

BOARD EDUCATION FALL 2024

Maureen Porter – Community Association Insurance Consulting

AGENDA

- Maureen Porter Info
- Insurance 101
- Insurance Market Update
- Insurance bidding items to know
- Options for a difficult market
- HO6 Policies

ABOUT MAUREEN & COMMUNITY ASSOCIATION INSURANCE CONSULTING(CAIC)

- Starting in industry in 2012 as a portfolio manager
- In 2015 transitioned into Insurance Manager role & was responsible for:
 - ✓ Policy renewals
 - ✓ All Claims
- Started CAIC in 2020
- Licensed Insurance producer in MN, WI, ND, IL, TX, MA, PA, CA, TN and CO
- Assisted in managing on \$117M in insurance claims
- Work with about 2,000 communities on their renewals

INSURANCE – COVERAGE TYPES



Insurance Coverages:

- Business Policy / Commercial Package
 - Property & Structural Coverages
 - Liability Coverages
- Umbrella
- Directors & Officers
- Crime & Fidelity
- Worker's Comp

INSURANCE — COVERAGE TYPES

Crime & Fidelity

Covers theft of association assets (theft of monies)

Recommended coverage amount is operating checking balance + total reserve balance + 3 months of assessment revenue

Umbrella

Overlying policy, should cover general liability and D&O

Worker's Comp

Covers injury to employees, volunteers & laps in coverage from association contracted vendors

Clarify “volunteers” are covered. If not, seek endorsement

INSURANCE — COVERAGE TYPES

Business / Commercial Package: Property & Structural Coverages

Covered Items:

- Fire
- Lightning
- Wind/hail
- Explosion
- Sprinkler leakage (accidental discharge from an automatic sprinkler system)
- Sinkhole Collapse
- Riot/Civil Commotion
- Vehicle Damage
- Smoke
- Weight of Snow/Ice/Sleet
- Falling objects
- Water Damage

Liability Coverages:

*Covers legal claims arising from injury *guests getting hurt (ex: “slip & fall” cases)*

ENDORSEMENTS AND LIMITATIONS

- Endorsement to add:

- Sewer Back up
- Ordinance and Law

- Limitations:

- The interior of a building is covered against damage from rain, snow, sand, sleet, ice or dust only if the roof or walls are first damaged by a covered cause of loss that allows these elements to enter
- Steam equipment such as boilers, pipes, engines or turbines is not covered if the damage results from a condition that originates inside the equipment.

EXCLUSIONS

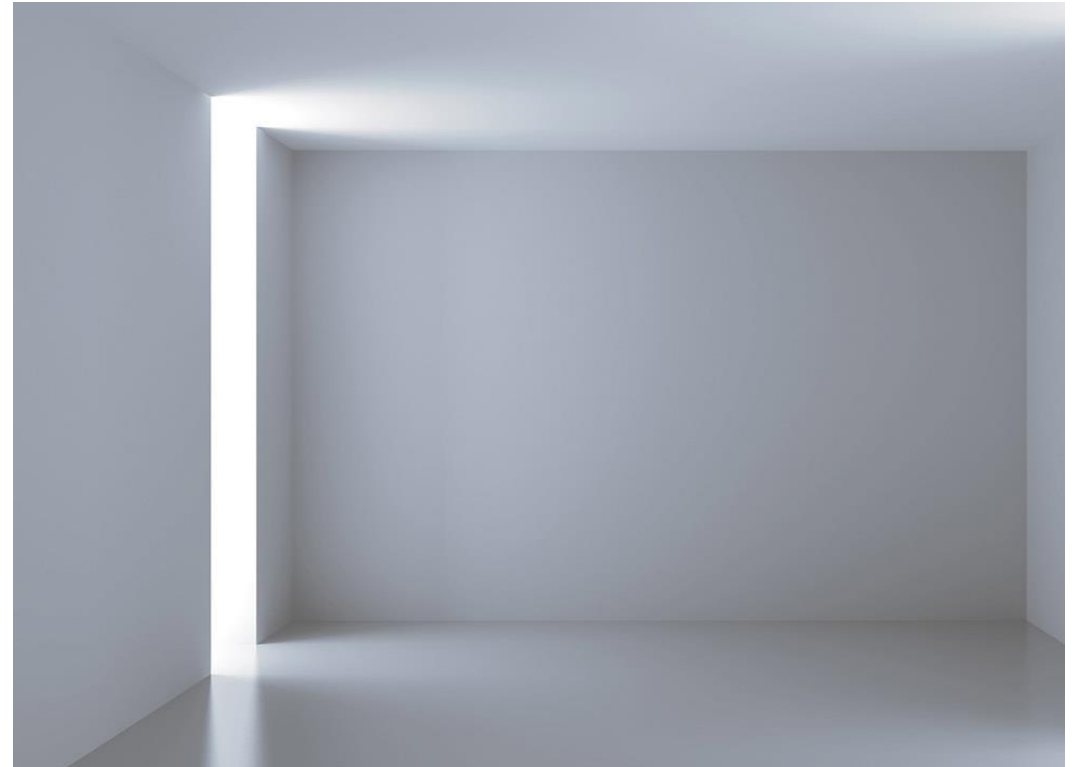
- Earth movement
- Flood
- Mudslide
- Seepage of groundwater
- Mold, wet rot, dry rot, and bacteria , except as provided as an additional coverage
- Faulty planning , development, design, specifications, workmanship or repair

EXCLUSIONS

- Rust, corrosion, decay, deterioration, hidden or latent defects
- Settling, cracking, shrinking, or expansion
- Caused by insects, birds, rodents, or other animals
- Wear and tear
- Continuous or repeated seepage or leakage of water that occurs for more than 14 days

BARE WALL

- No:
- Flooring
- Ceiling & Wall Finishing
- Cabinetry
- Finished Millwork
- Fixtures
- Appliances
- Betterments/Improvements



ORIGINAL SPECIFICATIONS

- Includes:
- Flooring
- Ceiling & Wall Finishing
- Cabinetry
- Finished Millwork
- Fixtures
- Appliances
- **As Originally Constructed**



ALL IN

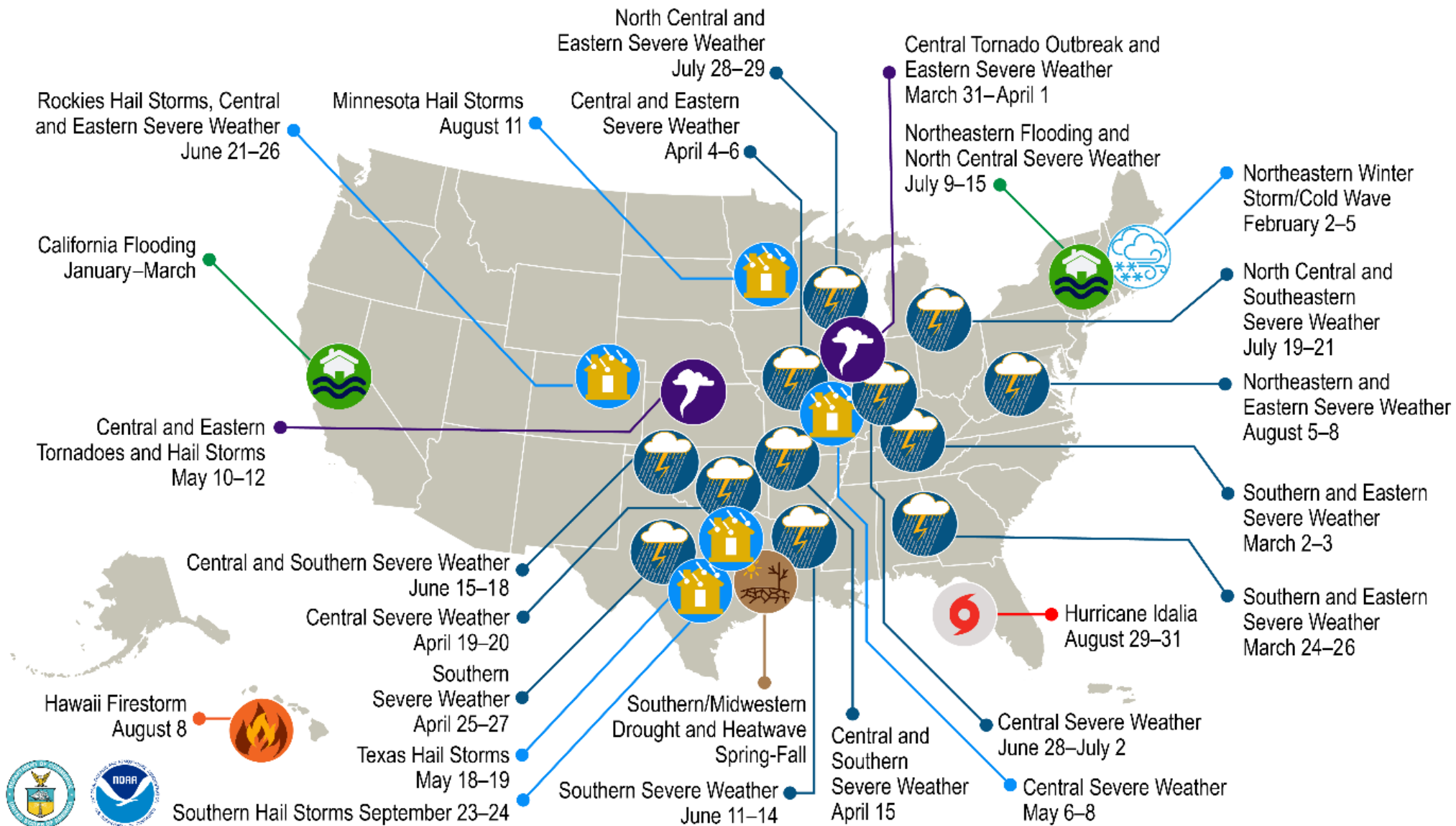
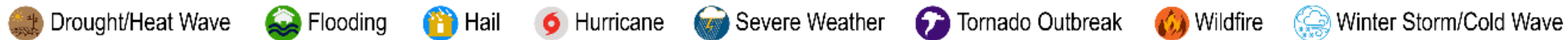
- Any betterments or improvements added since original construction, regardless of owners. Any finishes and fixtures that were present when the loss occurred





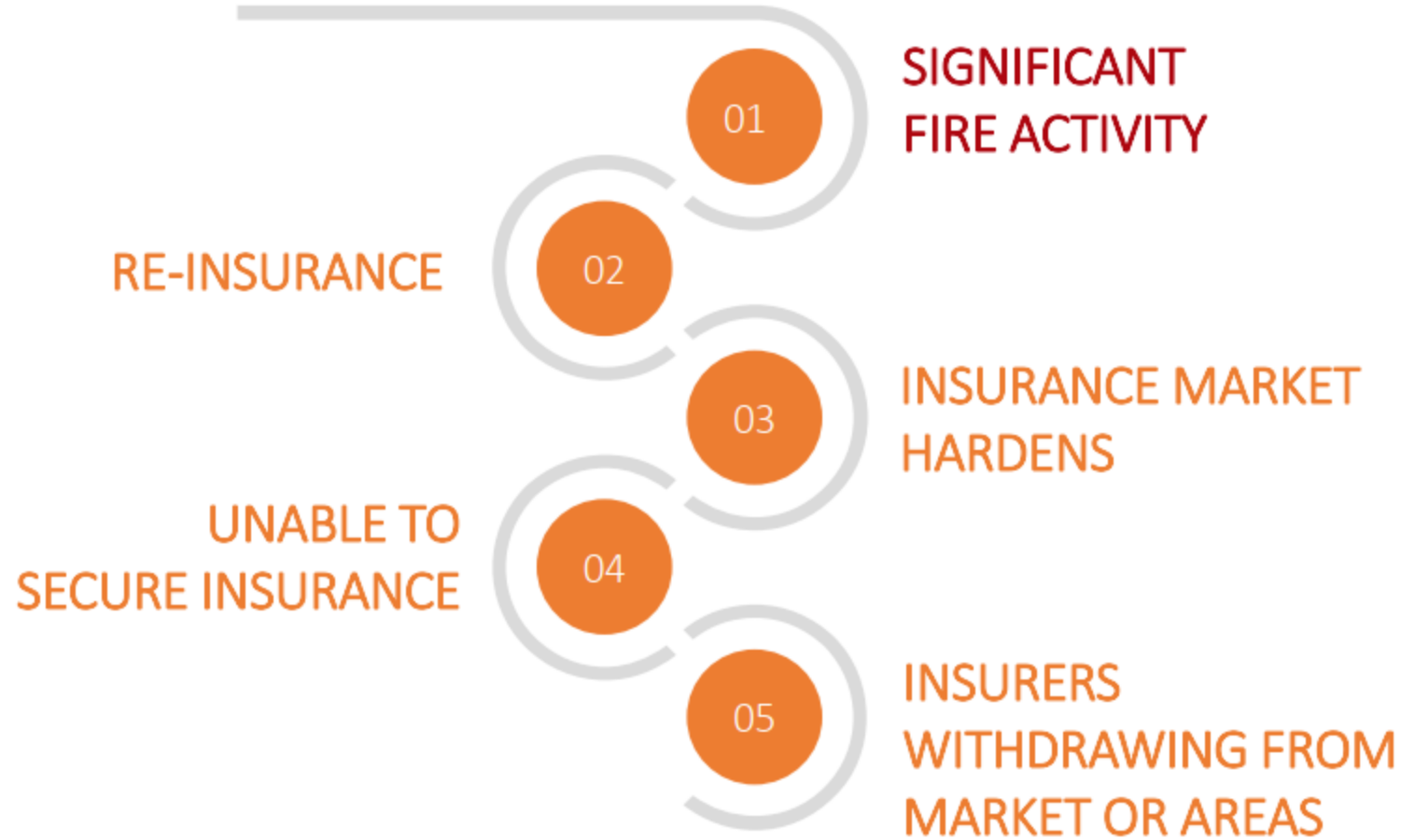
MINNESOTA MARKET UPDATE

U.S. 2023 Billion-Dollar Weather and Climate Disasters



This map denotes the approximate location for each of the 25 separate billion-dollar weather and climate disasters that impacted the United States through October 2023.

HOW DID WE GET HERE?





in



insured has a claim.



in



insured has a property damage claim related to wind or hail.



in



insured has a property damage claim caused by water damage or freezing.



in



insured has a property damage claim related to fire and lightning.



in

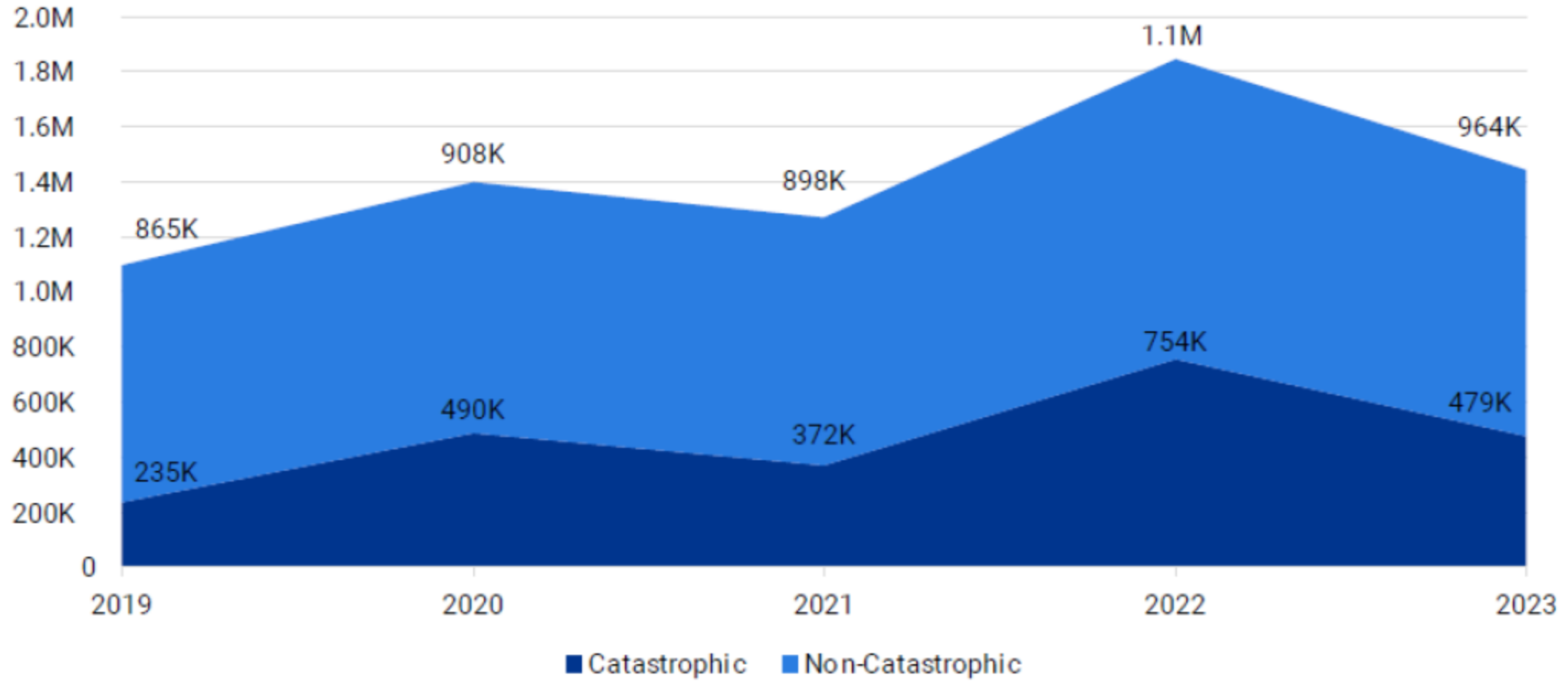


insured has a property damage claim due to theft.

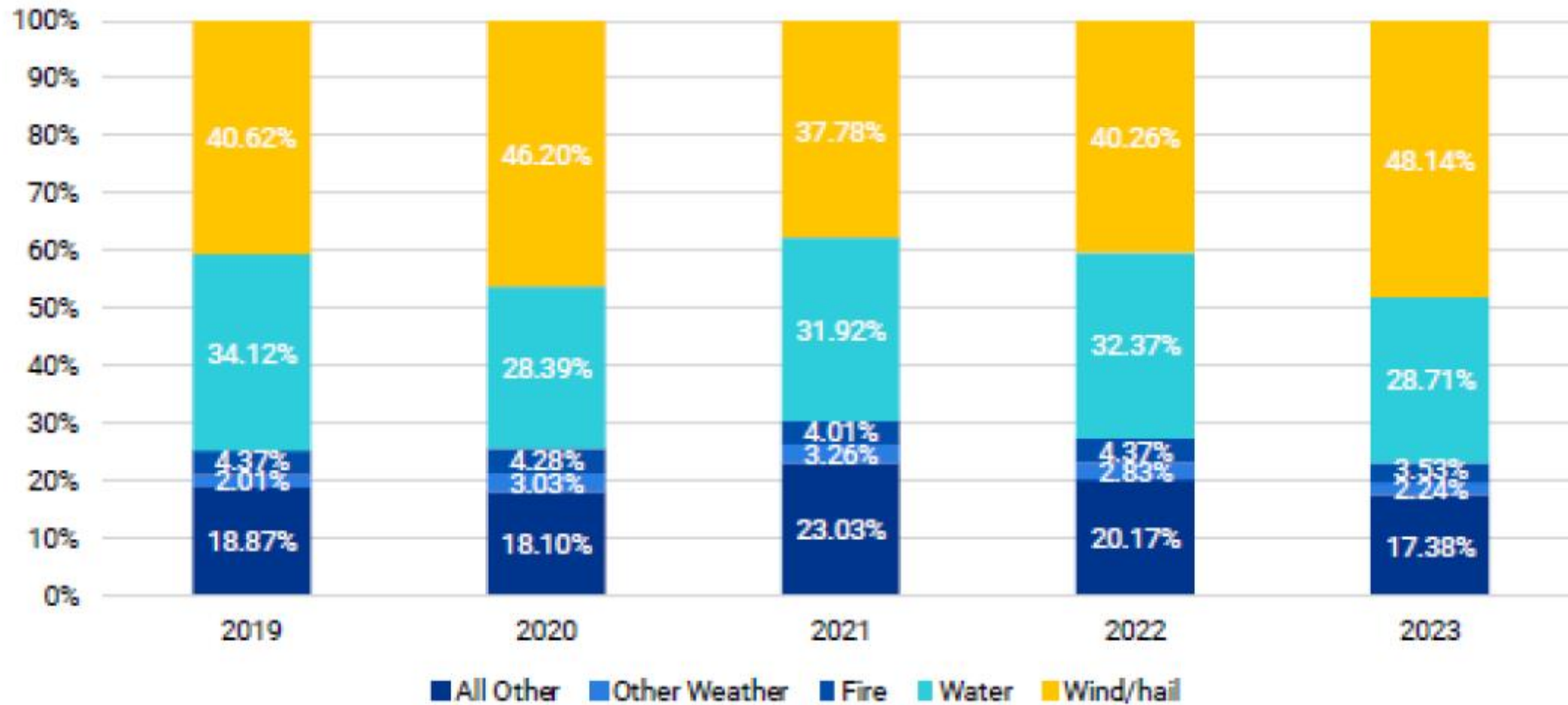
About one in 1,670 homeowners policies has a liability claim related to the cost of lawsuits for bodily injury or property damage that the policyholder or family members cause to others.

*Insurance Information Institute calculations, based on ISO®, a Verisk Analytics® business, data for homeowners insurance claims from 2017-2021.

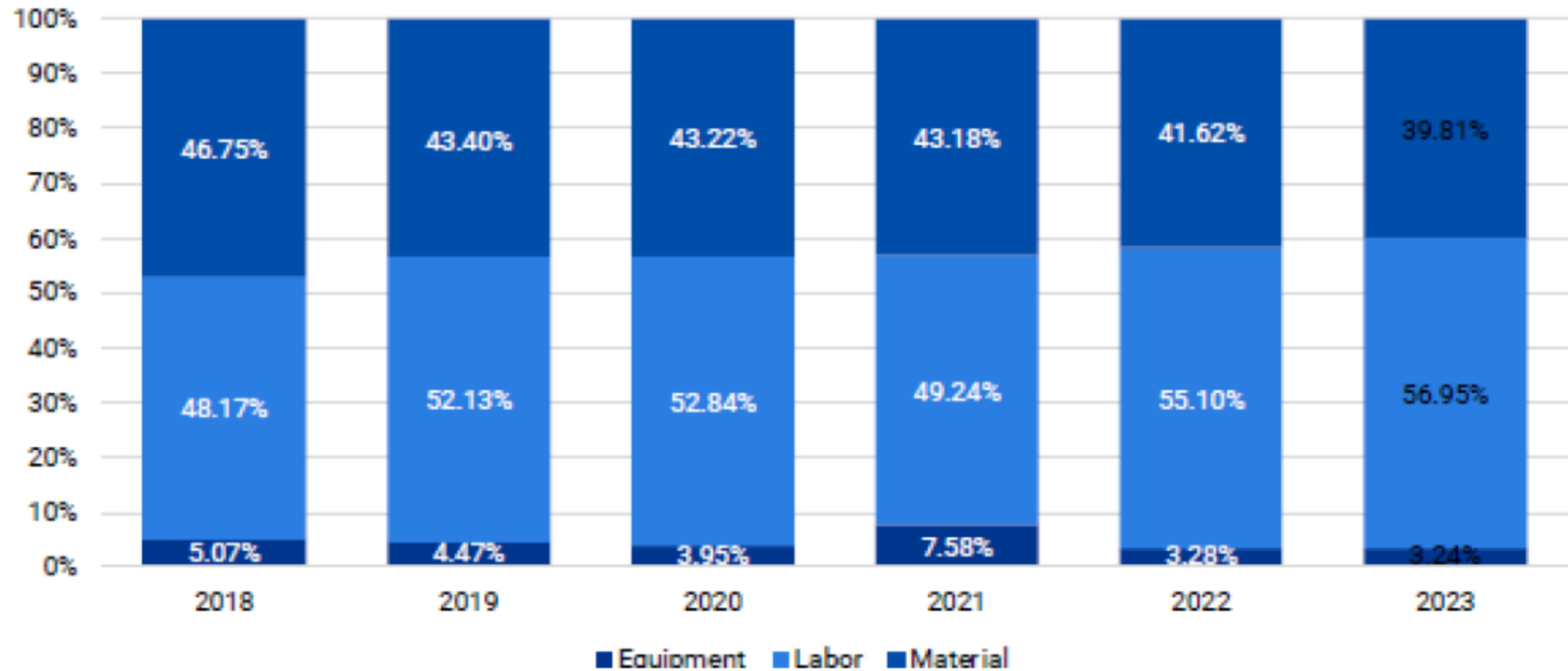
Total Claims Volume by Year



Total Claims by Type of Loss



Replacement Cost by Category



- **Claims activity** has decreased in 2023 with less occurrence of named storms and wildfires than in years past.

*The S&P Global Market Intelligence 2023 US Market Report, the S&P Global Market Intelligence 2023 US P&C Insurance Market Report calls for a combined ratio of **100.8%**. While that marks an improvement from the calendar-year 2022 result of 102.6%, it remains above the 100.0% threshold that serves as the metaphorical break-even point for underwriting profitability.*

- **Wind/Hail and Water** damage claims are most common types; comprising nearly 77% of all claims for the calendar year of 2023
- **Labor Costs** – rising more sharply than material costs in both US & Canada
- **Lumber Costs** – decreasing for 8th straight quarter, dropping by 2.76% in US and 1.32% in Canada
- **Fuel Costs** – decreased by 18.7% in US and 12.8% in Canada.

Reconstruction Costs – rose 4.3% in 2023 (slowed inflation and lumber market stabilization)

Note that even a 4.3% increase in exposure value and repair costs due to higher inflation would result in more than a 50% increase in losses over a 10-year period.

What are the contributing factors to the rising premiums and cancellations?

83% Age of community

76% Age of roof

76% Total insurance value

72% Claim

45% Aluminum wiring

38% Number of buildings

34% Wildfire risk

21% Structural integrity risk

21% Hurricane risk

17% Late premium payments

10% Flooding risk

7% Delinquent assessments

2024 TRENDS

- **American Family – Non-renewing all HOA's**
- **Country Financial- Cancelling all HOA's**
- **Knee Jerk Response by Carriers – Rate Increases By All**
- **Large wind/hail deductibles**
- **No Longer Writing HOA's Built Prior to 1990**
 - Hartford, Travelers, State Auto, Auto Owners, Hallmark, Liberty Mutual, Midwest Family
- **No Longer Writing HOA's With Over \$20M in Building Coverage**
 - Hartford, State Farm, Liberty Mutual, West Bend, Country, Midwest Family, Auto Owners
- **Adding Exclusions or Higher Wind/Hail Deductibles**
 - West Bend, Farmers, American Family, Berkshire

ADDITIONAL UNDERWRITING CONSIDERATIONS:

Loss History / Claims Experience

Much more attention to detail on specific claims

Many more questions around what's been done to ensure against similar claims from happening in the future

Asphalt Roofs and Vulnerable Siding Types

Physical exposures that increase payout amount on a claim

Lack of Grilling Enforcement

Certain carriers very sensitive to fire exposure caused by grills

Year Built/Age of Construction

Certain carriers will not quote associations that were built prior to 1990

Difficulty with Obtaining Multiple Quotes

Underwriters are much quicker to simply decline to quote if the Community contains any of these increased (or perceived increased) Risk exposures

Carrier	Age	Size*	Unmatched/Cosmetic Exclusion
American Family	No Longer a Market	No Longer a Market	Yes
Auto-Owners	15 Years or Less	-	Yes
Badger Mutual	-	\$5 Million	No
Berkley National	-	\$60 Million	No
Berkshire	50 Years or Less	\$30 Million	No
CAU	-	-	No
Country Financial	-	\$2 Million	Yes
Farmers	30 Years or Less	\$25 Million	Yes - Metal Only
Hartford	1990 or Newer	\$25 Million	No
Liberty Mutual	40 Years or Less	\$10 Million	No
Midwest Family	25 Years or Less	\$25 Million	No
State Auto	25 Years or Less	\$50 Million	No
State Farm	40 Years or Total Gut Conversion	\$15 Million (Asphalt Roofs)	No
Travelers	1990 or Newer	\$30 Million (Fewer Than 15 Buildings)	No
West Bend	25 Years or Less	\$20 Million	Yes



Cause for Concern

AN HOA WAS BUILT PRIOR TO 1990 AND HAS OVER \$20M IN BUILDING VALUE:

INELIGIBLE CARRIERS: AMFAM, AUTO-OWNERS, COUNTRY, HALLMARK, HARTFORD, LIBERTY MUTUAL, MIDWEST FAMILY, NATIONWIDE, STATE AUTO, STATE FARM, TRAVELERS & WEST BEND

ELIGIBLE CARRIERS – CAU, BERKSHIRE AND BERKLEY

An HOA has more than \$75M in building value:

Ineligible Carriers: AmFam, Berkley National, Berkshire, Country, Farmers, Hallmark, Hartford, Liberty Mutual, Midwest Family, Nationwide, State Auto, State Farm, Travelers & West Bend

Eligible Carriers – CAU and Auto-Owners

NON-ADMITTED CARRIERS

(EXCESS & SURPLUS, SECONDARY, NON-STANDARD)

- Higher Premiums & Worse Terms
- Finance Agreements
- Minimum Earn Premiums
- Short Rate Cancellations
- Condensed Timeframe



SHARED LIMITS

Avalon Amalgamated Falls Lake

- Renewal term changes
- Bad policy language
- Increased Risk

The Schedule below sets forth the participating insurers providing insurance coverage for the CIBA program. The Limits set forth below are a combination of 'Program Limits' where carriers provide a combined limit for all insureds involved in a single loss occurrence subject to each insureds individual limits.

For any insurer set forth below, whose participation is subject to an aggregate Limit for any specific peril, coverage, or participation, then that Limit is the maximum amount payable to all CIBA Named Insureds combined for the term for the contract identified below, for that Insurers participation. Once that Limit has been exhausted in accordance with the Policy contract terms, then the insurer set forth below will no longer have any further Liability under this Insurance contract.

Notwithstanding the Limits set forth below, the individual limits and sublimits set forth in the Commercial Lines Declarations Page, to which this Schedule is attached and incorporated therein by reference, are the only limits available for any one Named Insured and their identified insured locations(s) identified by the property identification numbers (PID).

Layer	Market	Perils	Limit	%	Policy #	Admitted Non-Admitted
PRIMARY \$4M						
	FALLS LAKE FIRE AND CASUALTY COMPANY (Other than Homestate CA)	AR EXCL EQ FL			CIBA-000001-05	Non-Admitted
	FALLS LAKE NATIONAL INSURANCE COMPANY (Homestate CA)	AR EXCL EQ FL			CIBA-000002-05	Non-Admitted
			\$4,000,000			
			\$4,000,000			
EXCESS LIMIT \$6M x \$4M						
	ASPEN SPECIALTY INSURANCE COMPANY	AR EXCL EQ FL	\$100,000		PX007YH24	Non-Admitted
	LANDMARK AMERICAN INSURANCE COMPANY	AR EXCL EQ FL	\$3,000,000		LHD941012	Non-Admitted
	STEADFAST INSURANCE COMPANY	AR EXCL EQ FL	\$1,200,000		XPP-0239013-07	Non-Admitted
	IRONSHORE SPECIALTY INSURANCE COMPANY	AR EXCL EQ FL	\$1,700,000		1000382701-05	Non-Admitted
			\$6,000,000			
EXCESS LIMIT \$25M x \$10M						
	ASPEN SPECIALTY INSURANCE COMPANY	AR EXCL EQ FL	\$2,500,000		PX007YQ24	Non-Admitted
	LANDMARK AMERICAN INSURANCE COMPANY	AR EXCL EQ FL	\$10,000,000		LHD941015	Non-Admitted
	NATIONAL FIRE & MARINE INSURANCE COMPANY	AR EXCL EQ FL	\$2,250,000		42-XPR-333760-01	Non-Admitted
	UNITED SPECIALTY INSURANCE COMPANY	AR EXCL EQ FL	\$1,250,000		NOU-2024-10018	Non-Admitted

BID EXPECTATIONS

- Apples to Apples bids
- Quantity of bids
- Timing of receiving bids



WHAT TO EXPECT AT RENEWAL

Standard Carriers: Renewals are averaging between 35-45% rate increases

Non-Admitted Carriers: Renewals are averaging between 150-200%



AGENCY EXPERIENCE

Not all agents are equal

There is a small pool of agents who are qualified to help you with your HOA insurance.

Avoid costly mistakes by partnering with the correct agent

RATES

Figure out your rate

Building Value /1000

Property premium /Result of above equation

- If rate is .30 or less, this is the market rate (and pretty good) anything less than .20 is REALLY GOOD
- If rate is .45 you should consult with an experienced agent for a policy review
- If rate is up to .45 this is not great, but if you have claims history or are a older building, it is probably as good as you can get
- Keep in mind your building value may have jumped up, but your rate is the same- don't only rely on the total premium when deciding to shop coverage.



LENDER ISSUE — FANNIE, FREDDIE & FHA

Maximum Deductible Amounts-
For losses related to individual units in a project or for individual PUD units that are covered by the blanket policy for the project, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement cost of the unit



EXCEPTION — NOT FOR MN.

If a master insurance policy deductible exceeds the 5% maximum due to a per unit deductible for named perils specific to a geographic area, the Mortgage is eligible for sale to Freddie Mac if the Borrower's unit is covered by an owner's HO-6 policy. The Borrower's owner's policy must include the same perils as the master policy, cover master policy assessments levied on the unit owner and carry a sufficient coverage amount to cover the per unit amount over the permissible 5% limit.

WHAT TO DO?



INCREASING DEDUCTIBLES

All Other Peril Deductibles – Increasing your deductible for all claims outside of wind/hail can help reduce the premium. We suggest nothing larger than \$50,000 per occurrence

Wind/Hail Deductible – If your wind/hail deductible is not already at 5%, increasing your deductible can help reduce the premium. We suggest nothing larger than 5% per building



WHAT CAN AN HOA DO?

Change Coverage Definition to Bare-Walls

Depending on the association's declarations, the association may move their coverage definition to bare-walls by a resolution or amendment to the declarations

A resolution can be voted on by the board if the declarations don't specify the required insurance coverage.

An amendment to the declarations, which requires a unit owner vote, is required if the declarations specify insurance coverage requirements



IDEAS COMMONLY BROUGHT UP

- Split the community over more than one carrier
- Make owners hold the insurance policy for their home inside and out



HO6 Insurance Policy Needs

Coverage Should Be No Less Than Your Master Deductible:

- Coverage A (Dwelling/Building Coverage)
- Loss Assessment Coverage
- Sewer / Sump Pump Backup Coverage

Coverage A

Building Coverage/Dwelling Coverage

What It Covers:

This coverage protects the physical attributes of your home against the covered perils listed in your policy. Fire, water, lightning, etc.

- Example: A unit suffers \$7,000 in damage to their kitchen due to a small fire. The master policy deductible has a \$10,000 all other perils deductible, therefore no coverage will be provided as the damage does not exceed the deductible.
- If the unit owner has the proper Coverage A amount on their HO6 policy, the \$7,000 will be paid by their HO6 policy, minus their deductible (typically \$500).

Loss Assessment

What It Covers:

- It provides protection to condo owners when the building or common areas have been involved in a claim. It covers the remaining out-of-pocket expenses — due to qualifying perils — that weren't **covered** under the condo's HOA policy.
- Example: A four-unit building suffers significant fire damage. The total damage is \$100,000 and the all-perils deductible for the building is \$25,000. All four units are assessed their share of the \$25,000 deductible, or \$6,250. If a unit owner has the proper Loss Assessment Coverage, their portion of that deductible would be covered by their HO6.

Water/Sewer Back-Up

What It Covers:

- Water damage to the structure of your home or personal property if it discharges or overflows from the following: sewer/drain, sump, sump pump, or related equipment, even if the overflow or discharge occurred because of mechanical issues.
- Example: A unit owner loses power during a storm and suffers \$9,000 in damage to their basement due to a failed sump pump. The master policy deductible has a \$10,000 all other perils deductible, therefore will provide no coverage as the damage does not exceed the deductible.
- If the unit owner has the proper Water/Sewer Back-Up amount on their HO6 policy, the \$9,000 will be paid by their HO6 policy, minus their deductible (typically \$500).



LOSS OF USE

Coverage for expenses when you are unable to use your home

- Coverage is typically minimal

HO6 - Concerns

- **Increased Rates** – 25-30% rate increases over the last 3 years.
- **Loss Assessment Definition** – Carriers have changed their language so that the policy needs to be in force during both the physical damage date as well as the loss assessment date.
- **Loss Assessment Maximum** – Carriers limit loss assessment coverage to \$2,000.
- **Mortgage Company Requirements** – Mortgage companies require an HO6. However, they do not require the proper HO6 Coverage amounts.
- **Foreclosures** – We have begun to see foreclosures due to unit owners' lack of HO6 coverage.

QUESTIONS?

