MERCURY INSURANCE

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Important Updates to Homeowners (HO3) Coverage Limits

Mercury Insurance is completing coverage reviews and implementing updates to Homeowners (HO3) policy coverage limits for many policyholders in response to rising reconstruction costs and to better align with customer needs. These updates aim to ensure appropriate coverage for policyholders while avoiding higher premiums for coverage limits that exceed the needs of most homeowners. Additionally, some coverage options are being limited to streamline policy offerings.

Renewal Key Changes

- Coverage A (Dwelling) limits will increase more than usual to reflect significant increases in local reconstruction costs.
    - In some cases, we may use average Coverage A values in the area to increase Coverage A at a greater rate than the latest RCT increase.
    - This is intended to reduce the risk of underinsurance. Ultimately, it is the Insured's responsibility to maintain adequate amounts of insurance on their dwelling.
    - Please discuss these values in detail with your policyholders to ensure adequate and appropriate coverage.
- Coverage B (Other Structures) and Coverage C (Personal Property) limits are being adjusted downward for many policyholders to better match typical customer needs.
- Coverage C limits above 75% of Coverage A are no longer available.
- Ordinance or Law limits above 50% of Coverage A are no longer available.
- Requests for increased limits may require supporting explanation or documentation and these requests will be reviewed on a case-by-case basis.

A notice will be sent at renewal to impacted policyholders. We appreciate your help in discussing these changes with your clients and assisting with reviewing or adjusting coverage as needed.

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Additional Information

Rebuilding costs have climbed rapidly in recent years. When setting the Coverage A limit, all elements that shape the replacement cost should be considered — architectural complexity, unique design details, premium materials, and any other characteristics that elevate reconstruction expenses. Please note that the Additional Replacement Cost (ARC) endorsement should be viewed as a contingency buffer for unforeseen inflation or post-disaster demand surges; it is not meant to compensate for an under-stated Coverage A value.

For policies effective 12/15/2023 or later, Mercury introduced new lower limit options for Coverage B (Other Structures), Coverage C (Personal Property), and Coverage D (Loss of Use).

Policies written prior to 12/15/2023 defaulted to higher limits than most policyholders need for Coverage B and Coverage C. Most of these policies have a Coverage B limit equal to 20% of the Coverage A limit and a Coverage C limit equal to 75% of the Coverage A limit.

Since introducing new lower limit options, application data shows a clear shift to lower limits. In fact, almost 96% of policies bound in June and July 2025 had a Coverage B limit of 10% or less. For policies without the Enhanced Home Package (EHP) endorsement, over 98% had a Coverage C limit of 50% or less. Currently, the EHP endorsement requires Coverage C to be 75% of the Coverage A limit, but this is changing effective January 2, 2026, where an update to the EHP endorsement allows for lower Coverage C limits.

For policies written prior to 12/15/2023 with a Coverage B limit equal to 20% of Coverage A, we are reducing the limit to 10% of Coverage A if: (1) We have aerial imagery that indicates there are no accessory structures on the premises greater than 200 square feet and (2) No pool is present or a pool is present and Coverage A exceeds $750,000.

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For policies written prior to 12/15/2023 with a Coverage C limit equal to 75% of Coverage A, we are reducing the limit to 50% of Coverage A. For any policy with a limit greater than 75% of Coverage A, we are reducing the limit to 75% of Coverage A.

Though Coverage D limits on policies written prior to 12/15/2023 exceed levels we typically see since introducing lower limit options, we are not making changes to Coverage D limit percentages at this time.

A very small portion of policyholders have Ordinance or Law Coverage equal to 100% of Coverage A. We are no longer offering this limit. At renewal, the Ordinance or Law limit on impacted policies will be reduced to 50% of Coverage A.

Requests for increased limits may require an explanation supporting the increased limit. For Coverage B, photos of all other structures (excluding fences, driveways, walkways) on the residence premises and an explanation of the use of the other structures may be required. For Coverage C, an explanation as to how the requested limit was derived should be provided – a complete detailed inventory is NOT necessary.

We appreciate your partnership and attention to this update. More information and reminders will be shared as the effective date approaches.

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