



September 2022 Newsletter

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Why Earthquake Rates are on the Rise

Earthquake rates are increasing as the insurance marketplace hardens and capacity for coverage limits are reduced. Across the nation, insurance companies continue to be impacted by catastrophic losses such as ice storms, hurricanes, wildfires, and flooding. One of the catastrophic coverages that is commonly affected even when there are no claims includes Earthquake and Earth Movement Coverage. Community members comment, “We haven’t had an earthquake, why are our rates going up?”

Earthquake rates are often dictated by the reinsurance market and the severity of claim damage paid out within recent years. Frequently, the insurance companies offering earthquake coverage are the same carriers offering reinsurance to standard carriers such as Travelers, Farmers, Philadelphia, etc. Reinsurance is the purchase of insurance-on-insurance coverage already provided to an insurer and it allows insurance companies to transfer their risk to reinsurers.

The Camp Fire, which devastated Paradise and Concow, CA is an example that shows how the reinsurers were impacted and illustrates how reinsurance comes into play. Farmers Insurance Group was a primary insurer of families in this area. However, Farmers purchased reinsurance on 80% of the exposure. The reinsurance carriers paid \$.80 cents for every \$1 in damage and Farmers Insurance Group was responsible for the remaining \$.20 cents for every \$1 of damage. Reinsurance carriers can offset their losses by increasing premiums in other catastrophic coverage areas such as earthquake.

Aging buildings are also becoming problematic in acquiring competitive earthquake rates. Even buildings built with wood frame construction, which have the most flexibility with earthquake movement, are still a concern to insurance carriers. Around the 1980s contractors started to build with seismic considerations, such as bolting the building to the foundation. Newly constructed buildings are now bolted to foundations which help them stay in place in the event of a quake. However, insurance carriers are evaluating properties in the underwriting process more closely. With technology and data improving, underwriters are utilizing these tools to analyze their risks.

Boards should also be aware that some carriers are reducing their coverage by increasing policy earthquake deductibles. We have seen associations with deductibles increase to 15% and higher. When an association increases their deductible from 5% or 10%, to 15% or higher, the association is exposing themselves to hundreds of thousands or millions of dollars. Because of this exposure, the association and owners will be responsible for a higher dollar amount. In some cases, with these higher deductibles, each owner could potentially be responsible for \$40,000 to \$70,000 or more. Can your owners afford that assessment? If not, the association should purchase a policy with a lower earthquake deductible such as 5% or 10%.

Carriers are starting to change their policies to exclude certain damage when an earthquake hits. One of the exclusions is not to pick up ensuing water damage. This could include a pipe breaking in a wall causing water damage. If there is no coverage, the association will have to pay for the repairs out of pocket. The other change we have seen is policies that are not picking up coverage to the units within the building and only covering the common area. If the association’s property policy is to insure on an all-inclusive basis, the earthquake policy should follow coverage the same way. How would a community rebuild if there is coverage only to common elements?

One of the most important takeaways is that although we can have a small earthquake loss, if the city decides to condemn the building, this could mean a total loss for a community. It is essential for communities to know how the earthquake policy is going to respond, and to understand the community’s deductible responsibilities and exclusions.

As the insurance industry continues to adjust to catastrophic claims, rates will most likely rise while coverage limits decrease. Board members, owners, and community members need to understand the details of their policies and remain alert to the changes. Reach out to the experts to discuss.

An Owner's Burning Question

Question: What is the hidden seepage and leakage endorsement on my HO6 policy?

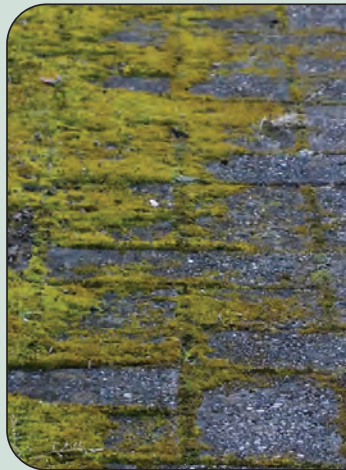
Answer: Common claims often lurk behind walls or under flooring, and an owner may be unaware of the issue. Because of various exclusions within the owner's policy, these claims may be denied. One endorsement some carriers offer is called "hidden water or steam seepage and leakage endorsement." This endorsement picks up coverage (to the limit on the policy) for claim damage caused by plumbing, heating, or air conditioning systems that are hidden and not showing visible signs of steam, seepage, or leakage. Not all carriers offer this coverage extension. Owners, talk to your agent about the options.



Q&A

Sidewalks and Driveways — Moss and Slippery Areas

The rainy season is upon us and as sidewalks and walkways become wet, they will be slippery and create a trip and fall hazard for the community. Moss commonly grows in the Pacific Northwest and can create treacherous conditions for pedestrians walking if they are not paying attention. The insurance market has started to see an increase in liability claims, particularly with trip and fall situations. If someone is seriously hurt, these claims can cost a community millions of dollars. Communities may consider assigning a member to walk the grounds regularly and check for safety hazards. If someone identifies a problem, fix it before an accident occurs. This may not be what was in the budget for the year, but the association needs to fix hazards within the community as soon as they arise. With this proactive approach you will help protect your community from unnecessary claims and injuries.



Loss Prevention: Hazards in the Storage Room

Holiday decorations piled high. Tools, party supplies, or other equipment left on a storage or mechanical room floor. Does this sound familiar? Communities often load common property in storage or mechanical rooms.

However, this practice creates a hazard from both a property and liability standpoint. Often, insurance carriers will do loss control survey visits and find clutter in HVAC, mechanical, or storage rooms. Items left on the floor become a trip or fire hazard and the situation becomes a risk management issue for the community.



Carriers may ask the community to remove holiday decorations, flammable materials such as gasoline or paint, association signage, or tools from these areas. Water heaters and HVAC systems tend to have manufacturer guidelines advising at least 10 feet of clearance from a plumbing fixture or appliance. Carriers have also found shelving units too close to mechanical devices within these rooms. Contractors need to be informed of the protocols and be diligent about not leaving their materials or tools in areas where they can increase the risk of a claim. This could include storing materials in the common area or association storage areas.

We Want Your Input!

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