

Commercial Insurance Forecast for 2014

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This is a general overview of what we expect for the remainder of 2014. The lines of insurance significantly impacted will be Property, Flood, Directors' & Officers' Liability and Workers' Compensation. General Liability, Crime and Umbrella Liability appear to be stable at this time.

Property Rates on the Rise for Some

Since 2007 the property insurance marketplace has been "soft" (low premiums and high availability). Carriers such as DTRIC Insurance, Dongbu Insurance, First Insurance, Fireman's Fund, Lexington Insurance and LIG Insurance have been aggressively competing for association business. Recently, DTRIC and LIG started to reduce their exposure in the Hawaii. In general, there is still enough competition among the remaining carriers actively writing AOO insurance to keep renewal rates nearly flat. We recommend budgeting for a 5% increase in premium to account for an inflationary increase in values and a slight rate increase.

Through the first quarter of 2014 we have seen an increased focus on catastrophe modeling, accuracy in underwriting data, and loss histories. Most associations will not see a significant increase. However, some associations will due to increased underwriting discipline. Associations affected by unique underwriting circumstances related to the three items noted above may, in extreme cases, face non-renewal or significant premium increases. Premiums could more than triple, if coverage that was previously written with an admitted insurer can only be found with an excess and surplus lines insurer on the renewal. Associations that have been proactive with maintenance and have good loss histories will be able to minimize premium increases.

Flood Insurance Market is Changing due to Recent Legislation

Most associations only purchase flood insurance if they are in a Special Flood Hazard Area or very close to one. Additionally, the majority of associations that

purchase flood insurance do so through the Federal Government subsidized National Flood Insurance Program. This adverse selection has contributed to the NFIP's large deficit that is estimated to be \$28 billion once Hurricane Sandy claims are settled.

In 2012 congress passed the Biggert-Waters Flood Insurance Reform Act. It extended the National Flood Insurance Program for five years and required reforms to increase the program's financial stability. However, some of the reforms caused astronomical premium increases. One of the major reasons is that a lot of buildings that previously did not have to use the elevation in the rating of premium were now forced to. We know if a handful of associations that had approximately 10-fold increases in premium in 2013.

To provide relief to the policyholders that were severely affected by the Biggert-Waters changes, Congress passed the Homeowner Flood Insurance Affordability Act on March 21, 2014. Major changes



AOAO insights

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will begin on May 1, 2014. Here are some noteworthy items.

- Rate increases will be capped at 18%. The highest rate increases will be for properties in V and A zones.
- *Pre-Firm buildings will no longer need to be rated using the building's elevation. Pre-firm properties that were rated using the building's elevation could be eligible for partial refunds.
- Properties classified as "Other Residential" will be able to purchase \$500,000 of coverage from the NFIP opposed to \$250,000. Apartment buildings and cooperatives will be affected by this.

*(Pre-Firm means built on or after 9/3/1980 for Oahu, 6/1/1981 for Maui County, 11/4/1981 for Kauai and 5/3/1982 for Hawaii Island.)

Since the NFIP has a large deficit and relies on government funding, this will continue to be heavily debated for the foreseeable future.

Directors' and Officers' Liability Rates are Increasing

Most associations are insured with Continental Casualty, Great American or Travelers

Insurance. Representatives from each of these companies have indicated that Hawaii's loss history is especially dismal.

Continental Casualty

estimated the average D&O claim to be \$33,000. Claims drivers include higher unit counts,

higher unit values, the presence of short-term rentals, and whether or not the association is in poor financial condition. We estimate that associations with favorable claims histories will have 15-20% increases in premium. Associations with less favorable claims histories will likely only find coverage in the Excess and Surplus lines (non-standard) insurance market. Premiums and coverage terms will vary based on the claims history.

Workers' Compensation Rates are Increasing

In 2014 the Hawaii Insurance Department approved rate increases that averaged 6% over all classes of business. We

reviewed a sample of rates from companies that frequently write workers' compensation for condominiums. It revealed that

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the condominium associations will be affected much more adversely. We recommend preparing for roughly 20% increases in rates.

Final Word of Caution

The AOA insurance market continues to be volatile with major upward swings possible. Catastrophic losses could change the market quickly. You should contact your agent to consult with them regarding your specific situation.

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