

Why Did Our Premium GO Up?

by Robin Manougian and John Manougian

Very often, insurance agents hear the question, "Why did our insurance premium go up? We didn't have any claims this year." Because insurance premiums are based on more than just the claims activity a community association does or does not generate, it is important to understand why, unlike your automobile policy, insurance policies for real property rarely renew at their expiring rates.

While it is possible to shop around and find another agent offering a competitive and sometimes lower insurance premium, it is important to understand the competing agent's program of coverage. Very often a community association's decision to purchase or change insurance programs is guided—or *misguided*—by price. And because most communities truly don't understand that no two programs are exactly alike, it is easy to be swayed by price while believing they're purchasing the same insurance at a reduced cost. It is important to read not only the insurance proposals accepted dur-

ing the bid process, but also to ask questions about what is covered and what is not. A premium saving now could cost your community a great deal of heartache—and money later.

The following are some frequently asked questions and answers regarding insurance policies and premiums:

Does the current market or economy play into premium?

Understand that insurance premiums, like other marketable goods, are driven by the current market. Realistically, and in comparison to premium increases in the past, insurance premiums in the past decade actually have gone down. This means that the rate applied per square foot in conjunction with the type of construction, building age, amenities, and so forth, has been lower than in prior years. This decline, or premium stagnancy, can be attributed to a *soft market*. In a *soft market*, the consumer has a variety of choices and can either

negotiate better premiums or can dictate where to place coverage based on coverage needs and price. This type of market is also referred to as a *buyer's market* wherein, again, the customer has more freedom to negotiate.

In a *hardening* market, fewer and fewer companies are competing to offer the type of product in demand. The same holds true of insurance, and community association insurance agents have begun to see a *hardening* of the marketplace in recent months as insurance carriers cease to offer the types of coverage needed. The carriers left viable in the marketplace, then, have the ability to raise premiums. This increase is then passed on to property managers and boards of directors, for whom demand for coverage has increased.

Do you think our premium will go down this year? My auto policy came in lower than last year's premium.

The tendency to want to compare or evaluate property insurance similarly to automobile insurance by customers is common, but remember that the two are very dissimilar. Unlike automobile insurance, which among other criteria is partly rated on the ever-depreciating value of the automobile, real estate (condominiums, cooperatives, and common area buildings,) continues to appreciate over time. Just as your home (whether it be a condominium, a cooperative, or a single family dwelling in a homeowners association,) continues to increase in value, so does the blanket value of the property insured due to the increase in costs to replace the dwelling should it be damaged or destroyed by loss. To ensure that an insurance policy is *insuring to value* and that an adequate limit of insurance is in place should there be a loss, the blanket value on the policy can be increased by a carrier by anywhere from three to eight percent or more, based on appreciation or a replacement appraisal.

How do claims affect our premiums?

Certainly the frequency and size of claims over a policy year or years affects an association's premium because insurance carriers continuously review and evaluate the *loss ratio*. It is important to remember that insurance carriers

HOW HAVE YOU MANAGED WITHOUT US?



Call Stephen Berlin, our President, for the answer to that question.
And a lot more. Managing to earn your trust for 25 years.
301-495-6601 direct

Accredited Management Organization • Member Institute of Real Estate Management
Accredited Association Management Company • Member Community Associations Institute

are not charitable organizations, and for insurance carriers to realize a profit from a policy, the loss ratio of a policy needs to remain under 45 percent. Loss ratios may be calculated by dividing the total losses by the total premium. (This is done by reviewing a community's three-year loss ratio, and then dividing three years' total losses by three years' total premium.)

Even if a community has had relatively few or even no losses, premiums may increase depending on market conditions. Because insurance premiums are based on a pool of similar risks, rates are adjusted by the condition of the overall pool. While your community may not have suffered any losses in recent years, communities similar to your own that have suffered losses may be driving current rates. Natural disasters, too, such as hurricanes, earthquakes, and heavy snow and ice, can also drive premiums up for everyone.

Our policy was canceled due to loss frequency and now our agent has offered a program in the Excess and Surplus market? How will this affect our premiums?

Agents are limited to offering coverage through the Excess and Surplus marketplace when carriers in the standard marketplace are unable or unwilling to offer coverage due to a poor loss history. Because standard carriers are limited in the premiums they charge by the rates filed in the individual states, the premium rate generated may not be substantial enough to cover the number of anticipated losses. The Excess and Surplus Lines marketplace has a number of admitted and non-admitted carriers willing to accept and underwrite *high risk* business, but the rates charged for these policies very often are double or more the standard rate. While it is possible for an insured to get back coverage within the standard marketplace at some point, most standard carriers want to see about three years of few or reduced claims to show stability.

Our community is in development. How does that affect our premium?

Any community that is in a growth mode should expect to see premiums increase each time a building comes off of a builders' risk policy and is added onto the Master Policy. As previously mentioned, among other factors, community association policies are based on square footage, total units, and blanket replacement value, so it stands to reason that increases in these factors will generate additional premium. Premium is generally pro-rated whenever a

continued on page 18

DELBE MANAGEMENT

*Specializing in Proactive Property Management
for Small Associations*

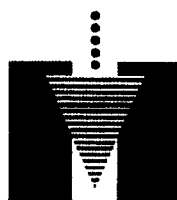
OFFERING...

- Customized Financial Statements
- 24-Hour Service
- In-House CPA, and
- Financial or Full Service

Call Scott Burka
for information

(202) 237-0187

www.delbe.com
sb@delbe.com



MINKOFF COMPANY, INC

*Experts in Property Restoration
24-Hour Emergency Services*

1-800-MINKOFF

A Quality Coat Is a Work of Art

Would you buy a quality coat if it could provide you with ► protection from the elements ► confidence in your image ► endless color selection ► variations of appearance ► durability and dependability?

For the best tailor-made results and service, try us on the next time you're looking for a quality coat.



Kolas Painting, Incorporated
6701 Cavalier Drive, Alexandria, VA 22307
703.768.1698 703.768.0908 Fax

President's Message...from page 4

One program presented at the Conference focused on personnel recruitment and retention. Statistical data from 50 on-site managers provided the following facts. It is important to stress that these statistics are averages, and salary ranges may vary up to 50 percent.

- The average on-site manager for communities with under 150 homes makes more than \$39,000, receives a one-week bonus, and gets 2.2 weeks of vacation per year.
- The average on-site manager for communities with 151-250 homes makes more than \$51,000, receives a one-week bonus and gets 2.8 weeks of vacation.
- The average on-site manager for communi-

ties with 251-500 homes makes more than \$56,000, receives a one-week bonus, gets 2.82 weeks vacation and many now receive 401k contributions.

- The average on-site manager for communities with more than 500 homes makes almost \$66,000, receives a one-week bonus, gets 2.83 weeks vacation and many now receive 401k contributions. Several managers are now making in the \$70-80,000 range, and receive 4 weeks vacation.

Another program focused on management companies, and reviewed how all of the factors mentioned in this message are changing the industry. This is also true for your other profes-

sionals and service providers. Community association leaders will need to look long and hard at the services they require, and be prepared to pay for them. As a leader, start preparing your association members for these changes. When it comes to budget time or contract renewal for any of your service providers or professionals, be prepared to face substantial increases, or consider reducing the services provided.

Katie Allardyce AMS, PCAM is the Vice President, Community Services for CFM Management Services in McLean, Virginia. Katie is serving her fourth year on the Board of Directors, and is a member of the CAI National Faculty, and is Chair of the National Managers' Committee.

Premiums...from page 13

building or buildings are added within a policy year. Furthermore, the addition of amenities, such as pools and tennis courts, generates supplementary premium, not only from a property value loss perspective, but also from the liability exposure these new amenities present.

Premiums are also affected by other factors including investment income, premium growth, reinsurance issues including how much your insurance carrier must assume on each risk written, return on equity for the lines of insurance being provided, and surplus issues of the industry. For community associations, corrections or adjustments in insurance premium are generally viewed by the insurance industry as necessary in order to bring the line of business to acceptable levels.

It is important to note, too, that carriers are not solely responsible for a community's premium. Your association's bylaws, and the coverage that is required by those bylaws, as well as the board's own good business judgment re-

garding the limits and types of coverage desired, can raise or decrease premiums.

Again, whenever you are evaluating either a new insurance proposal during the bid process, or a renewal quote from your current carrier for the upcoming policy term, it is important to review more than just the bottom line premium. Was the blanket value increased? Has the community suffered a number of claims that are now driving the premium to increase? Did the community grow in terms of added units or amenities over the past year? Have any new coverages or higher limits been added? Knowledge about your own policies and the coverage provided might help to alleviate questions concerning what you're getting for your premium dollar.

Robin Manougian and John Manougian are agents with John Manougian Insurance Agency in Silver Spring, MD. Robin is a member of the Publications Committee and John is a past president of the Chapter.

GAP Report #4: Community Association Insurance (Fourth Edition)

By Clifford J. Treese, CPCU, ARM
and Katharine Rosenberry

The purchase of commercial insurance is one of the most important components of a community association's risk management program. To help practitioners fully understand insurance issues, this report explores insurance terminology (in terms of coverages, policies and practices,) association exposure to loss and coverages, and risk management and the association insurance industry.

When confronted with decisions concerning commercial insurance programs, association boards of directors often take the easy route and simply repurchase the old program. This report attempts to help board members find alternatives to repurchasing, and provides critical knowledge necessary to fulfill legal requirements and fiduciary obligations.

To purchase a copy of this or any other GAP Report, please contact the Chapter office at 703/750-3644, or email us at info@caidc.org.

Need Bookkeeping Support?

From bookkeeping support to tax return services, we've been helping businesses grow for over 15 years.

We Can Help!

DeLeon & Stang
CERTIFIED PUBLIC ACCOUNTANTS

Providing Solutions that make Dollars & Sense!

Check us out online: www.deleonandstang.com
Phone: (301) 948-9825 Fax: (301) 948-3220

