

# Protection in a volatile market: The importance of a comprehensive building insurance plan

Insurance pricing is expected to stabilize in 2009, as a result of investment and underwriting losses taken by property and casualty insurance carriers in 2008. While insurance pricing is difficult to predict, condominium associations may begin to see rate increases by year's end or the beginning of 2010. Unlike other hardening insurance markets, pricing increases are expected to be gradual, due to the global recession and decreased demand for insurance. Insurance premiums may stay elevated longer than in past cycles due to the lack of new capital entering the insurance market.

## Consider the struggling economy

Some condominium boards may be tempted to look for ways to reduce premiums by increasing deductibles and reducing coverage. However, consideration should be given to increased risk as a result of the struggling economy. These factors include:

- An increased number of foreclosures
- The number of unoccupied units in the building that may have increased due to the unit owner's inability to sell or rent them
- Large water damage losses that can result from the additional amount of time it takes to discover a loss in unheated or unoccupied units
- Open windows and doors in unattended units that frequently result in frozen pipe claims
- An increased number of renters in the building who may not purchase coverage that will protect other unit owners
- The unit owner's insurance carrier not responding to a loss caused by a negligent renter
- Increased workers' compensation or other liability-related losses
- Crime and theft losses



## Building replacement cost and payroll still play a role

Even with flat to minor rate increases for the first quarter of 2009, you can expect increases in premiums based on projected payroll and building replacement costs. While other businesses may see decreases in insurance costs based on declining sales and/or payroll, building payroll may increase due to cost of living wage increases.

Building material and supply costs may have decreased, but insurance carriers are evaluating each association to make sure that they are insuring for the cost to replace the building. While some buildings may be renewing at the same replacement cost limit as last year, others may see an increase, depending on how close their current property limit is to the actual replacement cost of the building. These exposure changes do not include any rate increases that may be charged by the association's current insurance carrier. Your workers' compensation insurance costs are based on the amount of payroll in your building. The 2009 Illinois workers' compensation suggested rate for building maintenance,

door staff and garage employees increased 10 percent from 2008.

## The impact of rental market percentages

Rental percentages in condominium buildings will become increasingly important as insurance underwriters become more conservative in 2009. Insurance carriers will be less comfortable offering pricing discounts for buildings with rental percentages over 25 percent. While some condominiums are considering changing the leasing provisions in their declarations to meet this objective for lenders, it will also become increasingly important to your insurance carrier. Lenders are also focusing on the association's crime policies to make sure the employee dishonesty limit is equal to a minimum of three months of assessment coverage.

According to AM Best Rating Services, after two years of underwriting profit, the property and casualty industry is expected to show a \$21.5 billion dollar loss for 2008. This is due to weather-related losses and further deterioration in rates

## insurance plan...

in the past year. However, they do feel that the overall industry is sufficiently capitalized to withstand the economic challenges that lie ahead. Pricing and coverage changes are difficult to predict, but condominium associations and cooperatives should anticipate increases in their insurance program costs over the next several years.

### **Sudler Master Program is a solution**

Sudler continues to provide managed properties with a comprehensive, aggressively priced master insurance program. The Sudler Master Program provides exclusive services and coverage from insurance carriers that are only available to larger organizations. The Hartford Insurance Company has a dedicated team to handle the general liability and auto liability coverage for the Sudler account, and each team member is equipped to handle the habitational exposures that are inherent in the property management business. Outside of handling property damage claims, Affiliated FM, the program's property insurance carrier, provides engineering and control services to each location listed under the Sudler Master Program.

### **Higher coverage limits are necessary**

Fortunately, due to the volume of business that is placed under the Sudler Master Program, it was possible to negotiate higher coverage limits and more extensive services than those available under other programs. The associations that are covered under the program have not paid higher premiums for this coverage, but it is necessary nonetheless. For example, Affiliated FM has paid out more than \$800,000 in extra expense under one loss scenario and more than \$200,000 in mold clean-up costs under another. Compare this to the typical condominium and cooperative insurance carrier extra expense limits of \$250,000 or lower, and mold clean-up limits of \$25,000 or lower. In these tough economic times, a board does not want to charge a special assessment fee for lack of coverage under its insurance program.

The next few years will be difficult, and it is essential to continue providing your association with a comprehensive insurance program in this time of increased risk. Sudler provides its managed associations with the opportunity to take advantage of its long-term program, which combines competitive pricing with the right protection.

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