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Rising Insurance Costs For Community Associations

HindmanSanchez P.C. *Attorneys at Law • Denver & Fort Collins*
5610 Ward Road., Suite 300, Arvada, Colorado 80002-1310 **Tel** 303.432.9999 **Free** 800.809.5242 **Fax** 303.432.0999 **www.hindmansanchez.com**



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If your association's insurance carrier has recently increased the amount of your premiums while decreasing the amount of your coverage, you're not alone. The insurance industry is going through what is known as a "hard market" meaning that insurance premiums are on the rise, coverage is harder to obtain, and policies include more limitations and exclusions. The insurance industry argues that it is just doing what is necessary to remain in business and that associations have been spoiled by nearly 15 years of a "soft market" with no real restrictions on coverage and dropping premiums. A prolonged soft market coupled with the losses insurance companies suffered in 2001, have contributed to the current hard market. The realities of a hard market have a significant impact on homeowners associations. Across the country the following trends have been observed:

- Insurance premiums are on the rise. Some associations have reported increases in excess of 100% although most report annual increases of 20% to 25%. The rise in premiums may be less extreme in smaller communities.
- Associations are more likely to be non-renewed. Associations with bad loss ratios, properties with values over \$50,000,000.00, and buildings over 50 stories may have a hard time finding coverage at all. It becomes even more difficult for older buildings which lack adequate fire life safety protection.
- As an alternative to increased premiums, some associations have opted to increase their deductible. While the typical deductible remains \$1,000.00, many associations have reported \$2,500.00 and \$5,000.00 deductibles.
- Insurance policies come with more and more exclusions. Associations with a history of a particular kind of loss, such as annual flooding, may find themselves with exclusions in their coverage and/or particularly high premiums. Virtually all associations have found that their insurance policies do not cover damages for mold, terrorism or lead.
- Recent legislation allows unit owners in pre-CCIOA communities to file claims against the association's insurance policies.
- Many insurance companies are denying coverage if they are not notified of a possible claim in a timely manner. It has become very important for associations to report even the threat of a lawsuit as early as possible.

To better deal with these trends, the insurance industry offers a few suggestions:

- Increase your deductible in order to decrease your premiums.
- Self-insure as many claims as possible.
- Budget for increased premiums.
- Take proactive steps toward lowering your risk factors. Spending \$20,000.00 up front to decrease flooding in your community is more cost effective in the long run than losing your insurance coverage due to a high risk ratio.
- Work with an insurance agent who has experience working with the specific needs of homeowners associations.

Coping with the hard market also requires patience. Typically, a hard market can be expected to last 1-1/2 to 3 years. The current hard market is expected to last longer, closer to 5 years, largely because the insurance industry is attempting to recover from a 15 year soft market and from losses experienced in 2001. A proactive community with good risk management is best equipped to survive this market.