



**B.F. Saul Insurance**

PROTECTING PROSPERITY SINCE 1892

RISK INSIGHTS - MARCH 2020

## Water Damage

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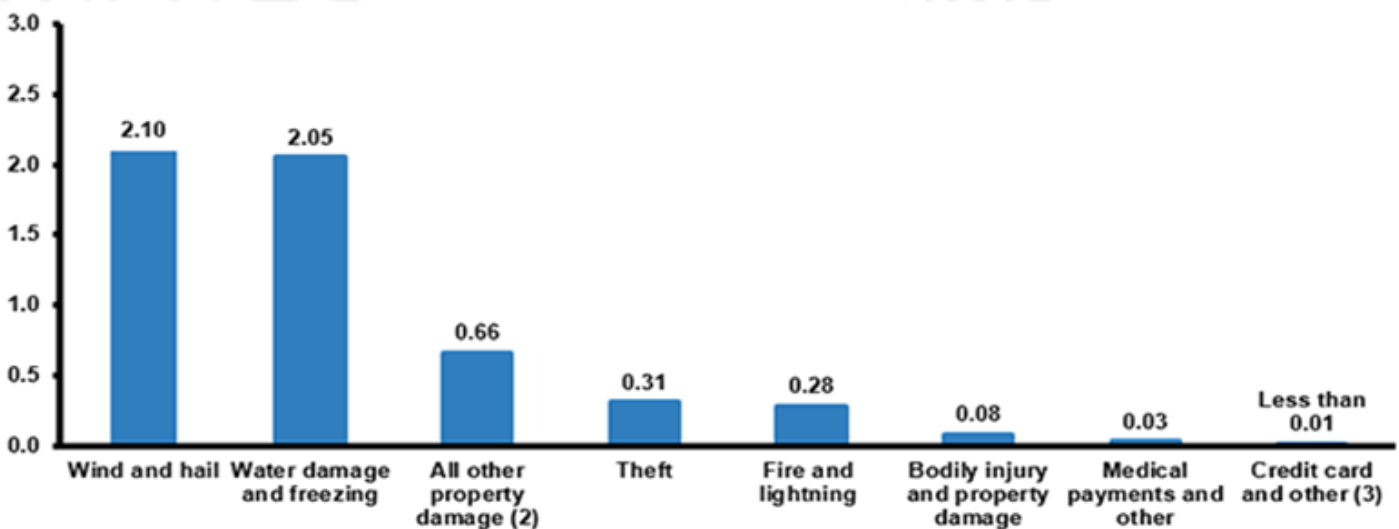
If you're like most homeowners, when you think about your home and cherished possessions being subjected to significant physical damage the first threat that comes to mind is likely a large-scale natural disaster, and it's not hard to understand why. These types of events are often covered extensively by mainstream media and lead most people to think that if they're not physically located in an area subject to events like wildfire, hurricane or tornado then they should feel at-ease.

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Unfortunately, insurance industry data suggests that year-in and year-out there is one major threat to every home, regardless of its location or its type, that gets very little press and yet generates an endless torrent of property loss activity. One naturally occurring threat that everyone “invites” into their home each day and yet few take proactive steps to mitigate. The fact is that for a typical homeowner the most serious threat to their home and personal property is actually water, or more precisely the domestic water that runs through its pipes to all the plumbing fixtures and appliances in your home.

Water is so insidious, in fact, that many homeowner insurance carriers have formally declared an open-ended campaign against it and have marshalled internal resources to help contend with the claim activity it produces. They’ve culled through their own claims data and concluded that the natural element that has the most negative impact on their property insurance results is the constant drip of water happening in homes and condos around the country. And it’s not just individual carrier data, analysis from the Insurance Services Office (ISO) has reached the same conclusion. Their statistical summary which reflects the entire insurance industry (see table below), indicates that homeowners are almost eight times more likely to have damage to their home due to water damage and freezing than fire and lightning.



Not only are more homeowners experiencing first-hand the disruptive and damaging impact of water in their homes, but the severity or size of claims is also on the rise. Underscoring this trend, Chubb Insurance, the largest insurer of luxury homes in the United States, recently released data from an internal analysis they recently completed. Their assessment indicated that the number of annual water claims creating more than \$500,000 in damage had doubled since 2015, while those that generated more than \$1M in damage had tripled over the same period! Similar trends were identified at PURE, another carrier specializing in coverage for affluent homeowners. Their 2018 data indicated that the average cost of a residential water damage claim among its policyholders was \$55,000. However, when the origin of the water loss was a burst pipe the average cost nearly doubled, averaging \$92,000.



Insurance executives attribute these rapidly escalating costs to a number of important factors, many reflecting the changing tastes of homeowners and the ever-increasing demand for convenience. Examples include the presence of more water bearing appliances in the home (think ice makers and dishwashers), the preference for clothes washing

equipment closer to bedrooms often on a home's upper floors, the increasing number of bathrooms in a typical home commensurate with the increasing size of the average house, expensive personal property that's uniquely vulnerable to water damage, and older homes with aging pipes and fixtures. (Insurance Business Magazine.com 3/11/19)

**So, as a homeowner, what steps can you take to minimize the likelihood that you'll be victimized? Should you simply accept that one day you'll come home to water dripping down walls and months of hotel food?**

Fortunately, the technology that has already complimented and simplified many aspects of our daily lives has also found its way into the water detection and leak prevention space. There are now devices available that perform two essential functions: they proactively monitor and measure the water flow in your home AND can shut off the water if that flow drastically changes due to the development

of a leak. Shutting off the main water supply to your home as quickly as possible is critical to minimizing damage, especially in instances when no one is home to initiate that type of response. Ideally you would also want to be alerted as soon as a problem is detected. These devices can be connected to an alarm system and be continuously monitored in the same manner as your burglar and smoke detectors. In addition, most of the water shut off systems allow you to monitor the system with an app on your smart phone.

While larger homes with unique needs may require a customized leak detection solution, the typical cost to install a device of this type is approximately \$3,000-\$4,000. Fortunately, a growing number of insurance carriers believe so strongly in the efficacy of these devices that they offer premium discounts to have them installed. The list of these carriers includes AIG Private Client Group, Chubb, Nationwide Private Client Group, and PURE. These carriers have also arranged for discounts on the purchase of the device through particular vendors.

## Why go to the hassle and expense of installation of a water leak detection system?

3 reasons for consideration:

1. **Peace of mind.** When you're away from your home you want to know it's protected. While burglaries and fires happen, the odds suggest that it's more likely you'll be subjected to a toilet leak than an attempted break-in.

2. **Reduce or eliminate disruption in your life.** Extensive water

losses frequently require homeowners to move out of their home until necessary repairs can be made. This disruption can last for weeks and even months, in fact according to Chubb's analysis the average displacement for a water damage claim is three months.



3. **A challenging landscape for homeowner's insurance.** Due to the accelerating volume of water damage claims paid by insurance carriers, many are less willing to continue coverage for any home with two or more water losses in a five-year period. If you are looking to change your insurance and have two or more water losses, it may be challenging to even get policy quotes much less find options at a reasonable premium. With two water losses on the same home, you could be forced to consider the non-admitted market, which typically means restricted coverage and higher premiums.

Think of it this way, two water losses on your homeowner policy has become the insurance pricing equivalent of a DUI on your auto policy. Yes, this issue is that serious.

# About B.F. Saul Insurance

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B.F. Saul Insurance (BFSI) is a regional diversified insurance brokerage and advisory firm. Our core insurance business is Commercial Lines (i.e., property and casualty), Financial Lines (i.e., D&O/E&O Cyber) and Personal Lines (i.e., homeowners and auto) for successful families. Key industry segments include Real Estate, Associations, Not For Profit organizations, and Professional Services firms.

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