

Stability in Uncertainty:

Helping Builders Close On Time With Embedded Home Insurance Solutions

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Abstract

In the face of escalating climate threats, economic volatility, and an insurance market under strain, U.S. new-homebuyers encounter unparalleled challenges. Recent findings by Freddie Mac spotlight a significant rise in homeownership costs, driven not only by high mortgage rates but also by climbing home insurance premiums. Despite home insurance representing a smaller portion of housing expenses, its escalating costs contribute to the financial burden on households, particularly in a high borrowing cost environment. Moreover, nearly 45% of homes, valued at about \$22 trillion, are at severe climate risk.

The insurance industry's struggle with surging losses and homeowners' growing anxieties about loan approvals exacerbate the crisis. This white paper underscores the strategic importance of embedded home insurance, highlighted by Westwood Insurance Agency's innovative, nationwide coverage, as a comprehensive response to these multifaceted challenges.

Introduction

An unprecedented confluence of challenges is testing the American dream of homeownership. Climate-related risks and economic uncertainties loom, while recent data from Freddie Mac highlights another pressing issue: the significant rise in the cost of homeownership. Elevated mortgage rates and surging home insurance premiums are pivotal factors exacerbating the affordability crisis. Amidst these conditions, the demand for innovative, stable, and accessible insurance solutions, such as embedded home insurance, has become more critical than ever, offering hope and viable pathways for prospective homeowners navigating this complex landscape.

Section 1

The Evolving Home Insurance Landscape

The landscape of home insurance is in a state of flux, challenged by the dual pressures of climate change impacts and economic shifts. Freddie Mac's March 2024 "Spotlight" underscores a critical aspect of this transformation: the significant increase in home insurance costs. Between 2018 and 2023, the average annual home insurance premium among Freddie Mac borrowers for a single-family owner-occupied home saw a remarkable 40.8% hike, reflecting not just the elevated risk but also the heightened value of insured properties. Despite the stability in effective HO insurance rates, the disparity in costs across the U.S. is stark. This variability points to the influence of natural hazard exposure and

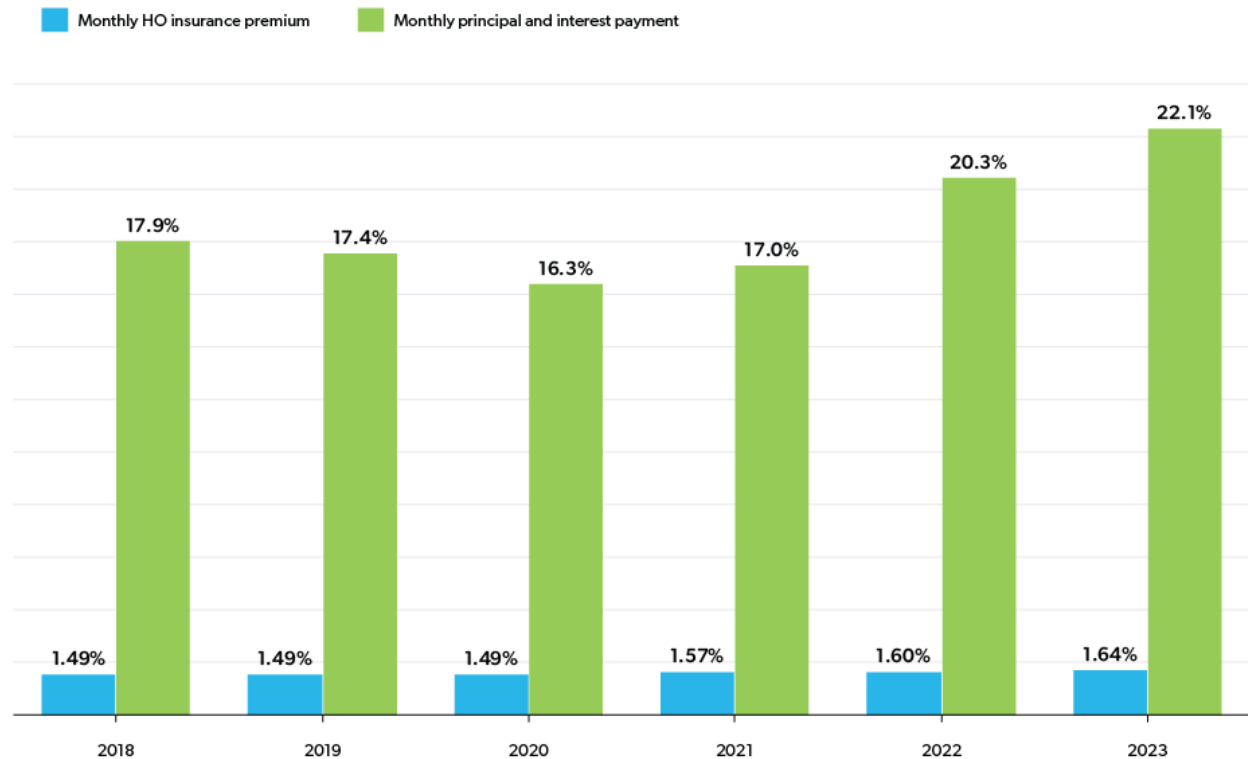
regulatory environments on insurance rates. Moreover, the incremental increase in insurance costs, though smaller relative to mortgage payments, places a disproportionate burden on lower-income homeowners, underscoring a growing financial pressure in the homeownership journey.

Implications for Homebuyers

Meanwhile, major insurers face billions in losses, leading to drastic measures such as halting policy renewals to force rate increases, as seen with Allstate's dramatic stance in several states. This period has been marked by the costliest global natural catastrophes ever recorded, exacerbated by climate change and inflation, leading to a critical ordeal for many Americans seeking to insure their homes and autos. The landscape is further complicated by record losses from insurers like State Farm and Allstate, prompting rate hikes or market exits, signaling a sector in turmoil with significant implications for consumers' ability to secure affordable insurance.

EXHIBIT 4

Average housing cost (% of monthly income), 2018-2023



Note: Single-family owner-occupied property with a fully amortizing 30-year fixed-rate purchase mortgage.

Source: Closing costs data where the mortgages were funded by Freddie Mac

According to a recent article in [Wired Magazine](#):

“Across the country, homeowners are grappling with skyrocketing insurance rates and dropped policies, with those in states such as California, Florida, and Louisiana hit hardest. Growing evidence suggests the soaring costs only hint at the widespread unpriced risk facing homeowners as the warming climate leads to rising seas and more damaging hurricanes and wildfires.

“As many as 6.8 million properties nationwide have been affected by insurance problems, but that number represents a fraction of the 39 million homes and businesses vulnerable to flooding, hurricanes, and wildfires whose risk has not been priced into their policies, according to a [study by the First Street Foundation](#), a nonprofit researching climate risk. Together these 39 million properties constitute what the study characterizes as an “insurance bubble,” defined by properties likely overvalued because of underpriced or subsidized insurance.”

Section 2

Embedded Home Insurance – Concept and Practice

In a landscape where financial pressures loom large over the homebuying process, embedded home insurance stands out as a beacon of stability and assurance. Alan Umaly, President of Westwood Insurance Agency, brings vital context to this solution amidst a period he describes as “a hard insurance climate.” He reflects on the current state by saying, “It was inevitable. It’s been a long time coming,” pointing to the necessity of rate increases to ensure insurance companies can continue to operate amidst the unpredictability of natural disasters.

This climate of heightened risk and volatility renders embedded insurance’s transparency and certainty more valuable than ever. Umaly notes, “In certain locations, insurance premiums are probably close to or higher than mortgage payments, even with their high-interest rates.” This reality accentuates embedded insurance’s role as a financial safety net and a critical element in maintaining momentum by ensuring homebuyers can close on their new homes.

Simplifying the Homebuying Journey

According to Umaly, the strategy behind embedded insurance is about fostering a partnership where trust is paramount: “Westwood specializes in new construction homes, and this expertise cultivates a high level of trust and confidence with our insurance company partners.” This trust is the cornerstone of Westwood’s ability to navigate a market fraught with complexity, ensuring that insurance does not become a stumbling block in the homebuying journey.

In discussing the inevitable rate increases within the insurance industry, Umaly sheds light on the complex pressures that have led to the current hard insurance climate. He notes, “This has been delayed for so long,” attributing the delay to various factors, primarily bureaucratic hurdles that have impeded timely adjustments within the insurance market. These delays have accumulated risk and exposure for insurance companies, leading to a critical juncture where increased premiums have become essential for the insurers’ ability to sustain operations amidst catastrophic events and changing weather patterns.

“In certain locations, insurance premiums are probably close to or higher than mortgage payments.”

Alan Umaly
President, Westwood Insurance Agency

Solving Complexity

Umaly also points to the symbiotic relationship between home builders and insurance companies, each addressing the critical issue of affordability from their respective vantage points. “Both the insurance company and the home builder actually address the same problem,” he elucidates. Rising construction and material costs are a concern for insurance companies, as these directly influence premiums. Meanwhile, home builders are conscious of their pricing strategies to keep homes within buyers’ reach.

Westwood’s role as an intermediary is crucial, advocating for the value of new construction homes to insurance partners while also conveying the evolving landscape of insurance risk to home builders. This delicate balance is what allows Westwood to offer a streamlined process where, as Umaly describes, “Insurance is the last step and the last item to be checked off.” He highlights the significance of this final step: “Since insurance is required with a mortgage, the policy we provide helps ensure a smooth closing.”

Embedded home insurance, thus, is not a mere operational procedure but a strategic advantage for both the builder and the homebuyer, offering assurance and simplicity not as a convenience but as a non-negotiable.

Section 3

Market Dynamics and Consumer Anxiety

Homebuying is currently a tapestry of complexities, where consumer anxieties are heightened by affordability and climate-related concerns. It’s a scenario where embedded insurance emerges not just as a product but as an indispensable part of the homebuying journey. As Tom Kriby, Vice President of Client Development and Partnerships at Westwood Insurance Agency points out,

“When consumers are thinking about spending what’s likely to be the most money they’ll ever spend in their lifetime, we are able to help them protect their long-term asset.”

Removing Friction, Relieving Stress

The value of embedded insurance during the transaction process lies in its ability to create a sense of trust and ease for the homebuyer. Kriby elaborates, “Embedding takes the guesswork out of it. Consumers know exactly how much they will be paying for home insurance early in the process. It is black and white.” This clarity is essential in a process often fraught with unpredictability, giving buyers a semblance of control and foresight in a significant life decision.

This strategic embedding of services streamlines the transaction for all parties involved. Kriby explains how it benefits the buyer and the entire sales process: “It filters down to the mortgage team and the loan officers because they don’t have to follow up with homebuyers to ask about their evidence of insurance.” Such efficiency promotes a seamless closing process, ensuring no last-minute hurdles may derail a home sale’s culmination.

A Lasting Relationship

Kriby also discusses the long-term relationship between the insurance provider and the homeowner: “Generally, people buy their homes once, which means they are interacting with the builder once, but they are likely to engage with their insurance agency throughout their homeownership journey if they need to make a claim or adjust their home policy.” This perspective illuminates the ongoing value of builders partnering with a reputable and trusted insurance agency to take care of their homebuyers beyond the closing table—it’s a continuous point of contact and reassurance for the homeowner and a positive reflection on builders who provide home insurance as part of the closing process.

In an era where market dynamics are inextricably linked to the consumer’s financial and emotional state, the embedded insurance model responds to the need for a holistic and simplified approach to homebuying. It’s a model that, as Kriby notes, creates “happy parties all around – the builder, the consumer, and even the loan processor.”



Source: CoreLogic Loan Application data and Freddie Mac

Section 4

Demographic Focus - Millennials and Generation Z

The landscape of homeownership is undergoing a profound transformation, significantly influenced by the largest segment of the market: first-time homebuyers, predominantly from the Millennial and Generation Z cohorts. These groups are not only navigating the financial and emotional complexities of purchasing their first home but are also doing so within a unique socio-economic context that deeply influences their expectations and behaviors.

Navigating First-Time Homebuying

For many in these generations, buying a home represents the most significant financial decision of their lives, laden with emotional weight and complexity. This process, characterized by its novelty and significance, demands resources and services that offer clarity, simplicity, and support to demystify the homebuying journey.

Transitioning from Renting to Owning

Millennials and Generation Z are at a critical life stage, striving to transition from rental housing to homeownership. This move, emblematic of achieving financial independence and stability, requires careful budgetary planning. Every monthly expense, including home insurance, is scrutinized for its impact on their budgets, making payment predictability paramount. These first-time buyers, often earlier in their earnings trajectories, prioritize financial predictability to navigate their path to homeownership securely.

Expectations of Technology, Automation, and Transparency

Growing up as digital natives, these consumers bring a set of expectations shaped by technology. They demand speed, transparency, and simplicity in all transactions, from buying a cup of coffee to purchasing a home. This inclination towards digital solutions underscores the need for homebuying and insurance processes that are seamless, efficient, and transparent. The integration of technology in these processes is not a luxury but a necessity for engaging these discerning consumers effectively.

This demographic’s unique position — as the most significant segment of first-time homebuyers and as individuals at a pivotal life stage seeking stability and simplicity — underscores the critical importance of aligning homebuying support services, including insurance, with their expectations. The adoption of embedded home insurance models, which prioritize efficiency, transparency, and user-friendliness, is not just beneficial but necessary to meet the evolving demands of the housing market, driven by these digitally savvy, financially conscientious consumers.

“According to CoreLogic data [1], the share of U.S. first-time homebuyer (FTHB) applications surged to 39% in 2020, up from about 29% in 2015 (Figure 1). Since then, FTHBs have been a growing share of the homebuying population who purchase with a mortgage, a trend that accelerated in 2020. The average age of FTHBs is 34, and most are Millennials and Generation Z.”

— Core Logic

Section 5

Regional Analysis

Regional disparities in the United States significantly affect the insurance landscape, influencing not just premiums but also the availability and scope of coverage. These variations can dramatically impact both the affordability of homes and the viability of home building operations. As Kriby notes, “Affordability is a significant obstacle and builders have been keenly aware of the affordability challenges.” This awareness extends beyond just the cost of homes to include the associated costs of insurance, which can vary wildly from one region to another.

Highlighting the localized nature of these challenges, Kriby points out, “Whether you’re moving to the Northeast, the Midwest or Northern California, you’re not going to be aware of all the ins and outs of that new climate and geographic location.” The implication is clear: regional factors, from climate to regulatory environments, must be considered by those entering new markets, whether they are builders or homebuyers.

A New Geography of Challenge

For home builders, the regional analysis is critical in determining not just where to build, but how to build.

Umaly alluded to this when discussing the need for insurance companies to remain profitable, stating that “capacity and access to coverage” are crucial for their business model. Builders must adapt to these insurance realities, shaping their development strategies to align with the risk profiles and insurance climates of their chosen regions.

These insights into the customer journey underscores the role of regional differences in shaping consumer experiences. Insurance, often seen as a secondary consideration to location and mortgage rates, gains prominence in areas where natural disasters or insurance market pullbacks occur. Kriby also reflects on this, saying, “Builders are already thinking of how resales 5, 6, 7 years down the road will be. They want that home to maintain resiliency.”

The Future of Marketability

The regional analysis is not merely a snapshot of current conditions but a forward-looking approach to understanding how present choices will affect future marketability and homeowner satisfaction. As Kriby succinctly puts it, “Insurance does not need to be difficult.” This mantra holds particular weight in regions where insurance complexities can deter potential buyers.

Section 6

The Benefits of Embedded Home Insurance

The benefits of embedded home insurance come into sharp relief when viewed through the lens of today’s homebuying process. This journey is often the largest and most emotionally charged financial transaction of a person’s life. Amanda Taylor, Vice President of Communications and Marketing at Westwood Insurance Agency, brings to the forefront the importance of ease and transparency in this journey, especially for a new generation of homeowners.

According to Taylor, embedded insurance is fundamentally about simplifying what is inherently a complex and stress-inducing process. “Think of all that goes into buying and moving into a new home. Even beyond the financial commitment, there’s hiring movers, setting up utilities, enrolling in schools and more. For homebuyers, particularly those purchasing a home for the first time, this process can create a logistical and emotional upheaval. The anxiety associated with these concurrent pressures can be alleviated if certain aspects of the transaction, such as insurance, are made more seamless.” Embedded insurance does just that—it is an anticipatory solution to potential pain points, ensuring that insurance coverage is a guaranteed, straightforward part of the closing process.

Transparent Decision-Support

In today's economic climate, where interest rates and monthly payments are under intense scrutiny, the value of transparency cannot be overstated. Taylor emphasizes that in the era of 2% interest rates, price transparency may not have been at the forefront of homebuyers' concerns. However, the landscape has shifted dramatically. "Now, with affordability concerns heightened, having an accurate insurance quote at the beginning of the homebuying process is not just about cost savings—it's about ensuring the viability of the entire transaction."

Embedded insurance brings clarity to what can often be a murky financial picture. With it, Westwood promises not just competitive insurance rates but the assurance of coverage continuity, which can be particularly valuable in a market where insurance availability is volatile due to factors like climate change. This assurance can remove a layer of anxiety for homebuyers who are facing a prolonged period—often six to twelve months—between signing a contract on new construction and closing.

A Resilient Path Forward

The operational efficiency and customer-centric approach championed by Westwood have predated and now dovetail with the changes wrought by the pandemic, which has compelled businesses to enhance their digital and customer service capabilities. Moreover, this

Section 7

The Future of Homebuying and Insurance

The future of homebuying and insurance looks out at a horizon marked by the ongoing interplay of rising costs, technological integration, and consumer expectations. Umary provides a strategic view, recognizing that the path forward is shaped by a heightened awareness of insurance's role in the homebuying process and its impact on affordability.

Umary touches upon the evolving concerns of home builders and buyers, stating, "Builders are paying

attention to their insurance providers more than ever before." As he points out, this awareness stems from a market where "high premiums can affect them two-fold," impacting both current homeowners looking to sell and potential buyers considering new purchases. This dual impact reflects a broader understanding that insurance costs are now a decisive factor in the housing market, influencing the decisions of homebuyers and the strategies of home builders alike.

approach resonates deeply with digitally native buyers, such as Millennials and Generation Z, who regard a seamless, transparent purchasing experience as non-negotiable.

Taylor articulates a vision where the builders who will emerge stronger from this turbulent period are those who can integrate various closing elements into a cohesive experience for the buyer. By doing so, they not only alleviate immediate buyer anxiety but also build long-term brand loyalty and reputation. As Taylor puts it, "It's technology when you want it, people when you need them," encapsulating Westwood's blend of digital convenience with expert guidance—a combination that is proving indispensable in today's challenging market conditions.

A Solution to Headline Risk

"Insurance challenges are becoming more prominent in the public eye, and buyers are acutely aware of their impact on purchasing power," says Taylor. The embedded insurance model Westwood offers ensures that securing a policy is one less worry for the homebuyer—a clear advantage in today's complex market landscape.

"Having an accurate insurance quote at the beginning of the homebuying process is not just about cost savings – it's about ensuring the viability of the entire transaction."

Amanda Taylor

Vice President of Communications and Marketing, Westwood Insurance Agency

Adaptability is Key

Looking forward, Umaly's comments suggest that insurance premiums will continue to be critical, particularly as reconstruction costs remain high and homebuyers become increasingly knowledgeable and proactive about their insurance needs. He acknowledges the challenges, explaining that "we're dealing with factors outside of our control," such as natural disasters and market forces. However, Umaly emphasizes the importance of adaptability and education, saying, "Westwood Insurance Agency serves as an advisor to our builder partners, providing them with unique and timely insights from more than 40 insurance companies that work with us."

This advisory role highlights the growing need for a deep understanding of insurance trends and regulatory environments. As homebuying and insurance continue to interlink, companies like Westwood are positioned to offer guidance, ensuring that their builder partners are informed and equipped to navigate the insurance world's fluctuations. As Umaly articulates, the future is about managing present challenges and preparing builders and homebuyers for an evolving landscape where insurance considerations are integral to the homebuying experience.

The Return On Trust

In a future characterized by Umaly as "a different time altogether," we can expect homebuyers, especially younger demographics like Millennials and Gen Z, to continue demanding transparency and authenticity in their purchasing experiences. The homebuilding industry, in response, will need to lean even more into integrated solutions like embedded insurance to meet these demands and provide seamless customer journeys. As the last step before loan closure, embedded home insurance will likely become even more entrenched as an essential feature of the home purchasing process.

In this future vision, the role of insurance agents transcends policy sales. Agents become critical connectors—facilitators of trust and continuity between builders and buyers, navigating a landscape where economic pressures, climate change, and consumer expectations intersect. It's a future where the adaptability and foresight exemplified by Umaly and Westwood will be indispensable for ensuring that the journey to homeownership remains secure and achievable, despite the complexities of a changing world.



About Westwood Insurance Agency

As a leading, full-service personal lines agency, Westwood facilitates seamless home closings by connecting builders, lenders, insurance companies and homebuyers with click-to-bind technology.

- Licensed in 50 states
- More than 70 years experience
- Market for 99%+ of all builder clients' communities nationwide
- Helps builders close more than 100K homes each year

[westwoodinsurance.com](https://www.westwoodinsurance.com)

Conclusion

The compounded challenges of climate risk, insurance market volatility, and economic instability present formidable barriers to homeownership. Embedded home insurance, as exemplified by Westwood Insurance Agency, emerges as a strategic solution, offering adaptability, transparency, and comprehensive coverage. This innovative model not only alleviates consumer anxiety but also strengthens the homebuying process for future generations, ensuring stability and predictability amid uncertainty.

Resources

- [The New York Times, Emily Flitter](#), February 16, 2024: Discussed the broader implications of rising insurance costs and underinsurance amid inflation and climate change, highlighting insurers' challenges and the impact on homeowners.
- [Fortune, Alena Botros](#), March 13, 2024: Reported on the \$22 trillion worth of the U.S. housing market at risk from environmental threats, emphasizing the escalating challenge for homeowners and the insurance industry amid climate change.
- [Bloomberg, Alexandre Tanzi](#), March 18, 2024: Revealed growing consumer doubts about loan approvals for autos and homes, underscoring the financial uncertainties faced by first-time homebuyers in today's economic climate. [NY Fed study](#).
- [The Wall Street Journal, Jean Eaglesh](#), January 8, 2024: Described the severe measures insurers like Allstate are taking in response to record losses, such as halting policy renewals and demanding rate increases, illustrating the tumultuous state of the insurance market and its direct impact on consumers' ability to secure affordable insurance.
- Freddie Mac Economics/Research Team, [March 2024 "Spotlight"](#): Provides a comprehensive analysis of the rising cost of homeownership, emphasizing the role of home insurance premiums in this trend. It details the increase in average annual HO premiums by 40.8% from 2018 to 2023 and explores the disparities in effective HO insurance rates across the U.S., highlighting the financial burdens placed on households, especially those with lower incomes.
- [NY Federal Reserve](#).
- [Bankrate chart](#) on loan application rejections.
- ResiClub Analytics: [Homeowners and Cost Burden: Map](#).
- Core Logic: [First Time Homebuyers Analysis](#).
- First Street : [9th National Risk Assessment](#).
- Wired: [Insurance Rates Are Soaring](#) for US Homeowners in Climate Danger Zones.