Combating the Hardening AOAO Market

Wednesday, August 19

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Housekeeping Rules

- Listen mode only for participants
- Questions will be addressed at the end during Q&A
- Submit all questions via the chat function

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Webinar Agenda

- 10:05 – Global Marketplace Update
- 10:15 – Hawaii marketplace update
- 10:25 – State of the D&O Market
- 10:45 – Challenging Umbrella Market
- 10:55 – Hardening Market Strategies
- 11:05 – Audience Q&A
- 11:30 – End

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Global Marketplace Update

JIM SIPICH

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What are the effects of the "hardened" property market?

- Less pressure to grow the top line
- Less capacity available
- Higher rates
- Higher deductibles
- More scrutiny of risks
- Adherence to natural catastrophe risk modeling

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How does the mainland market differ from Hawaii?

- Asian owned carriers influence Hawaii market
- Traditional North American and European are conservative in natural catastrophe perils

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Does Hawaii market lag behind the mainland market?

- Hawaii slower to see trends and pricing
- Trends start in New York and London, then moves west
- Hawaii only in 2nd year of increases on renewals

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What can we expect if AOAOs are forced into the excess & surplus market?

- Be scared
- Worse than standard market
- Limited carriers
- E&S = last resort
- Expect 50% to 100% increase

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Property coverages most impacted by the hard market

- Hawaii property owners pay higher rates because of global losses
  - 10% to 20% increases are part of sharing the loss experience globally
- Hawaii is still a relatively desirable for property insurance you are
- Fortunate to have healthy competition

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Hawaii Marketplace Update

RON TSUKAMAKI

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What does the local property market landscape look like?

- Market Cycle - Greed vs Remorse
  - Limited Choices
    - Do not reduce statement of values
  - Fire Resistive – Only three in the standard marketplace
    - First Insurance
    - Fireman's Fund/Allianz
    - DB Insurance
  - Wood Frame/ Masonry Joist – Only three competitive markets
    - Lexington Insurance
    - Lloyd's of London – Program through RPS
    - DB Insurance

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How has carrier appetite changed?

- First Insurance-Standard Marketplace for Fire Resistive
  - Reduced Capacity
  - Re-underwriting their clients
  - Increasing rates

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How has carrier appetite changed?

- Fireman's Fund/Allianz
  - Maintaining capacity
  - Closely reviewing accounts with losses
  - Increasing deductibles and rates
  - Not writing oceanfront properties

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How has carrier appetite changed?

- DB Insurance-Standard Marketplace for Fire Resistive
  - Becoming more aggressive and writing larger accounts
  - Adverse to accounts with adverse loss history
  - Are becoming more selective with older accounts
  - Have become one of the more competitive local markets

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How has carrier appetite changed?

- Lexington-Non-Standard Wood Frame/Masonry Joisted Risks
  - Still writing business but is more selective
  - Requiring inspections of High Hazard Plumbing elements
  - Increasing rates and/or deductibles

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How has carrier appetite changed?

- Lloyd's of London/RPS program
  - Have increased rates due to overall loss history.
  - Lloyd's Syndicates have been shrinking capacity on cat. Coverage (hurricane)
  - Much more selective and haven't been as competitive as Lexington or DB.

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What are some ramifications of being non-renewed?

- For those accounts that have been non-renewed with good loss history, possible to find another local market to write
- For those accounts that have been non-renewed with adverse loss history – options few – Excess & Surplus Lines market

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State of the D&O Market

ALEX MONTCLAIR

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What is the state of the D&O market in Hawaii?

- Market is hardening and rates are on the rise due to three things:
  - Covid-19
  - Social inflation
  - Increase in challenges to the boards authority to enforce documents

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Directors & Officers Claims Example

- Social Inflation
  - Male resident who continuously harassed a female owner.
    - Board failed to act even though it was fully aware of the problem
    - She sued the association claiming she suffered emotional injury and sought punitive damages.
    - Once the association knew about the incidents, it had a duty to intervene.
    - It was found the association acted with "**reckless disregard**" of her rights.
    - The board was ordered to **purchase her home and pay damages**. The total loss was over **$1,000,000.**

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Directors & Officers Claims Example

- Challenge enforcing documents
  - Upstairs unit installed hardwood floors.
    - Tenants below so disturbed by the noise they moved out.
    - Upstairs unit owner is refusing to change the flooring or put down carpeting due to allergy concerns.
    - Board wanted to amend CCR's.
      - However, if someone has severe allergies you must reasonably accommodate their request for a hardwood floor.
  - Two enforcement problems:
    - Allowing the hardwood floors to be installed does not mean the person can destroy the quiet enjoyment of the resident below.
    - The owner can keep the floors provided she get a letter from a healthcare provider that the floors are necessary and that she eliminates the noise below.

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Has loss history impacted premiums?

- The loss ratio is high, premiums are on the rise
- All states can expect rate increase

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Has the Pandemic put additional pressure on D&O rates?

- Yes and it has increased the challenges associations see
- Complaints we've heard so far
  - Failure to open pools, gym and other common area services
  - Failure to have full and unrestricted access to the facilities, for example, elevators, parking lots, and staircases.
  - Failure to allow an essential guest from entering the association property.
  - Failure to allow a vendor who has a current contract with the association on the property.
  - Failure to allow short term leasing.
  - Claim filed for assessment reduction for loss of services.
  - Wrongful foreclosure for delinquent assessments.

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Will there be additional D&O exclusions?

- No new exclusions
- Tougher underwriting

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Challenging Umbrella Market

KEVIN PRAK

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What are some of the difficulties in the Umbrella market?

- Turn around time longer
- Influx of submissions
- Tighter guidelines
- Exclusion for Communicable Diseases

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What is changing in the Umbrella market regarding limits?

- Capacity limits
  - Limits are reducing due to the hardening market
- Underwriting guidelines
  - Staying inside “the box”
- Nonrenewed
  - Accounts with unusual exposures
  - Sometimes entire classes
- Cost
  - Increasing for most carriers

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What is the impact of the changing market on short term rentals being viewed as Hotels?

- Carriers seem to be trending towards non renewing these types of risk
  - Very tough to write profitably

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Hardening Market Strategies

ELAINE PANLILIO

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Strategize With Your Insurance Agent

- Budget accordingly for the next year
- Which insurance companies will be approached for quotes (4 to 3 months before the renewal)
- Explore alternatives to keeping premiums affordable

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Review the AOAO's Insurable Values and Replacement Costs

1. Required by statute

§514B-143 Insurance (a) Unless otherwise provided in the declaration or bylaws, the association shall purchase and at all times maintain the following:

(1) Property insurance:

(A) On the common elements;

(B) Providing coverage for special form causes of loss; and

(C) In a total amount of not less than the full insurable replacement cost of the insured property, less deductibles, but including coverage for the increased costs of construction due to building code requirements, at the time the insurance is purchased and at each renewal date;

2. Mortgage & lender requirements
3. Insurance company requirements

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Review the AOAO's Losses and Claims With Your Insurance Agent

1. Favorable loss ratio is 30% or less
2. Claims frequency – how often you have losses
3. Severity of claims – how expensive are the losses
4. Communicate your AOAO's proactive mitigation efforts to prevent future claims to your agent and underwriter

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Inspections and Maintenance to Maintain the AOAO's Insurability

1. High risk components inspections inside every unit – every 3 years
2. Regular inspection and maintenance of main plumbing lines and connections to prevent water damage
3. Underwriters will be asking for updates to the roof, electrical and plumbing
4. Be prepared for site inspections by the insurance carriers

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Safety Systems and Emergency Response Plan

a. AOAO staff and board member training

b. Water emergencies:
   - ✓ Consider water leak detectors
   - ✓ Training on where & how to turn off the water shut-off valves
   - ✓ Call remediation company right away to prevent damage from spreading

c. Fire emergencies:
   - ✓ Insurers require safety systems: smoke detectors & fire extinguishers
   - ✓ Training on where & how to safely use fire extinguishers
   - ✓ How to properly respond to fire/smoke alarm notification systems
   - ✓ Fire evacuation plan
   - ✓ Call 911
   - ✓ Call remediation company after the situation is stable to prevent damage from spreading

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D&O Claim Prevention

1. Annual board member training on liability and D&O claim prevention
2. Signed annual acknowledgement of governing documents, bylaws and house rules

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Key Takeaways

Key Takeaways

- Global marketplace
  - 10% to 20% increases are part of sharing the losses globally
  - Hawaii is still a relatively desirable for property insurance. We are fortunate to have healthy competition

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Key Takeaways

- Local marketplace
  - We have limited options for Hawaii
  - Hawaii markets are more selective causing higher rates and deductibles and/or non-renewals
  - If non-renewed, E&S is an expensive option

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Key Takeaways

- D&O
  - Rates are on the rise due to three things
    - Covid-19
    - Social Inflation
    - Increased challenges for the board
  - Hawaii as well as the rest of the U.S. will be seeing a rate increase.
  - D&O carriers may not pull out of the Hawaii market but rather decline to write new business.

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Key Takeaways

- Umbrella
  - Capacity limits
    - Limits are reducing due to the hardening market
  - Underwriting guidelines
    - Staying inside “the box”
  - Nonrenewed
    - Accounts with unusual exposures
  - Cost increasing for most carriers

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Key Takeaways

- Strategies to mitigate hard market
  - ✓ **Strategize** early with your Insurance Agent
  - ✓ Have good emergency and maintenance plans.
  - ✓ Be proactive in avoiding losses and claims to **protect the AOAO's insurability**.
  - ✓ **Educate and train** staff and board members

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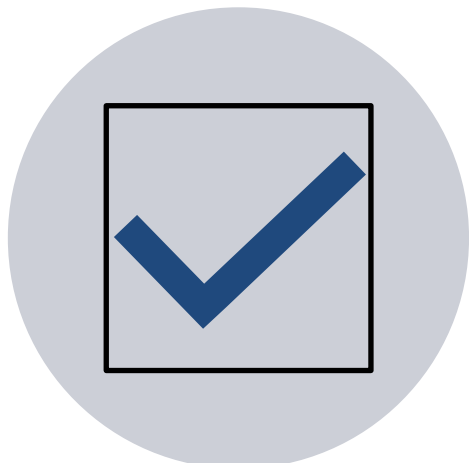
Q&A

Prepare for the Hard Market Now



FREE COMPREHENSIVE COVERAGE REVIEW

HIGH RISK COMPONENT CHECKLIST

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