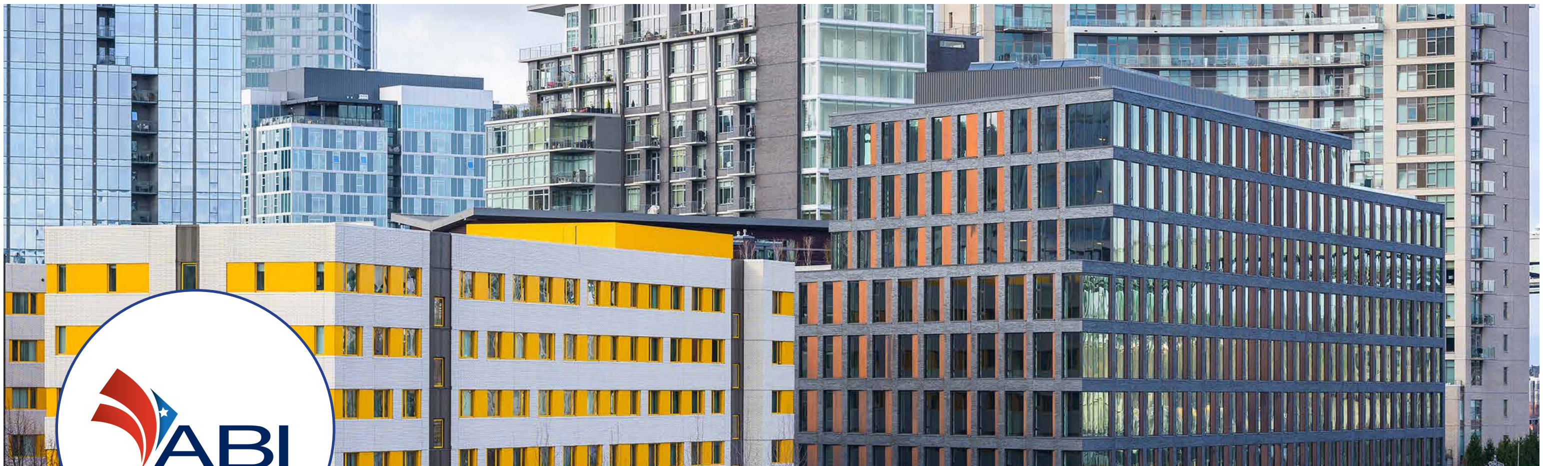


January 2023 Newsletter

News you can use | Sign up today: www.abipdx.com/newslettersignup/

What is a Loss Ratio? The Effects on Your Insurance!

An association's loss ratio is the ratio of claims paid by the insurance company compared to the premiums paid over a period of time. The loss ratio is calculated by taking the amount of loss damage paid, divided by the premium paid to the carrier. An association's loss ratio is one of the tools underwriters use to analyze an account. Many carriers review up to five years of prior losses and look unfavorably at accounts with a loss ratio higher than about 50%. Some carriers increase premiums to justify insuring an account with a higher loss ratio due to the increased risk the carrier accepts. However, a poor loss ratio could make high-risk insurance the only option. It can also impact an association when negotiating other insurance options and it can increase premiums with an existing carrier.

Let's look at an example. ABC Association paid $99,500 in premiums over the last five years, and the carrier paid $102,700 in claim damage. The association's loss ratio is 103% ($102,700 ÷ $99,500 = 103%). For the insurance carrier, this is not sustainable because they will continue to pay more in claims than they collect in premiums.

ABC Association — Premiums vs Losses

Year	Premium	Losses
2018	$17,300	$0
2019	$18,100	$38,500
2020	$19,700	$17,200
2021	$21,400	$0
2022	$23,000	$47,000
Total	**$99,500**	**$102,700**

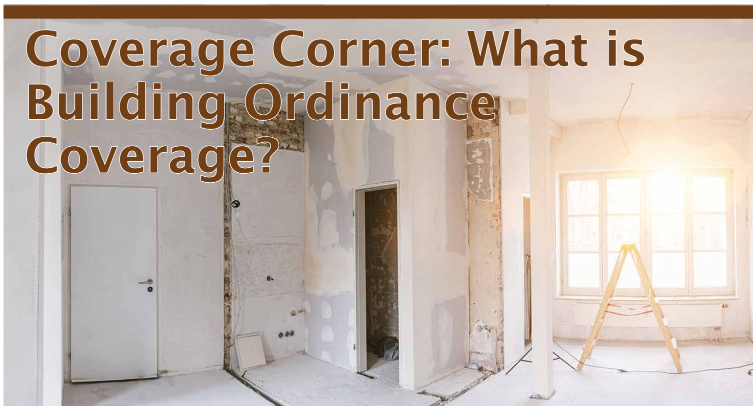
This association had only two, claim-free years in the last five. Due to the unfavorable and negative loss history, the association should consider increasing the deductible to help spread the risk of damage to all owners. Yes, owners take on more of the damage upfront for smaller claims. However, it protects the association's policy which should be utilized for bigger and more catastrophic claims. Typically, an owner who increases coverage on the HO6 policy pays an additional $50-$100 annually. This amount is much less than if the association's policy faced insuring in the high-risk market. If the association finds themselves being forced to take insurance in the high-risk market, owners' dues could go up hundreds of dollars. Overall, it's a better strategic plan to share the risk of damage and be more accountable for unit maintenance. If the association keeps a low loss ratio, premiums will stabilize in the future.

Update of the Month: Plumbing and Water Fitting Inspections

The new year serves as a great reminder to do a plumbing inspection on your home. Water damage is one of the most frequent claims in community associations and claim prevention is the best approach.

Many plumbers recommend home inspections by a licensed plumber once every two years. We suggest all owners inspect their home's plumbing at least twice a year. Look for leaks, cracks, and signs of visible wear and tear. Potential problem areas to examine include under bathroom and kitchen sinks; around toilets, bathtubs, water supply lines, water heater connections, air conditioning units, and appliances and hoses; and finally in crawlspaces. Catch water damage early to prevent the stress and expense of a large claim and get your new year off to a good start.

Coverage Corner: What is Building Ordinance Coverage?



Building ordinance insurance coverage with adequate limits needs to be on every association's policy. Adequate limits will vary depending on a building's construction type, size, and age. It's commonly understood as the coverage to cover code requirements in a loss. The coverage has three critical parts:

- **Coverage A (undamaged portion of the building)** – In the event of a claim, this covers any portion of the undamaged part to the building if it needs to be replaced due to a loss. (Cost of replacing the undamaged portion of the building.)
- **Coverage B (demolition)** – This covers the demolition of any undamaged portion of the building.
- **Coverage C (increased cost of construction)** – This covers the increased cost of construction to bring the entire building up to code.

Let's apply these three coverages in an example to help illustrate each coverage. Your community has a building of eight units. However, four of these units are damaged by fire and smoke. The remaining four units are not damaged; however, the city condemns the building and forces demolition of the structure. The damaged portion of the building is covered under the policy's building coverage. The undamaged portion of the building would need to be covered under building ordinance Coverage A. Coverage B helps cover the cost of demolishing the undamaged portion of the building. Coverage C is the most known coverage and will pick up the costs to bring the building up to code when it is being rebuilt.

In this example, the building was built in 1987 and has no sprinklers. However, due to current code requirements, the new building will be required to have full sprinklers throughout. The cost of this code upgrade for the entire building will be picked up under Coverage C of the building ordinance limit. *Continued above*

Remember, the building ordinance limit is not automatically covered. Most policies start with minimum building ordinance limits, and additional coverage requires increased limits. Often, we see communities grossly underinsured for building ordinance coverage or the association will share one low limit for all three coverages. When coverage funds are depleted, the association will need to determine how to fund the additional cost associated with rebuilding. These costs must be paid to continue the rebuild, forcing Boards to raise funds from owners.

These coverages can be based on a percentage or fixed amount basis. Read your policy to understand your association's specific limits. All communities need building ordinance coverage but communities with higher risks and older construction (prior to code changes that took effect in 1996), bigger buildings without sprinklers, and buildings of higher value need it the most. This coverage typically doesn't cost much to increase. We encourage associations to analyze their building ordinance coverage and ask about higher limits.

We Want Your Input!

Have a question or want to see a specific topic highlighted in next month's newsletter?

Email me today:

association-news@abipdx.com

Sign up to receive this newsletter:

www.abipdx.com/newslettersignup/

An Owner's Burning Question

Question: As a unit owner can I file a claim on the association's policy if damages exceed the association's deductible?

Answer: No, only the association's Board of Directors is allowed to authorize putting an insurance carrier on notice of a claim. Most association's governing documents prohibit unit owners from filing claims on the association's policy. If there is damage to a unit, report it immediately to the association Board or community manager. Do not complete the repairs and then notify the association as coverage could be jeopardized.

Q&A