The New Realities of Community Association Insurance Underwriting: A Two-Part Series

By:

Jim Ruebsam, CIRMS, EBP

Senior Vice President, The Daniel & Henry Company

Danny Dragicevic

Vice President, The Daniel & Henry Company

Part I: The New Insurance Market and Key Underwriting Criteria

Community associations are currently confronted with a myriad of challenges in the insurance landscape, creating a complex environment for securing adequate coverage. Among the foremost issues is the escalating cost of insurance premiums and deductibles, driven by a surge in claims and unpredictable weather events during the past decade. Reinsurers, which are the backstop for the insurance industry, cannot keep up with losses–the past two reinsurance renewal cycles have seen the most dramatic increases in 30 years.

This financial strain poses a significant burden on association budgets, requiring careful navigation to maintain comprehensive coverage without compromising financial stability or violating governing documents. It's also creating an urgent need for many communities to update building systems and address new, strict underwriting guidelines.

In this two-part series, we're going to first review the "new realities" of underwriting for condominium, townhome, and villa communities. In the next issue of this newsletter, we'll do a deeper dive into loss control challenges–including restrictions on older electrical systems, grilling, fireplaces, and more.

Underwriting Criteria

Tightening capacity in the reinsurance marketplace has led to many insurers to re-underwrite their community association book of business. Claims data shows which property characteristics are more likely to lead to losses. Logically, older, larger communities with deferred maintenance issues are experiencing the biggest challenges. The table below provides a general underwriting appetite guide, based on building characteristics.

2023 - 2024 Underwriting Appetite Guide

	Building Age	**Total Insured Value (All Buildings & Structures)**	**Number of Buildings**	**Roof Age**	**Age of Electric, Plumbing, & HVAC Systems**	**Life and Fire Safety Systems**
Desirable	Post-1990	< $10 Million Total insured Value	< 10	< 10 Years Old	< 25 years Old	Central station alarm; NFPA13 Sprinkler
Less Desirable	1980 - 1990	$10 Million - $25 Million Total insured Value	10 - 15	10 - 15 Years Old	25 - 40 Years Old	Local Alarm; NFPA 13R Sprinkler
Not Desirable	Pre-1980 Unless Gut Rehabbed	> $25 Million Total Insured Value	> 15	> 15 Years Old	> 40 Years Old or No Record of Update	No Alarm or Sprinkler Systems

Communities with multiple undesirable characteristics may not have standard market options and will need to rely on “non-admitted” insurers that are not backed by the state guarantee fund. Larger, older communities may need multiple insurance companies to obtain full replacement cost limits.

Desirable communities may receive 15-25% increases at renewal, and those with multiple undesirable characteristics may face increases of 50 - 300% or more. Claims history, electrical system issues, and presence of BBQ grills on decks or wood burning fireplaces typically dictate the scale of increase.

Inflation and Valuation Issues

In the insurance industry, the assessment of building valuation remains a critical challenge, especially in the face of rapidly evolving construction costs and property values. During the past three years, fluctuating material costs, supply chain disruptions, and labor shortages have led to significant variations in construction expenses. This volatility makes it challenging for insurers to assess the precise value of properties, often resulting in underinsured assets. Inaccurate valuations can have substantial consequences, leaving communities vulnerable to inadequate coverage or insurers exposed to higher-than-anticipated liabilities in the event of a claim. Most insurers are now strictly enforcing "insurance-to-value" (ITV) requirements and may force policyholders to increase building limits.

Moreover, the complexities of building valuation are compounded by the diversity of property types in the community association industry. Standardized valuation methods often struggle to account for these intricacies, leading to disparities in coverage adequacy across different property categories. High-value properties, historic buildings, or those with specialized construction materials present valuation challenges that require a nuanced understanding and tailored assessment strategies.

Many communities have or will face a "double dip" of greatly increased building values coupled with rate increases. In this turbulent market, underwriters may only accept a professional appraisal if your community wishes to challenge the insurers' value opinion.

In the next issue, we will address the current challenges with electrical and loss control issues. This includes insurers' unwillingness to accept BBQ grills and other devices near multi-family buildings, wood burning fireplaces, older electrical panels, aluminum wiring, and more.

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Jim Ruebsam, CIRMS, EBP

Senior Vice President, The Daniel & Henry Company

Steve Doores, PCAM, MBA

Director of Community Association Client Service, The Daniel & Henry Company

Part II: The New Insurance Market and Loss Control Issues

In the past issue of this newsletter, we addressed the “new reality” of underwriting for community associations. In this edition, we will address the many loss control and safety concerns that may prevent a community from obtaining the best terms from the insurance marketplace.

In this very challenging market, not only are insurance companies becoming more strict about building characteristics that were addressed in Part I, but they are also focusing on hazards that may lead to losses. Below, we will address the primary safety and loss control issues that underwriters and insurance inspectors are scrutinizing.

Aluminum Wiring

If your community was constructed from the late 1960s through the early 1980s, there is a very high chance that you have aluminum wiring. As early as 1974, the heightened fire risk from aluminum wiring became apparent. In 2011, the US Consumer Product Safety Commission (CPSC) released a study that stated homes with aluminum wiring are 55 times more likely to have “fire hazard conditions” than homes with copper. In that study, the CPSC recommended that aluminum wiring be replaced with copper or remediated using approved methods.

Today, the insurance market is almost non-existent for communities with non-remediated aluminum wiring. The few insurers remaining that will write coverage are offering terms that are very expensive for the meager coverage you receive.

While rewiring with copper is preferred, it's impractical for most community associations. In the Heartland region, using AlumiConn connectors (*see photo)* is the most common method of remediation that is accepted by many insurers. The cost per unit for AlumiConn remediation ranges widely based on the size of the unit and the number of outlets, switches, and light fixtures, but the cost usually ranges from $2,500 - $5,000 per unit.

AlumiConn remediation is often the only feasible way to be able to reduce insurance costs for communities with non-remediated aluminum wiring. If your community has non-remediated aluminum wiring, please contact one of CAI's electrical contractor members to discuss your options.

Electrical Panel Issues

Even more challenging than aluminum wiring are several types of electrical panels that pose a fire risk. Most of these panels were recalled decades ago, though it's common to find them in communities constructed or remodeled from the 1960's through the late 1980s.

<u>If your community has any of the following types of electrical panels, they should be replaced immediately</u>.

Federal Pacific / FPE Stab-Lok	Sylvania / GTE Sylvania	Zinsco	Challenger

Many insurance companies strictly forbid issuing policies for properties with these types of panels, and the very few that will underwrite them require large deductibles and very significant price increases. If these are discovered during an inspection, often an insurer will issue a cancellation–even during the middle of a policy term. Finally, there are many insurers that are adding a fire exclusion for any fire caused directly or indirectly by a forbidden panel.

BBQ Grills and Heating Devices

Most insurance companies have adopted very strict underwriting guidelines regarding grilling. While fire codes related to grilling differ from municipality to municipality, during the past few years, the commercial insurance industry has widely adopted the [National Fire Protection Association (NFPA) standards](#).

In short, these standards forbid the operation of any cooking or heating device that generates a temperature of 200 degrees or more within 10 feet of a multi-family residential structure. This includes BBQ grills, smokers, electric grills, fire pits, chimineas, heaters, and similar devices. Furthermore, none of these devices may be stored on decks or balconies.

Insurance professionals realize that these standards are extremely unpopular, but the presence of grills and other devices on decks and balconies often leads to an immediate declination from most insurers. In this very challenged market, losing a potential insurer may result in significant cost increases for the community.

Wood Burning Fireplaces

Increasingly, insurance companies are taking a hard line against wood burning fireplaces in multi-family buildings due to increased fire risk and the lack of cleaning and maintenance. While there are some insurance companies in the non-standard marketplace that allow them, the dwindling pool of standard markets are requiring that wood burning fireplaces be converted to gas or electric, or that the chimney be capped. Even some non-standard markets have recently adopted this position.

In order to dramatically decrease insurance costs, many Boards are passing strict rules forbidding the use of wood burning fireplaces *and* the storage of logs on decks and patios. In the Western United States, this has been an issue for more than a decade and has not gone away. Unfortunately, it may be here to stay in the Midwest as well.

If your community has wood burning fireplaces, now is a good time to survey owners to determine what percentage are actually using them. If it's a small handful, it may make the decision to mandate conversion to gas or electric or capping them easier.

Unsafe Balconies, Decks, and Sidewalks

Unlike in years past, most insurance companies are now ordering an on-site inspection for new policyholders. Inspectors are trained to look for deteriorating decks, balconies, awnings, overhangs, and uneven sidewalks. Not only are these extremely unsafe for Owners and their guests, they may lead to a cancellation of your insurance policy. Your community should have a plan to address these issues.

General Maintenance Issues

Due to claims issues during the past several years, some insurance companies have a mandate to "clean up their books" of community association accounts. The collapse of the Champlain Towers in June 2021 exacerbated the focus on property maintenance.

Often, inspection reports are used for the culling of accounts, and deterioration of roofs, siding, and other building elements are sometimes used as a reason to non-renew an account. One way to combat this issue is to have reserve study in place with a funding plan to correct any potential building issues. The Board should share this reserve study with your insurance professional so that they can demonstrate your community has a plan in place and is not relying on insurance funds to make repairs.

Summary

Insurance professionals are very sympathetic to the hardships facing community associations, volunteer boards and community managers. We realize that adding and enforcing rules regarding grills and fireplaces and mandating expensive electrical system updates may create additional hardships. However, our job is to provide communities with strategies to obtain the best terms available in this challenging market.

Will these issues go away if the market softens? Perhaps, but it's difficult to know when that may occur. Also, outside of the Heartland, many of these issues have existed for many years. Due to state statutes, governing documents, and lender requirements, the duty to obtain insurance is not going away. Therefore, boards and managers should tackle these challenges today to help your community obtain better terms as soon as possible.