

PRIVATE CLIENT

BEFORE GOING IT ALONE

Key issues to consider before self-insuring a high-value home



If your property and casualty insurance premiums rose significantly over the past year, you're not alone. Across the United States, coverage for homes, autos and valuable collections have increased at a double-digit pace. In states that have experienced multiple natural disasters, particularly Florida and California, affluent homeowners have seen premium increases of at least 20% and higher. Others must scramble to find any coverage at all as carriers continue to pull back – or completely tap out – from the most disaster-prone regions. Some families are considering whether or not to drop their homeowners insurance and assume the risk on their own.

If you have reached that juncture, the following are some key takeaways to consider, as well as important measures to help reduce the cost of protecting your home and possessions – before dropping coverage all together.

IS SELF-INSURANCE AN OPTION?

If your home has a balance on the mortgage or home equity line of credit, you will almost certainly be required to carry homeowners insurance. To drop coverage, you will first have to pay off the balance. While this is an option for many affluent families, it's important to have a discussion with your wealth advisor and/or CPA about the potential tax and investment considerations. Liquidating investments to retire a mortgage could create a taxable gain and may require rebalancing your portfolio to remain in line with your goals.

As an alternative to liquidating assets, you may be eligible for a securities-based loan. This may prove to be a more tax-efficient approach, but it can also limit your flexibility if you require liquidity for other purposes or if you wish to move your account to a different firm. Of course, any rate differentials of your current mortgage and the new securities-based loan should be factored into your decision.

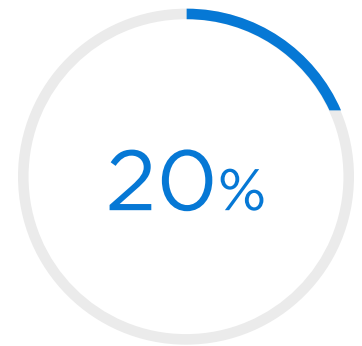
If your home is subject to the rules of a homeowners association, co-op or condo agreement, an individual homeowners insurance policy may be required in addition to any master policy held by the building.² It's important to understand any limits imposed by those agreements before making any final decisions.

WHAT ARE THE TRUE FINANCIAL RISKS YOU WILL BE ASSUMING?

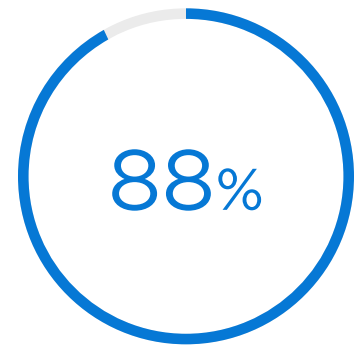
Before determining whether to drop homeowners insurance, it's important to understand exactly what your current policy covers. While the replacement value of the dwelling is a reasonable starting point, it typically only constitutes about half the expenses of a total loss.

For example, a claim for a house insured for \$1 million would likely include:

- **Primary dwelling:** \$1 million (or 50% of total cost).
- **Other structures (detached garages, pools, etc.):** \$100,000 (or 5% of total cost).
- **Contents coverage (clothes, furniture, electronics, etc.):** \$700,000 (or 35%).
- **Loss of use:** \$200,000 (or 10%).



of Florida homeowners self-insure, up from 8% in 2016.¹



of all U.S. homeowners have purchased homeowner's insurance.³

¹ WESH TV-2, "More Florida homeowners are self-insuring amid rising insurance costs, survey says," September 18, 2023.

² Insurance Information Institute, "Insuring a co-op or condo," accessed May 14, 2024.

³ Insurance Information Institute, "Homeowners Perception of Weather Risks, 2023Q2 Consumer Survey," accessed May 14, 2024

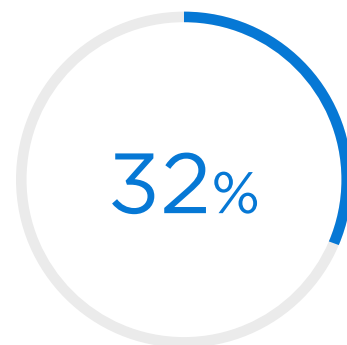
Additional costs may be incurred for debris removal and cleanup, which can be expensive – especially if there is not a total loss but significant smoke and water damage.

It's important to understand how dropping homeowners insurance may impact other policies. For example, if you have only liability coverage through your homeowners policy, that will need to be replaced. Removing homeowners coverage may also impact the rates on other policies you have bundled with it. Increases in premiums for auto, umbrella liability and other policies should be factored into the cost-benefit equation for self-insuring.

WHAT ARE YOUR ODDS OF A CATASTROPHIC LOSS?

Premiums are based on an insurance carriers' actuarial determination of risk, which incorporates the value and attributes of an individual home and the likelihood of a catastrophic event occurring at its location. For the past several years, catastrophic events have increased in frequency and severity, prompting a rise in premiums. While insurance companies must consider the likelihood of major losses in a given area for all properties they cover, you only need to worry about yours.

When self-insuring your property, you are essentially betting that the money you save in premiums will exceed the cost of any losses you may incur. The better you understand the probability of a loss, the more informed that decision will be. To help with that effort, your HUB Private Client Risk Advisor can arrange for a professional home assessment and provide an estimated probability of a major loss. While this varies by region, the primary factors typically involve your home's elevation – especially in flood-prone areas – and a four-point inspection of the roof, electrical, plumbing and HVAC systems.



of homeowners have been impacted by a weather event in the past 5 years.⁴

WHAT ARE THE NON-FINANCIAL CONSIDERATIONS?

Carriers who cover high-value homes offer a variety of services to help their policyholders improve their resiliency and recovery from a major loss. Most carriers who cater to affluent families offer free home inspections to identify ways to prevent or mitigate damage. The services carriers deliver after damage has occurred can be even more important, particularly if it happens during a widespread weather or wildfire event that creates a high demand for remediation services.

In the wake of major events, carriers can connect you to prescreened construction firms, water damage specialists, mold remediation companies, art restorers, landscapers and any other service providers needed to return your home to its original state. They can also assist in finding a place to live while the work is being done in your home. Your self-insurance strategy should include a contingency plan for how you would procure these services should they be needed.

WHAT COST-REDUCTION STRATEGIES SHOULD YOU CONSIDER BEFORE DECIDING TO SELF-INSURE?

About 30% of American homeowners report they are not sure what their insurance policies cover, and 20% say they don't know what it costs.⁵ Those numbers indicate that improvements in risk management strategy have the potential to offset a portion of premium costs.

⁴ Consumer Affairs, "[Water damage insurance claims statistics](#)," March 28, 2024.

⁵ BusinessWire, "[Study Finds Only 30% of American Homeowners Know What Their Home Insurance Policy Covers](#)," November 20, 2020.

Consider the following measures before defaulting to self-insurance:

IMPROVE THE RESILIENCY OF YOUR HOME

Making your home less vulnerable to damage caused by catastrophic events is perhaps the most important measure you can take. For example:

- **Hurricane-prone areas:** Install roof ties, storm shutters and shatterproof glass.
- **Wildfire zones:** Clear brush near your home, replace your roof with fire-resistant shingles and consider installing a fire repression system.
- **All areas:** Don't neglect routine updates, such as modernizing heating, plumbing and electrical systems to reduce the risk of fire and water damage.

If you choose to self-insure, remember the contents of your home will not be covered, so it's advisable to have a plan to protect high-value art, jewelry and collectibles. You may want to install alarm systems and a fireproof safe to store items not in use or on display. Be sure to have a removal plan in place long before a catastrophic event is imminent. Speak to your HUB Private Client Advisor for referrals to qualified art transport and storage facilities.

If you have no option but to self-insure, it may be advisable to reinvest the premiums you would have paid into resiliency measures. This may improve the insurability of your home to the point where you can regain coverage.

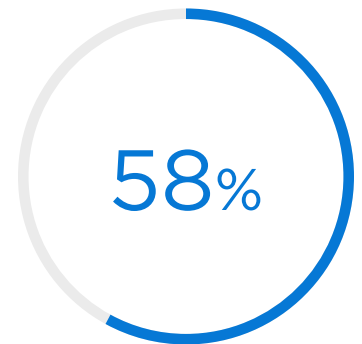
INCREASE YOUR DEDUCTIBLES AND DROP SELECTED CONTENTS COVERAGE

Self-insuring does not have to be a binary decision. Before dropping coverage all together, determine whether you can substantially reduce the cost of your policies by agreeing to a higher deductible. You may want to consider dropping coverage for certain contents, such as jewelry stored in a home safe or artwork that's more for aesthetics than investment value.

You may also want to speak to your HUB Private Client Risk Advisor about "all other perils" coverage that excludes damage caused by wildfire, or ex-wind policies that exclude damage from hurricanes. These measures allow you to decide how much risk you want to assume yourself, without forfeiting the services that insurers provide to assist in the recovery. Note that your insurance policy may have a separate deductible for major disasters, particularly if you live in a disaster-prone area. Make sure you understand the implications of losses that occur from more widespread catastrophic events.

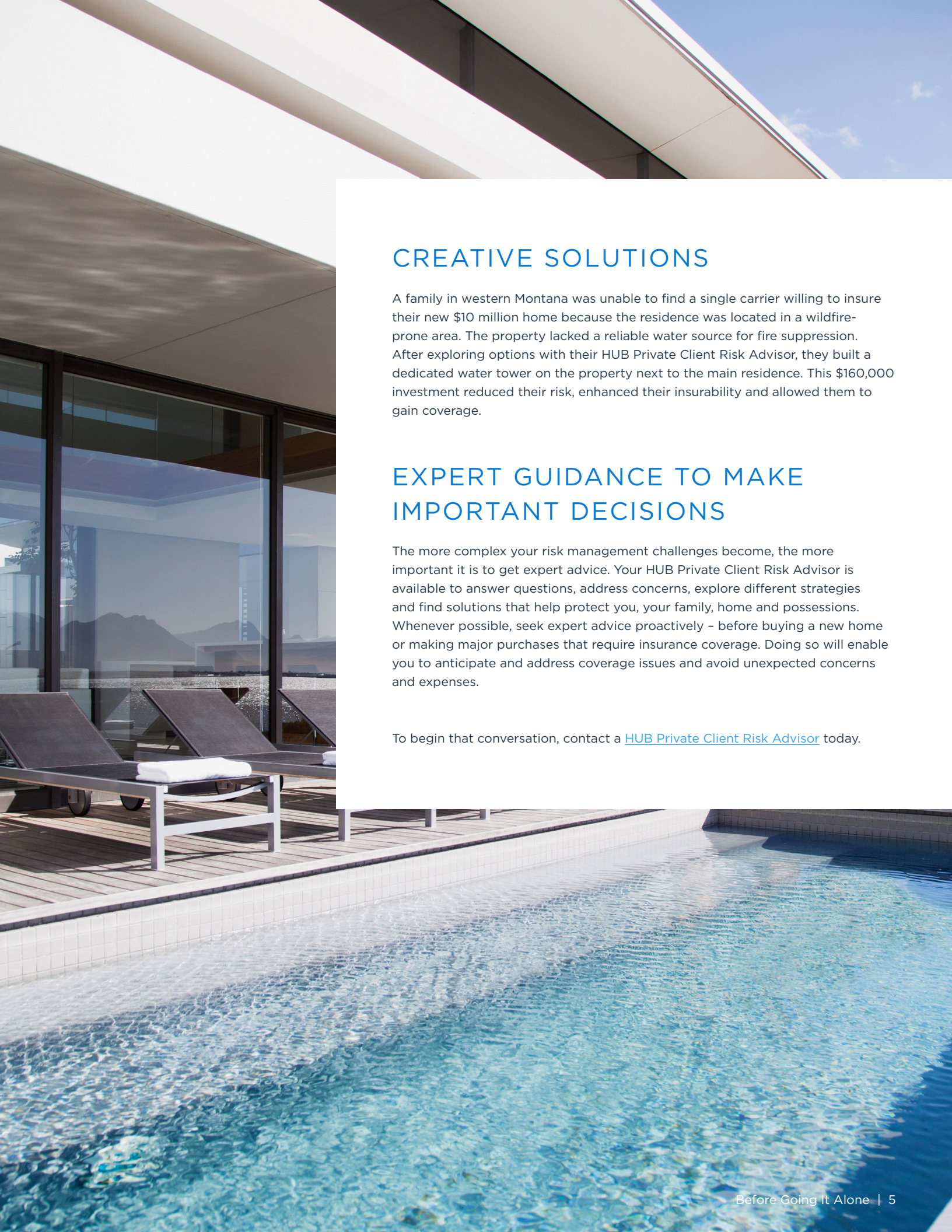
EXPLORE DISCOUNTS AND BUNDLE OPTIONS

In addition to resiliency, you may be able to reduce premiums by upgrading your home security system, improve your cybersecurity practices, among other measures. There may also be opportunities to consolidate multiple policies with a single carrier to capture bundling discounts. Your HUB Private Client Risk Advisor can help you explore these opportunities as part of an annual insurance review.



of Americans have taken steps to make their homes more resilient.⁶

⁶ Redfin, "58% of Homeowners Have Spent Money to Protect Their Homes from Climate Threats: Survey," October 25, 2022.



CREATIVE SOLUTIONS

A family in western Montana was unable to find a single carrier willing to insure their new \$10 million home because the residence was located in a wildfire-prone area. The property lacked a reliable water source for fire suppression. After exploring options with their HUB Private Client Risk Advisor, they built a dedicated water tower on the property next to the main residence. This \$160,000 investment reduced their risk, enhanced their insurability and allowed them to gain coverage.

EXPERT GUIDANCE TO MAKE IMPORTANT DECISIONS

The more complex your risk management challenges become, the more important it is to get expert advice. Your HUB Private Client Risk Advisor is available to answer questions, address concerns, explore different strategies and find solutions that help protect you, your family, home and possessions. Whenever possible, seek expert advice proactively – before buying a new home or making major purchases that require insurance coverage. Doing so will enable you to anticipate and address coverage issues and avoid unexpected concerns and expenses.

To begin that conversation, contact a [HUB Private Client Risk Advisor](#) today.

PROTECTING YOUR HOME FROM SEVERE CLIMATE-DRIVEN EVENTS

WILDFIRE

- Use fire-resistant building materials in constructing or renovating roofs and siding (e.g., tile, stone, metal, brick, etc.).
- Treat combustible materials with fire-retardant products.
- Install fire-retardant screens over chimney flues.
- Clear debris from roof and gutters to avoid flying embers that can fuel wildfires.
- Create “defensible space” by:
 - Removing trees within 30 feet of all structures and limbs that hang within 10 feet of residences.
 - Mowing grass and vegetation within 100 feet of any/all structures.
 - Moving any combustibles, such as firewood and patio furniture, away from the structure.
- Store gasoline, propane and other fuels away from occupied buildings.
- Develop an evacuation plan and conduct periodic drills to ensure your family’s safety during an emergency.

WIND

- Hire a wind mitigation firm to inspect your home and identify opportunities to improve resilience (e.g. roof straps, alternative types of roof cover, hurricane shutters, etc.).
- Hire a certified arborist to inspect vegetation on the property and remove deteriorating trees and/or limbs that hang over structures.
- Check your roof for loose, damaged or missing shingles. Call a licensed roofing contractor to inspect and repair damage before hurricane season.

PROTECTING YOUR HOME FROM THE MORE COMMON CAUSES OF SERIOUS DAMAGE

WATER

- Confirm that water shutoff devices, low-temperature sensors, water detection devices and/or sump pumps are in working order.
- Make sure that water shutoff valves are clearly marked for easy identification in the event of a pipe burst or freeze, and that all family members and domestic staff know their location.
- Have a professional winterize plumbing that may be vulnerable to freezing temperatures (e.g., outside water faucets, garden hose connections, pools, spas, hot tubs, fountains, landscape irrigation, unheated pool houses/cabanas, etc.).
- Adjust your thermostats to ensure that the home remains heated, especially in secondary or seasonal residences. It should not be lower than 60 degrees if freezing temperatures are expected for more than a few days.
- Schedule a service call for your heating system to ensure all mechanicals are in working order.
- Confirm with your heating fuel provider that deliveries will be made in accordance with the terms of your contract, and that delivery vehicles have clear access to your fuel port (e.g., snow and ice removal, gate access, etc.).
- Ensure that gutters, downspouts and drains are clear from debris, connected properly and draining water away from the home to help avoid ice dams from forming.
- Check your roof for loose, damaged or missing shingles. Call a licensed roofing contractor to inspect and repair before the first snow.
- Ensure all exterior windows and doors have weather stripping and the seals in good condition. Replace cracked or worn stripping and seals, which can cause air leaks and contribute up to 40% of a home's heating – and cooling – losses.

FIRE

- Inspect all smoke and carbon monoxide detectors to ensure that they are in good working order and contain new batteries. Double-check that the quantity and location of each type of detector is compliant with expert recommendations.
- Confirm there are an appropriate number of fire extinguishers in the home and that all family members are aware of their locations.
- Contact a certified professional to inspect and clean your fireplaces and chimneys to prevent smoke and/or fire-related damage.
- Clean the clothes dryer lint trap after every use, as well as any lint buildup in the dryer's drum, exhaust duct and surrounding area.
- Develop an evacuation plan and conduct periodic drills to ensure your family's safety in the event of a house fire.

ABOUT HUB PRIVATE CLIENT

HUB Private Client advises, advocates and protects with tailored solutions to protect your family and lifestyle today, while anticipating your needs and guiding you through tomorrow.

Speak to a HUB Private Client Advisor about designing a coverage that meets your specific financial and lifestyle needs.

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