

Logic & Language and Forms & Facts

A Flood of Uncovered Claims

On a recent insurance social media page, an agent was looking for a market for a \$2 million home that had experienced a \$540,000 plumbing leak claim and the carrier had nonrenewed. A few weeks earlier, another agent had been looking for a market for a home that had plumbing water damage claims in two successive policy periods, one of them being over \$200,000.

If we go back in time to one of the first standardized property policies, the 1943 New York Standard Fire Policy (SFP), it covered two primary perils: fire and lightning. If you were insuring a home, you usually attached a Dwelling Building(s) and Contents Form which, among other things, added seven perils to the policy that insurance students knew by the acronym “WHARVES” – windstorm, hail, aircraft, riot and civil commotion, vehicles, explosion and smoke. Commercial buildings were insured similarly by an SFP with an Extended Coverage endorsement.

Note that none of these extended perils included the “Accidental Discharge or Overflow of Water or Steam” peril that is common in property policies today. This peril, which was popularized in the 1960s, is typically defined today to mean “accidental discharge or overflow of water or steam from within a plumbing, heating, air conditioning or automatic fire protective sprinkler system, or from within a household appliance.”

According to the Insurance Information Institute, water damage claims (including water damage arising from frozen water lines) account for almost one-fourth of ALL homeowners property insurance claims.



By Bill Wilson

In both frequency and severity, this is the third leading cause of homeowners property damage claims, right behind wind/hail and fire/lightning claims, each comprising about one-third of all property claims. The average wind/hail claim is just over \$11,000 and the average water damage claim is just under that amount. Fire/lightning claims average almost \$80,000.

If you examine recent trends, however, water damage claims are catching up. For example, in 2015, water damage claims accounted for almost 46% of all homeowners property damage claims. According to a 2019 report from Insurance Services Office, during the period 2013-2017, there was a 42% increase in water damage claims compared to the period 2005-2009.

According to USAA, while wildfires, hurricanes and tornadoes are front-page news, a homeowner is more likely to experience a water damage claim.

Additionally, the number of annual water damage claims costing more than \$500,000 has doubled since 2015, while those costing over \$1 million have tripled, according to Chubb.

Factors cited as contributing to this problem are aging homes with plumbing systems below current standards, more valuable homes and contents vulnerable to water damage, increased placement of laundry facilities and water heaters upstairs, and questionable construction standards.

A 2021 media kit from Florida insurer, Citizens, notes that “54.2 cents of every premium dollar collected in 2019 noncoastal homeowners policies were used to pay claims for nonweather water losses.” Citizens also says that nonweather water losses are the claims most likely to be litigated, citing a 21.4% litigation rate for such claims, down from 50% following

a change in the company’s homeowners form wording.


The good news is that most homeowners policies cover water damage caused by plumbing and appliance leaks. The bad news is that most homeowners policies exclude water damage that is due to “repeated seepage or leakage over weeks, months or years” or “continuous or repeated seepage or leakage of water, or the presence or condensation of humidity, moisture or vapor, that occurs over a period of 14 days or more” or similar language.

Some courts have interpreted the “14 days or more” language to mean that the first 13 days of damage may be covered. One such case was *Hicks v. American Integrity Ins. Co.*, No. 5D17-1282 (Fla. 5th DCA Feb. 23, 2018) which cited several other similar decisions.

The even “badder” news is that some homeowners policies don’t cover ANY kind of water damage, even that which results from a sudden and accidental event. One such policy says: “We do not cover loss resulting directly or indirectly from ... water from any and all causes.”

In contrast to that onerous absolute water damage exclusion, some policies cover both sudden and accidental plumbing leaks, as well as those that occur over a long period of time. What homeowners policies are those? Plain old ISO policies. More than 30 years ago, ISO decided to condition coverage for water damage from plumbing leaks on the Neglect exclusion so that, if the damage is hidden from view, it’s covered if reported promptly when discovered. However, many carriers who use ISO homeowners form language modify it or add a proprietary endorsement to a pure ISO form that adds the “continuous or repeated” type of exclusionary language.

So, what advice can be given to



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policyholders? Needless to say, the broader coverage provided by pure ISO homeowners forms, all other coverage considerations being equal, is preferred over policies that specifically exclude damage that occurs over a period of weeks or longer. This is particularly true for older homes with plumbing systems more susceptible to leaks.

Of course, having coverage for one claim might not matter if the carrier chooses to

nonrenew. While a market might exist for sudden water leaks, perhaps with a water damage sublimit, a better solution probably lies outside the insurance mechanism.

Insurance is only one of several possible risk management techniques. The types of claims we are talking about here obviously have the attention of insurers, so the best means of treating this risk may be loss control, not insurance. Loss control includes regular maintenance and inspections of

pipework and fixtures, for example, in crawl spaces and the use of detection and shut-off devices.

Relatively inexpensive leak detectors are readily available. You can even buy whole house valves that detect unusual water flow and allow you to shut off water to the entire home from your phone. In the claim examples at the beginning of this article, the size of the claims was directly attributable to the families being away from the premises for an extended period. With a remote shut-off capability, these losses could have been dramatically reduced, possibly without the need to file an insurance claim. Again, remember that insurance is not the only – or necessarily the best – solution to all risks. ■

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