses, he said, tend to be bigger in scope when they do happen.

High-end homeowners are also unique because they tend to own second homes in coastal or other vacation areas. Both are usually insured in a package deal, said Quealy, of Roblin Insurance in Needham.

The primary home tends to require “easy underwriting guidelines,” Quealy said, but the second home can present challenges especially if it’s close to the ocean or near a coastal area.

“That’s usually a number one concern,” he said.

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OneBeacon Insurance considers a high-valued home to start at around $1 million.

But Dean Saltmarsh, the company’s vice president of personal lines, says the number is relative and OneBeacon’s appetite for coverage value “is a little lower than that.”

In general, OneBeacon considers an ideal insurance home value to be between $300,000 and $1 million, but sometimes insures properties both above and below that range, he said.

Like any home, higher-valued homes must have the right insurance-to-value, he said. Owners can take advantage of deductibles or credits for alarms and smoke detectors --- standard options available across the board.

Premiums have climbed 5 to 15 percent, Saltmarsh said.

While some companies share the risk with reinsurers or excess and surplus lines insurers, Saltmarsh said, OneBeacon takes on the entire risk.

Replacement costs had been unlimited, but following market trends, they’re not capped at 1.25 percent of coverage. Customers are also using higher deductibles.

Saltmarsh says a high-valued home can end up in the state’s FAIR plan, which has been growing lately through business in coastal areas. But homes of low and high value end up in the residual plan for a variety of reasons beyond location, Saltmarsh said.

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Quaker Special Risk launched its personal lines division a few years ago and it has seen “tremendous growth” ever since, said Branscombe, the surplus brokerage firm’s vice president.

Her company steps in when an agent can’t insure a high-end home in the standard market for whatever reason, like wind exposure, prior losses, or coastal location of a secondary home.

Standard markets have tightened their underwriting guidelines, Branscombe said, which has fueled growth in her business, which has grown primarily in coastal areas or through “out-of-state homeowners that may have a second home here.”

Rates have gone up the last few years, she said, at least 10 percent, even higher depending on location and loss experience.

Quaker’s deductibles for high-end homes or condominiums tend to be higher, averaging about $1,000 versus $250 to $500 in the standard market.

Special risk factors like wind deductibles tend to be more expensive, too, she said, ranging from $5,000 to $10,000 on average.

But Quaker isn’t competing with the standard market anyway, Branscombe said.

“We only look at accounts that come to us when they no longer fit the standard market,” she said.

“Sometimes a homeowner runs a small business out of the home, or daycare, and then the standard markets get a little nervous…It could be a high-end home with prior loss history …

“… But we’re not here to take away a mutual company’s business. If they like to write the homeowner, they should write it.”