

High and Hard: Large Properties in a Hard Insurance Market

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The Hard Insurance Market Everyone Is Talking About

Factors contributing to a soft market may include:

- Active, growing economy.
- Positive interest rate environment.
- Low/favorable claims activity.
- Abundant capital to insure.
- Strong policy holder surplus.

Factors contributing to a hard market may include:

- Economic downturn/uncertainty.
- Financial market volatility.
- Shrinking insurance capital/decreased competition.
- Catastrophic events / Increased claim activity.
- Global events (e.g., pandemic, climate change, etc.).

“A hard insurance market is the upswing in a market cycle when insurance premium rates are escalating, and insurers are disinclined to negotiate terms. Underwriting standards tighten and insurers closely monitor insurance rates and manage coverage capacity.” – [Bart Kresse](#) – Western New York Market Leader, M&T Insurance Agency



The Champlain Tower Collapse

- 12-story beachfront condo
- Constructed in 1979
- 136 units
- Located in Surfside, FL, a suburb of Miami
- Collapse lasted >12 seconds
- 98 deaths



Champlain Towers Outcomes

- Heightened awareness of board fiduciary duties with regards to funding and making maintenance repair, and replacements
- Insurance
 - Slow moving (unlike some law) but...
 - Underwriting questions
 - The crisis of dramatic cost increases and lack of availability continues
- Legislative
 - State to State
 - Fannie Mae/Freddie Mac questions



Rebuilding Reserves and Re-Insurance Costs Means

- Even lower risk properties are seeing increases in insurance premiums and insurance carrier scrutiny
- Insurance carriers need rate while also having to cut back on capacity
- Insureds take on more retention
 - No longer a bargaining strategy
- While losses continue
 - Water loss frequency
 - Freezing weather
 - Tornadoes
 - Wildfire



What Can We Do to Prepare for Potential Insurance Increases and Changes?

- Increase assessments now; 20% and do a 5% special assessment annually (depending on state laws and governing documents)
- Transparency and strong communication between the insurance professional, management, the board, the membership
- Pro-actively resolve infrastructure issues
 - Enlist the help of a structural engineer/report
 - Comply with any existing loss control recommendations



“COPE” Property Risk Characteristics

Construction	Occupancy	Protection	Exposure
<ul style="list-style-type: none"><input type="checkbox"/> Type of construction: frame construction (high limit per building and proximity of buildings)<input type="checkbox"/> Age of construction: Anything built prior to 2004 will need to show capital improvements<input type="checkbox"/> Aluminum Wiring<input type="checkbox"/> Federal Pacific Electric Breaker Panels<input type="checkbox"/> Galvanized or polybutylene pipes<input type="checkbox"/> Rooftop pool	<ul style="list-style-type: none"><input type="checkbox"/> High rental ratio<input type="checkbox"/> Certain commercial occupancy (i.e. Post Office, daycare, restaurants, liquor store, etc.)	<ul style="list-style-type: none"><input type="checkbox"/> Lack of a sprinkler system in common areas and inside the units<input type="checkbox"/> Type of sprinkler system. Some carriers prefer NFPA 13 as opposed to NFPA 13R because NFPA 13 provides both life safety and protection to the building.	<ul style="list-style-type: none"><input type="checkbox"/> Pending loss control recommendations issued by the carrier<input type="checkbox"/> High crime rate<input type="checkbox"/> High frequency or severity of claims in 5 years<input type="checkbox"/> Open claims



High Rise Specific Underwriting Issues

- Number of stories
 - Sprinklered?
 - Fire monitoring?
 - Means of egress?
 - Life safety features?
- Probable Maximum Loss (PML)
 - Size/Total Insurance Value
 - Spread of Risk
- Age of building
 - Updates made?
 - Roof
 - Wiring
 - plumbing
 - Electrical Panels
 - Zinsco, Challenger, Federal Pacific



Properties are Being Driven Into Surplus Lines Markets

- State admitted vs. non-admitted
- Not new, just different
 - Used for properties with loss history issues
 - Exposures not tolerated by admitted carriers
- Some of the strongest and most financially stable companies
- Can charge what they want with little to no regulation



Limited Capacity and Fewer Insurance Carriers: The Double-Edge Sword

- Find your professional
 - a specialist
 - watching underwriting change
 - following State guidelines/news
 - collaborating with insurance carriers and fellow insurance providers to find solutions
 - Access to many insurance carriers
 - Some may pull out of the market
 - Some may enter or re-enter
 - Interview Process
 - Well before renewal
 - Ask important questions to you and your board
 - How many HOAs do you currently service insurance for?
 - In-house claims manager?
 - Experience, qualifications, HOA specific, etc.



Criteria to Evaluate an Insurance Broker

- Credentials: CIRMS designation
- Experience: Years of experience working with Community Associations
- Portfolio Size: Number of communities currently handled and type of ownership (Condominium associations, HOA's, or Cooperatives)
- Involvement with Community Associations Institute (CAI)
- Disclose any potential conflict of interest: Does the broker have any type of relationship or agreement with the management company in place?
- Service delivery:
 - ✓ Ask for a Contact Sheet
 - ✓ Service Center or Dedicated Account Manager?
- Claims Management Resources
- Risk Management Tools and Services included:
 - ✓ Contract reviews
 - ✓ Education sessions for Community and Manager
 - ✓ Communication on Industry Trends
 - ✓ Board orientations
 - ✓ Coverage analysis
- Technical Resources (Proprietary Software, in-house analytics, etc.)
- Board meetings participation, Town Hall meetings, etc.
- Top 5 Insurance Carriers they represent for community associations
- Fee or Commission?
- Professional references from community association clients



This is the Best Time to Avoid Loss and Maintain Property Properly!

- Risk Management
 - Insurance professional visits the property
 - Notes underwriting concerns
 - Starts conversation
 - Eligible carriers
 - Avoid carriers that will decline based on characteristics or discuss cost savings to modify risk
- Once coverage is bound carriers conduct their own inspection
 - Usually 30-90 days of the effective date
 - Looking to make sure risk matches applications
 - Unit count, common area amenities, square footage
 - Recommendations may be made



Recommendations

- Not all recommendations are mandatory
- Determine a timeline
- Every carrier has different underwriting guidelines
- Recs are an effort to avoid loss
- Carrier does not want to be a maintenance policy
- Your insurance professional visiting the property can alleviate unwelcome surprises



The Hard Insurance Market Warrants “Outside the Box” Thinking and Solutions

- Advocacy
 - Voice concerns to both state and federal legislators
 - Ideally we need carriers to re-enter the market
 - The more carriers there are willing to write insurance, the better the cost to consumers
- If the association is faced with hefty assessments
 - To pay for insurance
 - Work with your attorney
 - Discuss options for this renewal cycle AND future renewals
 - To address important maintenance concerns (an effort to be insurable)
 - Work with your attorney
 - Work with a trusted bank
 - Work with a reserve analyst to ensure components are included moving forward



Consult Insurance Professionals More Than Once Year

- Plan ways to get you out of the surplus lines market
- Keep association aware of market trends
 - New carriers
 - New programs
- Education
 - Town Hall- entire membership
 - Board Education
 - Board meeting attendance
 - Management Company training

Questions

