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NEWS OF VALUE

INSURANCE MARKET CONDITIONS UPDATE

As we look forward to the new year, we thought it would be appropriate to let you know the situation and outlook for property and casualty insurance premiums for 2014. Our experienced staff is dedicated to staying on top of events and sharing that knowledge with our clients. Below is the most up-to-date information we have on the state of the insurance industry and what we see happening this year.

What should we expect regarding insurance premiums?

Although it is impossible to predict with full certainty what the future holds, we expect continued relatively modest property and casualty rate increases for at least the first half of 2014. General premium increases in the range of 3–5% should be considered a realistic possibility at this point.

Market relationships, line of business, risk evaluation and control, and brokerage expertise will undoubtedly play significant roles in determining whether premium increases are on the low or high side of the current forecast. Factors such as appropriate building replacement cost valuation, loss history, and increased limits of insurance will of course have an impact on premium increases as well.

What could affect insurance rates in 2014?

The National Flood Insurance Program, which protects 5.5 million properties in flood-prone areas, is causing concern within the insurance industry. Under 2012 changes to the program, most properties insured through the program must be charged rates reflecting the full risk of flood loss. The premium increases apply immediately to flood insurance policies covering businesses and when residential properties are sold or a lapsed policy is renewable. Because of these changes, many homeowners are facing significant increases in their flood insurance premiums. Congress is discussing legislation that would delay these increases in flood insurance premiums, and some action may occur in 2014.

In addition, Fannie Mae announced changes and confirmed current rules to flood insurance coverage requirements on September 24, 2013 (effective for applications dated on or after February 1, 2014), stating there must be a master flood insurance policy in effect for attached condos that is at least the lower of the following:

- 80% of the replacement cost, or
- the maximum insurance available from the National Flood Insurance Program (NFIP) per unit (which is currently $250,000).

Fannie Mae also announced other changes involving condominiums, cooperatives, and PUDs that could have an effect on an association's ability to have Fannie Mae loans purchased in their communities. These changes involve master insurance policies and "affiliated vs unaffiliated" projects and documentation required to be provided to the lender to determine eligibility under Fannie Mae guidelines.

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Another area of concern is the Terrorism Risk Insurance Act (TRIA), which is set to expire on December 31, 2014. Opinion is divided over the future of this federal program, which protects the U.S. insurance market against a major terrorism loss. Most believe it should be renewed, but some believe TRIA has served its purpose and is no longer necessary. Congress must decide whether to renew this law and whether any changes are in order.

Does risk management matter?

Community association board members and managers should define their insurance and risk management needs, ideally by working with an insurance professional knowledgeable in establishing insurance goals, and perhaps with their attorney and accountant. Now is an ideal time to voluntarily consider higher deductibles, not only to mitigate premium increases, but as an affirmative action to reduce claim activity and maintain continued insurability in the standard insurance marketplace.

In addition, community associations should practice effective risk management strategies. Loss history is of great concern to an insurer, especially with large numbers of small losses. The community association that can show an insurer a serious effort at pinpointing potential risks and controlling exposures, such as by eliminating or transferring them or by increasing deductibles, makes a better insurance impression. More information on risk management is available on our web site (www.usicondo.com) under "Publication Library."

Also, all community associations should have a disaster plan that identifies and quantifies the physical and financial resources necessary to maintain operations after a disaster. The plan should detail the steps necessary to avoid, reduce, or transfer loss exposures. This disaster plan should include a section on how to respond to terrorism. For more information on how to plan for disasters, please see the Emergency Preparation newsletter on our web site.

Where do I go for more information?

In times of uncertainty, community association board members and managers should carefully consider the advice of the insurance agent and/or company with which they work. The professional insurance agent can provide risk management advice to help plan for premium and/or deductible changes and suggest the best way to deal with current events.

If you have any questions or need further information, please contact Steve Dickerson (703–205–8788 or Steve.Dickerson@usi.biz) or Theresa Melson (703–205–8753 or Theresa.Melson@usi.biz).

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