How the Pandemic Turned Homeowners Insurance Upside Down

Excerpted from the ***Big I Independent Agent***
by Will Jones

Americans live differently now—which means their homeowners insurance coverage must change too.

In 2020, Americans have spent more time at home than ever before. From working at home to school closures, the family unit has shifted to the new normal. Consumer behavior and purchasing habits have also changed. From the droves of homeowners heading to the suburbs to a spike in purchases of home workout equipment, entertainment systems and outdoor grills, Americans live differently now—which means their homeowners insurance coverage must change too.

On one hand, certain exposures have decreased. Families spending more time at home means that there are fewer break-ins and fires, and a higher likelihood of catching leaks. But on the other hand, certain changes are leading to serious liability exposures and severe coverage gaps.

School's Out

Across the country, the vast majority of schools will be either partially or completely closed into 2021. As parents look for alternative ways to educate their children, unique exposures are created. "We're seeing kids working in pods where you have five or six families that are quarantining together. They hire a teacher and spend the whole day in a different person's house each day," says Joshua Morey, president, J. Morey Company Inc. in Anaheim, California.

"What if a kid goes to the neighbor's house who hasn't taken care of their landscaping and they trip and fall? With kids spending more time not just at their own home but also in other people's homes, there's a lot more liability now," Morey explains.

"We're having conversations with our clients about how they're handling schooling from home. If they're hosting a pod, we're encouraging them to increase their umbrella coverage by at least another million dollars," he says. "If they're hosting multiple kids, we're encouraging them to get umbrella coverage up to $5 million."

Bringing the Office Home

It's not just the kids who are creating new exposure. In 2021, employers expect that the proportion of full-time employees working from home will level off at around 19%, which is less than half of early July levels (44%) but nearly three times what it was before the pandemic (7%), according to a Willis Towers Watson survey of 283 organizations in North America employing 4.4 million employees.

Additionally, 58% of companies are making adjustments to the definition of the role of the workplace and what work should be primarily done onsite versus remotely, according to the survey. As working from home blurs into living from work, “it gets a little gray when you're talking about personal property versus business property," Morey says. “The lines are also blurred between what is personal time versus my business time."

“Those working for bigger companies are usually covered for business property, but those that are working for smaller companies are using their personal laptops, so we see a gap in coverage there," he says.

Before the pandemic, there were roughly 15 million home-based businesses in the U.S., according to Fundera, which also notes that 59% of startups are based at home. Historically, high levels of unemployment result in a surge of new small businesses. As the pandemic overhauled consumer behaviors and resulted in millions of job losses, Americans looked to new and inventive ways of doing business and securing an income from their kitchen tables and living rooms.

“Any type of work or business out of the house needs coverage, even if they're just on Etsy making handicrafts and sending them out," Morey says. “Some of the barbers that we've insured are now cutting hair out of their house, so we're trying to transition them into different coverage—we've written a ton of policies."

The level of coverage a home-run business or remote employee requires depends greatly on the type of work they're doing. “If you're consulting and interacting over the phone, there might be minimal exposure," says Allen Anderson, senior vice president of personal lines, Selective, “but if you're actually bringing a product home, shipping or receiving products or personal information, companies have endorsements you can add for increased incidental business property and business contents coverage."

“If they've got customers coming to their home, they may need a separate commercial policy," he continues. "The education that an agent can provide is now more valuable than it's ever been because there's so much different activity going on in homes, condos or apartments across this country that you would never have expected or seen before."

Housing Market

Back in May, Business Insider predicted that home prices were expected to decline for the next 12 months. However, in October, Zillow reported that home values have risen 5.1% over the past year and forecast they will rise 4.8% within the next year. Meanwhile, May saw a 13% increase in home searches in suburban zip codes, double the pace of growth for searches in cities, according to realtor.com.

“Whether searching for more space to spread out, work and learn from home; the desire to be closer to family; or just simply save money on rent, relocation has been a common endeavor in the pandemic age," says Snejina Zacharia, CEO, Insurify. “The phenomenon includes people swapping out small spaces in empty cities for spacious homes with lawns and lower monthly mortgage payments."

“This explains the sudden suburban real estate boom. It's a seller's market," she adds. “Whether it was the lowering of federal interest rates, news that homes were cheap, or an exodus from the city, home sales went up dramatically this summer."

“Home purchases are a primary driver of homeowners insurance quoting, so home sales trends are a key predictor of growth," says Dave Pratt, general manager, Progressive Home. After a slowdown in quoting volume in April and May, “our new homeowner sales volume recovered in June and has remained strong ever since."

However, after another heavy CAT [catastrophe] year, homeowners rates look set to harden further [go higher]. In an economy where consumers have been impacted by the pandemic differently, “it's important to make sure the customer is receiving all the available discounts and that the policy is rated correctly," Pratt says. “They're looking to the agent or insurance company for guidance."

Making the carrier aware of changes to the property is an opportunity to offer the insured a premium discount, such as if a homeowner has recently replaced the roof shingles or made substantial renovations to the home. “We're able to offer lower premiums to customers with new roof coverings," Pratt says, “and for customers who do not already bundle home and auto, offering to combine both policies may save them additional money."

“The uncertainty around the pandemic has made people consider the money they're spending," Morey says. “Because of that, we remarketed a lot of accounts and our sales force has used it as a great opportunity to turn those touch points into reevaluations that lead to new business."

Home Improvement

With homeowners stuck in the house during the corona virus pandemic, many built decks, painted their walls and tackled other repairs. The trend was so impactful that Home Depot's sales surged by 23% during the second quarter of 2020. As beaches and water parks closed, demand for swimming pool installation was—and still is—at its highest rate since 2003, according to Poolcorp, an international distributor of swimming pool supplies.

Also, in June, interest in kitchen and bathroom remodeling jumped 40% while home extensions and additions jumped 52%, according to Houzz, a home renovation and design resource website. Security and privacy also saw much greater demand, with interest in fence installation and repairs increasing 166%.

Agents must become aware of significant changes to their clients' homes, which could affect exposures, underwriting and price. “People are doing things to their house, and we're telling them, 'let us know when you're done, and we'll make sure the replacement cost reflects,'" Morey says. “We're also seeing some garage conversions where it's a question of whether we need a course of construction policy."

The impact of the pandemic-induced slowdown on the economy and consumer behavior has left economists scratching their heads, muttering “unprecedented" under their breath. While unemployment and GDP dipped at breakneck speed to levels unseen in over a century, consumer spending rose 5.6% in June after a record 8.5% jump in May, according to the U.S. Commerce Department.

As consumers refurnished basements, paused gym memberships and canceled vacations, they hit the online marketplace to stuff their household home workout equipment, entertainment systems and other luxury items. This may warrant a review of their contents inventory to make sure they have adequate coverage. Maintaining a contents inventory is also helpful in the event a large loss event, such as a catastrophic weather event.

“Contents is a good area for independent agents to focus," says Mike Grove, senior vice president of product at Liberty Mutual. “We primarily think about the construction of the home in Coverage A but Coverage C is a good place to look at."

Self-service tools are a great way for clients to manage their insurance policies while also receiving personalized advice. Carriers offer the tools that can help agents “attract customers to the independent agency channel, especially younger prospects who value that digital interaction," Grove explains. “I think that's a great place for agents to stand out."

Amid restaurant closures and shelter-in-place orders, consumers turned to home delivery services from grocery stores to stock their pantries in the face of potential supply shortages. With the holidays approaching, it means that homeowners are buying gifts, and homeowners must ensure the cold snap doesn't double their liability. “People are getting more deliveries to their house, and as we go into winter, things like ice on steps are potential liability exposures," Grove says.

Home Away from Home

Exacerbated by office closures, many Americans have taken up permanent residency in their vacation homes. The phrase “workcation" has been coined to describe the concept of an employee working regular hours from a location other than their primary residency.

“When a homeowner owns multiple homes and moves between them, one of those homes is typically either vacant, inhabited by someone other than the owner, or rented on either a short or long term basis," explains George Hosfield, senior director of home insurance, LexisNexis Risk Solutions. “In any case, the risk profile is generally higher than the house the homeowner is actively living in. Understanding the amount of time the homeowner is staying in each place is critical to ensuring they have the right coverage."

Prescribing the right coverage “means you have to think about the properties in reverse," Anderson says. First, clients normally have minimal contents coverage in their secondary residency compared to their primary. Second, if a secondary residency is normally rented out, it'll need new coverage if clients are living in it full time.

Also, “because homeowners probably weren't at their secondary home very much, they installed a doorbell camera and water shutoff valve," Anderson says. “Now, agents need to ask homeowners if they're protecting their primary residency in a way that they can leave it vacant for several months."

“These are the types of areas where independent agents can really stand out," Grove adds. “By talking to clients and finding out what's going on in people's homes—either on a renewal call or as a cross-sell—this is the type of value they might not always get from a direct carrier over the phone."

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