

# 2024 Financial Management Conference

## Insurance: Risk management and Retention

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# Agenda

- Insurance Market Overview
- Pressure of Managing the Overall Insurance Relationship & Broker Selection
- Risk Management Process
- Risk Management Organizational Structure
- Captives
- Deductible Impact
- CFO Considerations for Insurance
- Loss Funds and Reserves – lender & investor roles

# Continuing Professional Education (CPEs) Requirements for CPAs

- Please find the **SESSION HOST** to **SIGN IN** at the beginning and **SIGN OUT** at the end of every session using the **QR code**. We use that attendance log to verify your participation for CPE credits.
- Please **submit all conference evaluations**. Evaluation links are emailed to registrants daily. Please see the session host (the person monitoring the sign-in process) if you prefer a paper evaluation.
- For more information on CPE credits, contact Lindsay Wells at [consult.lwells@gmail.com](mailto:consult.lwells@gmail.com).

# Questions

- We will pause during presentation and again at the end for Q&A.

# Market Overview

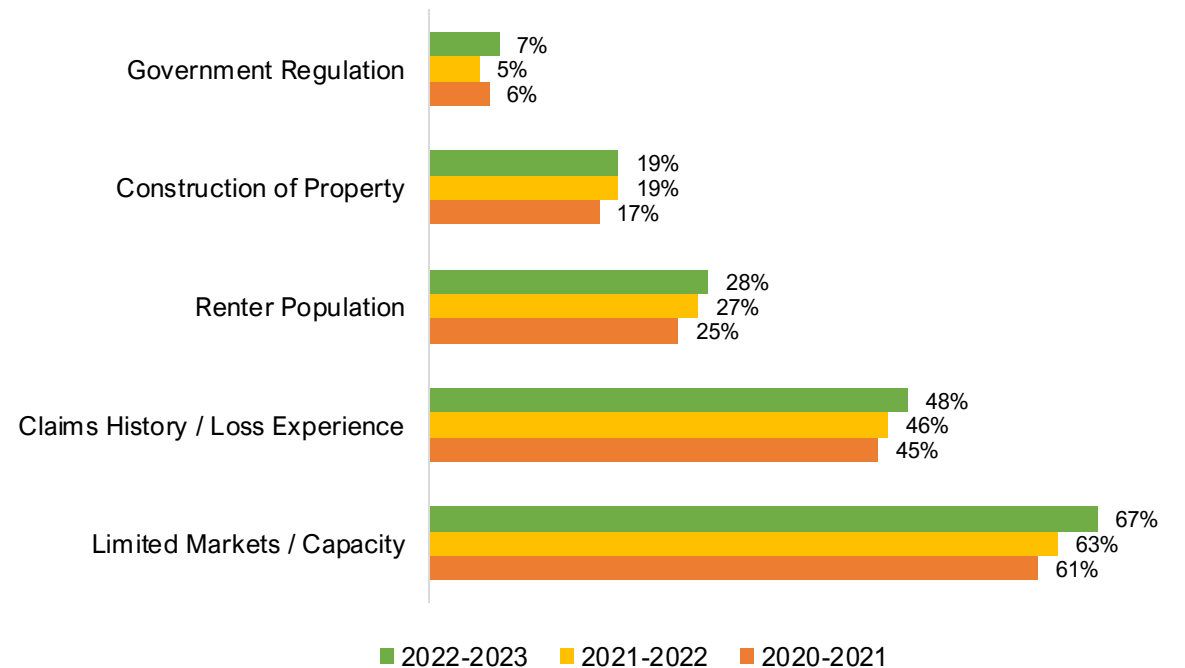
- Rates
- Availability
- Deductibles
- Exclusions
- Trends

# Insurance Market Overview

- Q2 2024 was the 27<sup>th</sup> consecutive quarter of premium increases.
  - The industry hit the six-year mark of cumulative year-over-year rate increases (not to mention changes to policy terms and conditions, which act like rate).
  - This is one of the longest hard-market cycles the industry has seen over the last 40 years.
- Underwriters remain disciplined in regard to deploying capacity, (limits of insurance), and coverage terms and conditions.
- The Real Estate Liability Market has continued to tighten in recent years. Bottom line – these lines of business have not and are not profitable for insurance carriers.
  - General Liability/Umbrella Liability were underpriced for years.
  - Losses continue to increase due to social inflation and rising jury verdicts.

*The following table from the October 2023 Increased Insurance Costs for Affordable Housing Providers conducted by National Housing Leasing Association, (NLHA), and NDP Analytics highlights the various reasons for premium increases including Renter/Tenancy Population, (e.g., Permanent Supportive Housing.)*

All Lines of Insurance: Rationale for Premium Increases



# Property Market Update

➤ **The current commercial property market is not a one-size-fits-all marketplace.**

➤ Issues that Underwriters are paying close attention to are:

- Extreme Weather Patterns (Named Windstorm, Severe Convective Storm, (SCS))
- Supply Chain Disruption
- Economic Concerns
- Reinsurance Challenges
- Social Inflation

➤ Insurance-to-Value, both on Building Replacement Cost and Loss of Rents, continues to be highly scrutinized.

- Some carriers will not accept less than \$125-\$150 per square foot for a habitational account.
- Property Schedules that are undervalued will generate little interest with underwriters.

➤ Limited Markets for pre-1990 construction, especially Wood Frame and Joisted Masonry.

- The remaining markets that will quote these schedules will dictate coverage terms and pricing.
- Reduced competition will lead to increased premiums and deductibles.

➤ Unless Construction is better than Wood Frame or Joisted Masonry, larger schedules, (\$500m and higher), will almost always need multiple insurers, (both domestic and international), on a Shared & Layered Program to provide the limits of insurance, (capacity), that policy holders, lenders and investors require.

Limits of Insurance in Millions	Sample Shared & Layered Property Insurance Program Structure			
\$200m				
\$100m	Company J - 50% of \$100m x \$100m		Company K - 50% of \$100m x \$100m	
\$25m	Company H - 75% of \$75m x \$25m		Company I - 25% of \$75m x \$25m	
\$10m	Company E - 33.3% of \$15m x \$10m	Company F - 33.3% of \$15m x \$10m	Company G - 33.3% of \$15m x \$10m	
	Company A - 25% of Primary \$10m	Company B - 25% of Primary \$10m	Company C - 25% of Primary \$10m	Company D - 25% of Primary \$10m
Insured Deductibles	\$100k to \$250k			

1- RT Property US Property Insurance Review | April 2024 and 2 - CRC 2024 State of the Market at a Glance: Property

# Property Market Update – CAT Events

- **Severe Weather Events Are Increasing Across the US in Frequency and Severity**

- In 2024 (as of August 8), there have been 19 confirmed weather/climate disaster events with losses exceeding \$1 billion each to affect United States.

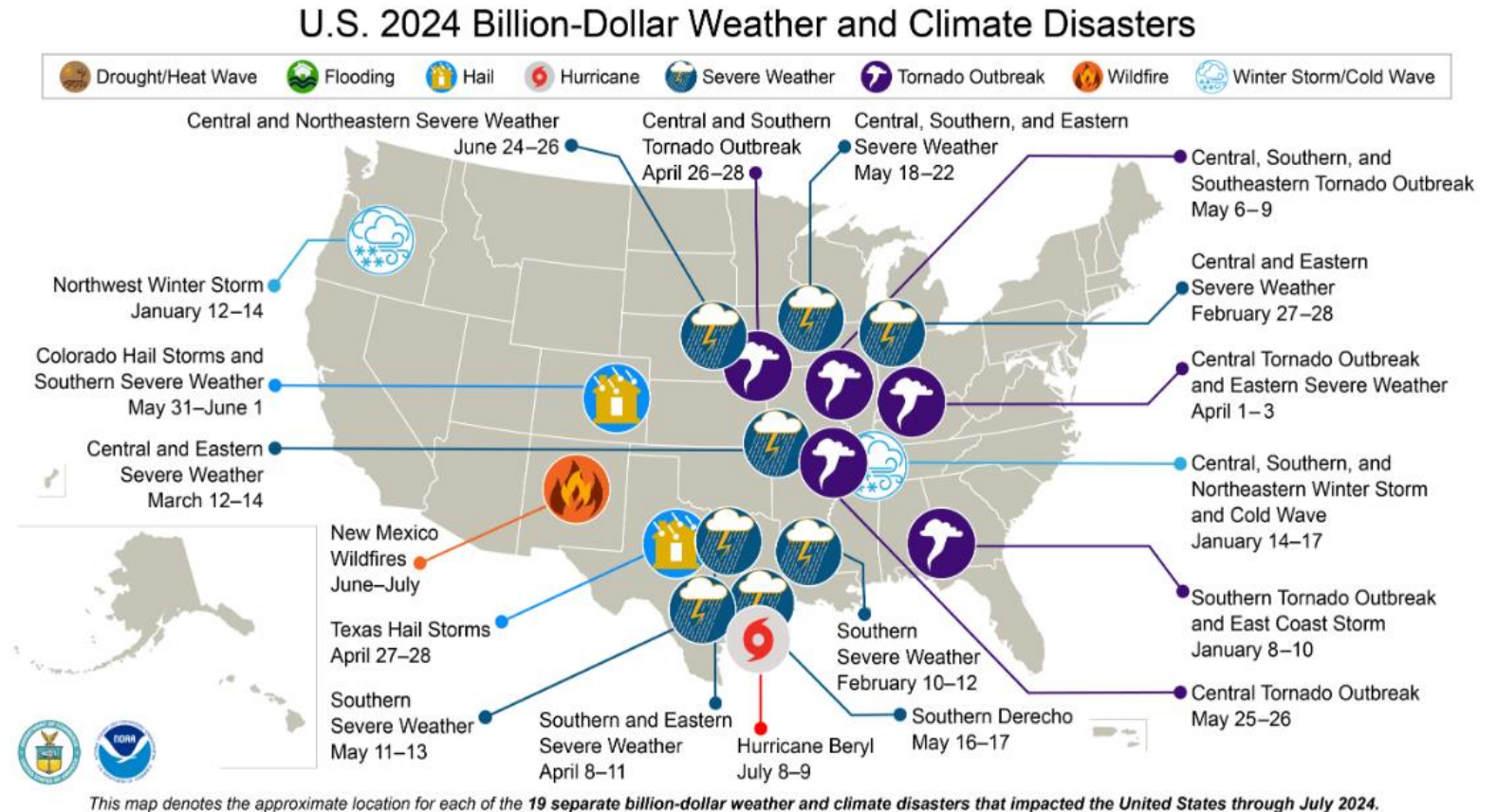
- These events included:

- 15 Severe Storm Events
- 1 Tropical Cyclone Event
- 1 Wildfire Event
- 2 Winter storm Events

- Events resulted in deaths of 149 people with severe economic effects on impacted areas.

- The 1980-2023 annual average is 8.5 events, (CPI adjusted)

- The 2019-2023 annual average is 20.4 events (CPI Adjusted)





# Builders Risk Market Update

Builder's risk accounts with catastrophe (CAT) exposures, large wood frame projects (\$100M+) and renovations continue to be a challenge in the marketplace.

Underwriting results in the multi-family wood frame space remain volatile. *(See table on slide 10)*

This specific segment of the builder's risk arena saw multiple large fires with origins ranging from arson to general hot works.

These projects require increased diligence on project security and overall job site risk assessment.

Ground-up builds in desirable low-crime areas will see capacity surplus which may result in rate relief.

Mega-Projects and High-Crime area urban development will remain extremely challenging.

RPS 2024 Property Market Update  
RPS 2024 Property Market Update



# Builders Risk Market Update

Source: RT  
Property US  
Property  
Insurance Review  
| April 2024

Frame Builder's Risk Fires, 12 Months (March 2023 - April 2024)			
Date of Fire	Location	Risk Under Construction	Time of Day, Cause of Loss
2/25/2024	Ele'ele, HI	3-story, 48 unit, Habitational	12:45 a.m., Under Investigation
1/28/2024	Jacksonville, FL	5-story, 247 unit, Habitational Nearly Complete	9:30 p.m. Under Investigation
12/16/2023	Aurora, CO	5-story, 405 unit, Habitational	12:48 p.m. Under Investigation, Origin on 5th Floor
12/15/2023	Rowlett, TX	5-story Habitational	8:30 p.m. Under Investigation
12/14/2023	Aurora, CO	4-story, 5 buildings, Habitational	12:11 a.m. Arson
11/28/2023	Los Angeles, CA	2-story Habitational	3:25 a.m. Under Investigation
11/24/2023	Visalia, CA	2-story, 4 buildings, Habitational	10:00 p.m. Under Investigation
11/17/2023	Littleton, CO	2-story Habitational	12:30 a.m. Arson with an arrest
9/27/2023	Atlanta, GA	3-story, 1 building of multiple garden style, Habitational	Afternoon, Under Investigation
8/1/2023	San Francisco, CA	4-story Frame on concrete story, 14-unit Condo	6:00 a.m. Under Investigation
6/20/2023	Las Vegas, NV	5-story, 2 buildings, Habitational	4:20 p.m. Undetermined, Origin on Roof
6/11/2023	San Gabriel, CA	4-story, 68 unit, Habitational	3:28 a.m. Under Investigation
5/18/2023	Charlotte, NC	5-frame on 2 concrete, 1 of 2 buildings, Habitational	9:15 a.m. Worksite Equipment Fire Spread to Building
4/4/2023	Fort Worth, TX	3-story, 56 unit, Habitational	3:30 a.m. Arson
3/10/2023	North Las Vegas	4-story, 150 unit, Habitational	10:30 p.m. Arson
14 out of the 15 claims referenced above were Habitational Builders Risk Projects			



# Polling Question #1

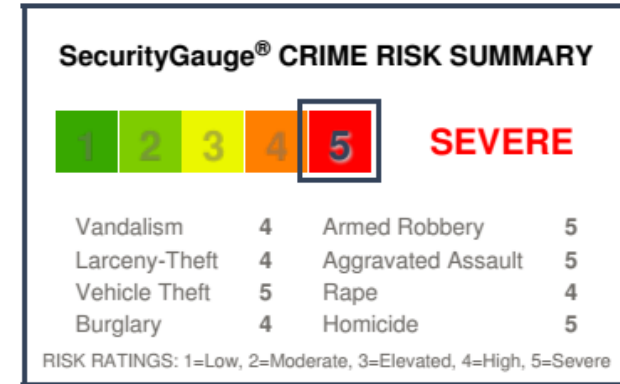
**How many of you have a Shared & Layered  
Property Insurance Program?**

# Liability Insurance Market Update

## Real Estate Liability Insurance Trends and Pricing <sup>1</sup>

- Hard market conditions, which started in 2021, will continue.
- The primary GL and lead \$5M marketplace are still limited with few new carrier entries.
- Underwriting remains very disciplined. Rates remain high with the majority of E&S carriers. looking for single to double-digit increases along with possible new coverage restrictions.
- Some admitted carriers have pulled out of CA, FL, GA, and parts of TX.
- The rise of violent crime in many major cities has many insurers sub-limiting Assault & Battery claims or excluding this coverage altogether.
- Crime scores have become an increasingly important and utilized Underwriting tool.
- Artificial Intelligence, (AI), being used to scrub Statements of Values
- Habitability claims are also still a problem in CA but are also becoming an issue in WA and parts of NY. CA, TX, FL, GA, PA, NY and NJ, as these are the most challenging states in which to secure terms.
- Carriers are requiring Claims-Made and/or Defense Inside the Limits of Liability\* a condition of providing Assault & Battery and/or Abuse & Molestation coverage.

*\*Excess Liability policies will follow-form with these coverage provisions possibly requiring the purchase of higher limits of insurance.*



<sup>1</sup> CRC 2024 State of the Market at a Glance: Casualty

# Liability Insurance Market Update

Source: AmWINS Real Estate Casualty Market Hardening Enters Uncharted Territory – July 2024

## More cost, less coverage



### Rates

Most risks can expect double-digit renewal increases. Even for clean accounts, 10% to 20% increases are common, with 30% not unheard of. Distressed accounts or those that have been nonrenewed could see even steeper increases.



### Retentions

Carriers continue to raise minimum retentions. Many key markets have set minimum retentions of \$50,000 to \$100,000. In addition, obtaining retentions less than \$25,000 will typically come with restrictions on A&B and SAM. Locations with specific problems, such as crime exposure, could be facing retentions of up to \$500,000 if coverage is even offered.



### Sublimits

Previously, policies either included A&B/SAM within the location/aggregate limit for all losses or, for accounts with known issues, separated it with a small sublimit (under \$1M/\$1M). It was clear that excess layers would follow form in the first scenario but would exclude coverage in the second (due to underlying limits under \$1M). Today, many more accounts can expect to see sublimits for A&B/SAM, even if they don't have loss issues. Additionally, accounts that typically had a per location with a cap of \$5m or 10m for A&B may now be subject to a one-time A&B limit of \$1M/\$1M or \$1M/\$2M. In these scenarios, it is essential to clarify whether excess coverage follows underlying coverage or not as it relates to A&B and SAM.



### Exclusions

Insurers are increasingly adding exclusions for habitability, A&B, SAM and human trafficking, regardless of an account's loss experience or crime score.



# Broker Overload

- *How not to choose an insurance broker*
  - Brother-in-law
  - Person who contacts persistently and annoyingly
  - Small town relationships
- *How to choose an insurance broker*
  - What carriers do they have direct relationships with?
  - Premium volume with those carriers
  - History with similar accounts
- What service do you need?

# Managing the Insurance Relationship

- Broker overload
- Broker choices
- Role of consultants



# Risk Assessment and Management

## Identifying and Analyzing Risks

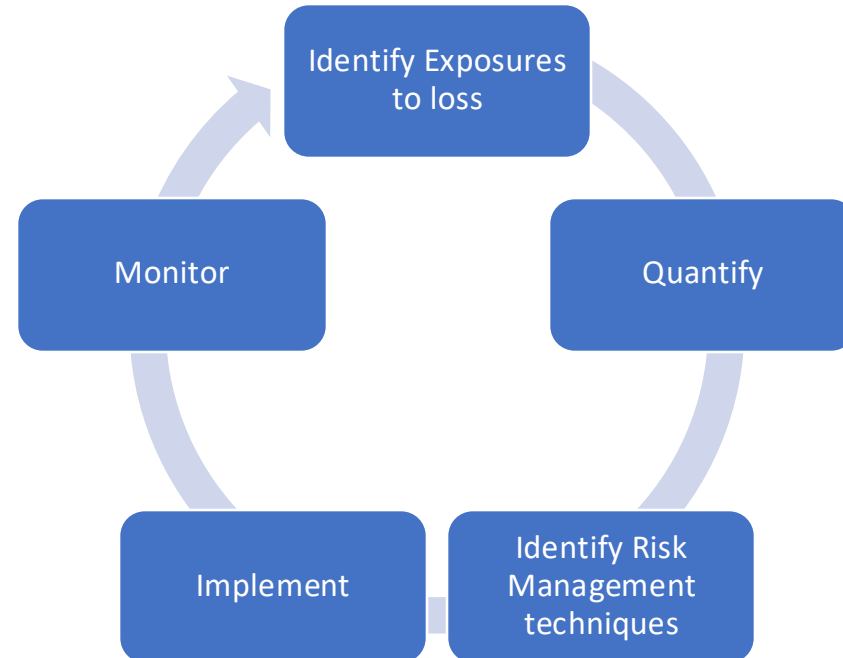
Identifying risks is an essential step in risk assessment and mitigation. A thorough understanding of risks is necessary to implement adequate controls.

## Managing Risks

Managing risk typically includes four risk management techniques: (1) Avoid; (2) Transfer/Share; (3) Mitigate/Reduce; and (4) Retain. Insurance policies, contractual protections, and safety programs are key considerations for mitigating risks. These measures can provide a safety net to protect against unforeseen events, but the primary emphasis should be on avoiding risk.



# The Risk Management Process



# Expanding that risk circle...

- Thinking about risk more broadly
- Risk management culture
- How much project level risk can the parent accept?
- Risk in acquisitions
- Which properties pose more risk and why?

# Risk Management Organizational Structure

- Separate Department or Team Members from Each Department?
- Who is ultimately accountable for Risk Management?

# Poll#2

How many of you have a formal risk assessment process?

# Deductible Levels

- *The Insurer's Perspective*
- What?
  - Mandating higher deductibles
    - From \$10,000 to \$100,000
    - Different deductibles for different perils
      - Percentage deductibles wind and earthquake
- Why?
  - Costs of managing small claims
  - Policyholders interest in loss control

# Deductible Levels

- *The CFO's Perspective*
- Sites can't afford higher deductible
  - Reserve funding arrangements
- Lenders won't permit higher deductibles
  - Amenable Deductible Provisions
  - Negotiation
- Investors interests exposed
  - Understanding of risk/reward trade offs
  - Communication

# Deductible Vs. SIR

- Deductible – Property Coverage – amount subtracted from final settlement
- Deductible – Liability Coverage –
  - Insurer handles claim, and bills back for deductible amount.
  - May require collateral
- Self Insured Retention (SIR)
  - Insurer has no duty until retention amount is reached
  - Policyholder responsible for claims within SIR
  - Policyholder needs claims management

# Loss Funds & Reserves / Lender & Investor Considerations

- Non-insurance risk transfer
- Risk sharing pools
- Negotiating with investors and lenders
- Lender and investor roles in loss funds and reserves



# Poll#3

**How many of you cannot afford to absorb a \$100,000 deductible?**

# What some folks are doing?

- Captives – Single Parent and Group
- Robust Risk management practices
  - Data that tracks risk
  - Accountability the manages risk

# Poll# 4

**How many of you employ a risk manager or consultant?**

# 10 Things For A CFO to Consider

1. Get a good broker
2. Think about what you can self-fund
3. Analyze your claims and make changes accordingly
4. Actively risk manage your portfolio – implement safety programs and other loss prevention strategies (e.g. smart burners, toilet and flood sensors, no smoking policy)
5. Increase the frequency and depth of connection with carriers

# 10 Things For A CFO to Consider - continued

6. Make buildings more resilient – use design standards
7. Maintain active lines of communication with peers, brokers, and other experts
8. Where you can, explore risk transfer through contracts and indemnification clauses
9. Make sure your risk transfer partners have the capacity to retain (or transfer) risk
10. Manage remediation and rebuild contractors – train on-site teams to complete remediation and rebuild activity where appropriate

# Poll#5

**How many of your property managers still believe that “stuff just happens and that’s why you have insurance**

# Evaluation Reminder

- Please submit all conference evaluations. Use the electronic evaluation link in your email.
- Contact [consult.lwells@gmail.com](mailto:consult.lwells@gmail.com) if you do not receive the link.

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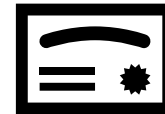
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