



By **Allen Hudson, CIC**

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Insurance Trends

Insurance trends in the Community & Condominium Association industry

The insurance market has gone through considerable change in the past few years. Starting in 2008, due to the economic recession, carriers got very aggressive with their pricing in an effort to write as much business as possible with the hopes of controlling the largest possible share of the marketplace. The concept behind this strategy is simple: the company with the largest footprint in the market at its lowest point would stand to gain the most from the eventual recovery. Fast forward five years later and although jobs growth and corporate profits have recovered, interest rates have remained artificially depressed.

Continued competition will keep insurance carriers honest, but be sure to speak with your agent and ask them to get renewal terms from the carrier 60-90 days prior to the renewal in order to avoid any unpleasant surprises.

Insurance companies and lending institutions make most of their money on the interest they earn with their surplus balances.

Although we have avoided Hurricane Sandy type losses in the past couple of years, we have seen some recurring losses specific to residential real estate. The most common losses in the past 12 months have been pipe bursts, waterline breaks, kitchen fires, attic fires, and water penetration predominantly related to flashing issues, especially with newer frame condominiums. The 2012 Derecho and the 2013 polar vortex also affected many properties in the DC Metro area.

This combination of low return on investment income and an 'above average' industry loss ratio has put pressure on insurance premiums to increase. However, until this point, increased competition among carriers offering broader coverage forms at cheaper prices has been staving off the expected premium correction. We are at a point where the same insurance companies that are still aggressively pricing new submissions at 15-20 percent discounts are pricing the same renewals with increases of 15-20 percent.

Assuming you have undertaken the effort of independently bidding your communities insurance in the past 2-3 years, you are probably looking at the lowest your insurance premium will be for the foreseeable future. Continued competition will keep insurance carriers honest, but be sure to speak with your agent and ask them to get renewal terms from the carrier 60-90 days prior to the renewal in order to avoid any unpleasant surprises. Investigations have shown that rate increases are higher when terms are calculated closer to the renewal date. If the insurance company knows you have sufficient time to entertain other bids, they are much less likely to increase renewal premiums unfairly.

In summary, you can expect to see 3-10 percent increases in renewal premium for the next couple of years. Bidding the insurance could still net competitive terms, but actively managing expectations with the incumbent insurance agent and carrier well enough in advance will mitigate attempts by carriers to dramatically increase your premiums. 

