



## PROPERTY INSURANCE

## Expect Surcharges on Your Policy for L.A. Fires

**E**VEN 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 Inc. 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.

The FAIR Plan has also tapped reinsurance, which is basically insurance for insurance companies. While it has multiple layers of coverage, not all are accessible until more funds are spent on claims. Having met its \$900 million deductible, the plan can now access the first tranche of coverage worth \$350 million.

It 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. ❖



**ACRISURE**®

3155 Olsen Drive, Suite 400  
San Jose, CA 95117

Contact your broker for more information.

[www.acrisure.com](http://www.acrisure.com)

License No. 0D10241

## WILDFIRE FALLOUT

# Property Insurance Won't Cover Landslides

**B**USINESSES 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. Consider:

**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. ❖



## COMMERCIAL PROPERTY INSURANCE

# Vacant Buildings Can Cause Coverage Issues

**T**HE OFFICE vacancy rate is 20.1% in the U.S., according to Moody's. That's a 30-year high, with more than 900 million square feet of office space empty — enough to fill New York City's One World Trade Center 300 times.

When buildings lack occupants, they become susceptible to a variety of problems. And if your building is vacant, you may have trouble getting your claim paid in case of damage.

Buildings that are more than 69% vacant for more than 60 days lose some important insurance coverage. The standard commercial property insurance policy reduces loss payments by 15% for most causes of loss and does not cover others at all, including vandalism, water damage, glass breakage and theft.

In some cases, the insurer will void coverage for the property after the 60th day if you do not notify them. And even if you do notify them, they may still reserve the right to cancel that building from the policy and provide a return premium.

## Vacant building risks

- The building becomes a target for vandals.
- Fixtures and materials inside the building, such as copper piping, may attract thieves.
- Vacant buildings can become hangouts for young people or attract homeless people, drug dealing and use.
- Trespassers smoking on the premises, decayed wiring, arson and production of illegal drugs may cause fires in vacant buildings.

## What property owners can do

- Visit the property at least weekly.
- Maintain sidewalks and parking areas in good condition.
- Erect obstacles or fencing to keep vehicles and pedestrians out of the parking areas.
- Hire security guards to watch the building at night and have exterior lighting turned on.
- Maintain at least a minimum temperature in areas protected by automatic sprinkler systems.
- Maintain electricity to emergency lighting and exit signs.
- Shut off utilities, except where necessary to power desired lighting and alarm systems.
- Ensure fire detection systems are linked to a monitoring service.

## Your insurance

If you have a building that is 70% or more vacant, there is an endorsement available that waives the vacancy clause. If this is the case, you will need to specifically request it from the insurance carrier.

The insurer will place conditions on what must be maintained to continue adequate insurance, such as heat, lighting, electricity, alarms, sprinkler systems and security systems. Some carriers may also require frequent visits by a contracted guard service.

You may be able to purchase vacancy permit coverage, which reinstates some or all of this coverage for a specific period of time.

With the proper precautions, you can maintain a vacant property's value and keep it secure until new tenants move in. ❖



Produced by Risk Media Solutions on behalf of Acrisure. This newsletter is not intended to provide legal advice, but rather perspective on recent regulatory issues, trends and standards affecting insurance, workplace safety, risk management and employee benefits. Please consult your broker or legal counsel for further information on the topics covered herein. Copyright 2025 all rights reserved.

## CONSTRUCTION RISK

# Avoiding Builder's Risk Coinsurance Mistakes

**C**OINSURANCE CLAUSES are commonly found in a builder's risk completed value policy.

A coinsurance clause involves the policyholder becoming a coinsurer of the risk of loss with the insurer. In other words, certain conditions would result in the insurance company not paying the total amount of loss, thereby leaving the policyholder to bear the remainder. The insured and the insurer jointly assume the risk.

The benefit of buying an insurance policy with such a clause is that the policyholder will usually have relatively low premiums compared to other similar policies that don't contain a coinsurance clause.

That said, anyone considering a coinsurance clause should understand what it entails and requires, so that they aren't taken by surprise with penalties if a loss should occur.

A typical coinsurance clause found in a builder's risk completed value policy will say that the insurer will not pay more for any loss than the proportion that the limit of insurance bears to the value of the structure described in the declarations as of the structure's date of completion.

## How it works

The way a coinsurance clause works with the policy limit is often a source of confusion for policyholders.

Take a loss of \$20,000 with a policy limit of \$100,000, for instance. It would superficially appear as though the insurer would be responsible for the total loss.

But, once the coinsurance clause is figured into the equation, the carrier might not be responsible for paying the total loss amount. This will depend on the policyholder maintaining enough insurance to avoid the coinsurance penalty.

If the coinsurance is applied, it might look something like this:

Still using the \$100,000 policy and \$20,000 worth of damage from above, the completed value of the project will be determined as \$120,000 at the time of loss.

The value of the \$100,000 policy is only 80% of the \$120,000 actual value of the project. So, the insurer is only responsible for

paying \$16,000, which is 80% of the \$20,000 worth of damage.

Anytime the policyholder receives a lesser sum than what the full value of the claim is because of a shortfall between the completed value of the project and the policy limit, it's termed a coinsurance penalty. The discrepancy between the two numbers can be the result of a number of mistakes made by the policyholder. ❖

## Common errors

**Failing to report extra costs** – Policyholders often make the mistake of failing to report when expected costs are surpassed. Any increased completed value must be shown in the policy limit when costs overrun original figures. The best way to make sure the policy limit is updated is by keeping us apprised of the overruns so that the appropriate changes can be made.

**Setting limit based on the loan** – All too often, a policyholder makes the mistake of setting their limit of insurance based on the amount of the construction loan for the structure.

Most of the time, the completed value of the project is greater than the amount of the construction loan. An example would be a significant portion of a building project being funded by cash, but not computing the cash amount when totaling the completed value.

If the insurance is only for the financed amount, then the policyholder will suffer a coinsurance penalty for any losses.

**Failing to include profit** – Another common mistake occurs when the policyholder doesn't include profit and overhead in the completed value. These are generally figured at 10% for each. If not accounted for, this can cause a substantial coinsurance penalty.

**Including too much** – Sometimes, it's what shouldn't be included that leads to problems. Land value, excavations and underground work, for example, shouldn't be included in the completed value.

These aren't covered losses on typical policy forms. So, the policyholder would just be paying additional costs for items that wouldn't be covered during loss.

