By Theresa Melson, AMS, PCAM, CIRMS; Karen O'Connor Corrigan, CIRMS; and AJ Scott, CIRM

# Insurance Outlook

MOST COMMUNITY ASSOCIATION insurance markets in the U.S. have been shaken up by rising claims in recent years. Several factors in each region are affecting the cost and extent of liability coverage that associations can obtain for potential risks: aging infrastructure and hurricanes in the East, damage from severe weather events in the Midwest, and more frequent and destructive wildfires in the West.

Aging buildings can affect a community's ability to obtain and retain proper insurance coverage at a competitive price. In the East, many condominiums resulted from conversions of former apartment buildings or housing cooperatives built more than 50 years ago and have older electrical or plumbing systems that can cause issues such as frequent leaky pipes. Water intrusion represents around 47% of losses in multifamily housing. Per unit or per building water deductibles are becoming commonplace.

As underwriters focus more on life-safety concerns in older condominiums and insurers pull in and out of covering community associations in response to conditions in the reinsurance industry, boards are having to turn to nonstandard insurance markets. Policies from carriers of excess and surplus lines, which provide insurance to those with unique risk or poor loss history, are resulting in increased costs and diminished coverage.

In Florida, the outlook for insurance was bleak even before the Surfside condominium collapse. Insurers are exiting the state or implementing restrictive underwriting guidelines and higher pricing. In addition, one carrier's court-appointed receivership combined with exiting insurers has led to nonrenewals for more than 2,000 condominium policies this year, according to specialty insurance distributor Amwins.

Underwriters also are placing more scrutiny on condominiums with insurance values over $25 million or those with older buildings. Routine rate increases ranging from 15–30% also are becoming more commonplace for Florida condominiums renewing their policies, while those that lost coverage could face increases between 100–400%, notes Amwins.

While Florida condominiums can fall back on the state-run insurance market, this typically is not financially favorable. Worse still is that constant litigation is wreaking havoc for insurers in the Sunshine State, where 70% of the claim money goes to legal fees rather than the insured.

In the Midwest, insurers are concerned about more claims related to damage from water, freezing temperatures, wind, hail, and earthquakes, exposures that are resulting in higher deductibles without a premium relief. Mid- and high-rise buildings in the nation's middle with aged plumbing are more susceptible to frozen pipes and malfunctioning sprinklers, and can expect

to renew their policy with $100,000 in water damage deductibles or per unit deductibles plus a 15% premium increase.

In addition, wind and hail pose insurability issues. Colorado struggles with 5% wind and hail insurance deductibles, while parts of Missouri, Kansas, and Oklahoma escaped with only a 1–2% deductible.

Meanwhile, the West Coast sustained $40 billion in insured wildfire losses in the past five years, and it's become a struggle to obtain wildfire insurance coverage. By comparison, insured losses after the 1994 Northridge earthquake were $27 billion when adjusted for inflation.

After the earthquake, every insurance company in California stopped writing commercial earthquake insurance. This is happening again with wildfires, but while "earthquake" was easily defined and excluded—making it possible to get insurance for other standard perils—there is no formal definition of "wildfire," and the California Insurance Department has not sanctioned any wildfire exclusions (or even deductibles). As a result, traditional markets are nonrenewing properties en masse, even those with modest wildfire exposure.

For communities with moderate



GETTY IMAGES / MICHAEL RAINES

to severe exposure, the struggle to find replacement coverage is laborious. Coverage can include wildfire sublimits of $2.5 million to $10 million and a high deductible—$100,000 is a best-case scenario, but $1 million to $2 million or 5% is more common. Boards therefore must levy emergency special assessments to fund premiums while considering how to pare back the association's coverage obligations to shift more of the responsibility to the individual owners.

According to Swiss Re Group, $76 billion in global natural disaster losses were assumed by insurers in 2020, a 40% increase over 2019. Unexpected losses from atypical weather events also are becoming more frequent across insurance markets. Recent examples include the August 2020 Corn Belt derecho, which resulted in unexpected losses of $7.5 billion, and February's deep freeze across the Central and Southern U.S. that cost insurers about $20 billion. Insurers will have to turn to more advanced modeling technology that can predict potential severe weather to anticipate losses and match the rate to the risk.

How can community associations better position themselves for insurance fluctuations?

**Rely on experts.** Boards will benefit from engaging insurance, appraisal, reserve study, legal, engineering, and service professionals who have experience working with community associations. This also keeps the association from risking its directors and officers liability protection by limiting board members (who may be professionals in these areas) from stepping outside their duties to offer advice.

**Prioritize repairs, replacements, and upgrades.** Older buildings should evaluate electrical, plumbing, and any other systems to see if they are due for replacement or improvement. Water damage-prone buildings should consider installing water detection and automatic shut-off systems. In addition, associations should promptly repair or replace roofs following their reserve study's schedule. Be sure to share any replacement or improvement plans with the insurer.

**Establish a risk management program.** Preventing or reducing accidental losses through affirmative risk management will improve the chances of securing competitive insurance coverage.

The bottom line is that proof of well-maintained, financially healthy properties will help the community's position when fulfilling its insurance requirements. **CG**

**Theresa Melson** is senior vice president of sales at USI Insurance in Chesapeake Beach, Md. **Karen O'Connor Corrigan** is president of O'Connor Insurance in St. Louis. **AJ Scott** is associate vice president at Cline Agency Insurance Brokers in Los Angeles.