



April 2023 Newsletter

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What Does High-Risk Insurance Mean?



Insurance markets are broken up primarily into two categories: the preferred and the standard. Ideally each association would fall into the preferred category. However, under certain circumstances, an association may find they are high-risk and can only find insurance in the standard market. The standard market is also referred to as “high-risk insurance.” The primary differences between these two markets are the coverages and the premiums. The standard market has substantially higher premiums and often includes much less coverage with larger deductibles.

Associations may find themselves in the standard market for many reasons. The most common reasons include:

- **Claims.** A pattern of losses or one large loss can impact an association when shopping for insurance. Claims are within an associations control and each owner has a responsibility to prevent them.
- **Brushfire exposure (wildfire).** Associations are finding it harder to obtain competitive insurance for wildfire exposure. Currently, parts of Portland are being denied coverage for thick brush and greenery.
- **Lack of updates in units.** As buildings get older, so do their components. With water, gas, and sewage usage up drastically since COVID, these components need to be inspected and replaced sooner and more frequently. If your community does not have a

plan to replace electrical, plumbing, and heating components, develop a plan. Ultimately these components are an owner’s responsibility, but it will become an association insurance issue if buildings are not updated. Currently, many preferred carriers want updates for buildings constructed before **1990**.

- **Building age.** Some carriers are no longer willing to insure older and/or historical buildings.
- **Lack of retrofits.** In the 1980s contractors began building with seismic considerations in mind. Newly constructed buildings are now bolted to the foundations to help them stay in place in the event of an earthquake or other catastrophic event. Carriers may not insure properties built before 1980 unless they have been retrofitted.
- **Lack of sprinkler systems.** Large frame or concrete buildings with no sprinkler system are becoming nearly impossible to insure in the preferred market. Sprinkler system installation is a huge community project to undertake but it’s vital for an association long-term. If owners can’t exit the building during a fire, a building without a sprinkler system is a life safety issue.
- **Other ineligibility.** High neighborhood crime, commercial retail exposure, expensive or short-term rentals, horizontal railings, grilling on enclosed balconies, and other factors all contribute to coverage eligibility issues.

Premium differences between the preferred and standard market can be shocking to a community. No one plans for the increases faced in the high-risk market. For example, some communities have paid a \$20,000 premium which soars to over \$125,000 a year because they became ineligible in the preferred market and are forced into the high-risk market. The most common reasons associations face the high-risk option include claims and lack of updates to sprinklers, pipe, and electrical. This high-risk coverage comes with coverage sacrifices and often higher deductibles.

The insurance market is changing fast, and the critical items carriers look for will not change. Communities need to plan early and reduce risks within their control. With planning and proactive measures in place, most associations can avoid high-risk insurance.

An Owner's Burning Question



Question: My association is implementing a grilling policy and procedure because of insurance. What does that mean?

Answer: Insurance carriers have guidelines and eligibility requirements to insure a community. These guidelines and requirements allow an insurance company to set risk parameters on coverage. To protect your community, grills and fire pits on balconies need at least ten feet of clearance from a building or structure. Without this safety clearance, grills and fire pits pose an extreme fire risk to a community. Carriers are pushing to reduce life safety risks.

If a community allows grills, owners should clean grills regularly and always have a working fire extinguisher nearby. Also, never leave a BBQ unattended. When cooking, have a partner who can help so the fire can always be watched. Everyone shares the responsibility to keep the community safe and claim-free.

Q&A



Update of the Month: Trim Those Shrubs and Bushes

Bushes and shrubs can grow like crazy and before you know it, they encroach on buildings and create moist conditions. Trim bushes and shrubs three to six inches from a building or structure. This helps prevent insect intrusion and deters small animals from nesting in overgrown foliage.

For trimming methods, talk to a landscaper or someone at a local nursery. Online resources are also helpful. CAI Western Oregon Chapter publishes an online [2023 CAI DIRECTORY](#) which lists landscape service providers. For a great loss control tip — clear the brush!

Loss Control: Exterior Maintenance



Liability claims with regards to property damage are becoming common claims for associations. Deteriorating roofs and siding can cause water to seep and find its way into units and crawlspaces. This cause of damage is often excluded from insurance policies and the owner is on the hook for repair costs. However, if the association is responsible for the exterior maintenance and little documentation is available to support the association's actions, a liability claim can occur.

If your community is faced with upcoming conversations around projects, we encourage Boards to look at a break-even analysis that can illustrate to owners how fast the investment they make will pay off. Even owners who don't plan to live in the community long-term can benefit from the return on investment when selling. Owners who come together and support a Board in these projects secure their assets long-term. Over time, all properties require maintenance and upgrades and homeowners pay those expenses. These expenses are part of property ownership, whether someone owns a single-family home or a condominium. A few benefits of community living are that community repairs are often organized by the association, and maintenance and repair costs are shared by all members.

Cost factors that make up the break-even analysis could be the increased cost of insurance in the high-risk market, increased costs of materials and labor if the community waits, and cost of repairing damages caused by sudden breaks (or paying the deductible). When associations pay smaller repair amounts to "buy time" for the community instead of completely fixing the problem, the community could end up paying much more in the long run.

We Want Your Input!

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

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