



## NEWS OF VALUE

### INSURANCE MARKET CONDITIONS UPDATE

Given the catastrophic events of the past two months, we thought it would be appropriate to let you know how we think insurance for community associations in the Metro DC area will be affected. Although we at USI do not have a crystal ball to tell the future (and who does?), we do have an experienced staff dedicated to staying on top of events and sharing that knowledge with our clients. Below is the most up-to-date information we have on the state of the insurance industry and what we see happening in the future.

#### What do you expect for 2006?

Hurricane damages this year have set record highs. Preliminary estimates are that damages related to hurricane Katrina alone could exceed \$100 billion and insured losses could cost the insurance industry \$30 to \$40 billion. While premium increases after major disasters are common, it is not known for certain at this time what ultimate impact Katrina and other hurricane damages will have on future insurance premium levels and coverage availability.

Another unknown at this time is the future of the Terrorism Risk Insurance Act (TRIA). As the direct result of the horrific events of September 11, 2001, TRIA was signed into law effective November 26, 2002. Very simply, TRIA provides for a federally funded backstop for insurance companies to limit loss exposure related to acts of terrorism. In exchange, any insurance carrier offering commercial insurance coverage must also offer the option to purchase coverage for certified acts of terrorism.

TRIA was never intended to be a permanent solution, and as such is due to expire December 31, 2005. Property and casualty premium levels and coverage availability could be adversely impacted if TRIA is not extended or renewed by Congress.

A significant driving force behind changing insurance market conditions is reinsurance cost, availability, and capacity. This is a critical time because many insurance companies are now in the process of negotiating the cost and terms of reinsurance treaties to be effective January 1, 2006.

Although speculative at this point, there are some indications causing concerns specific to property reinsurance: increased cost, increased attachment points, and decreased capacity. Increased reinsurance cost would be passed to the insurance consumer in the form of higher premiums. Increased reinsurance attachment points and or decreased capacities would likely tighten underwriting guidelines and reduce competitive market alternatives. As with any industry group, decreased competition generally translates to higher cost for the consumer.

#### What about insurance premiums?

Because of the unknowns, it is impossible to predict with a degree of certainty what the future holds with regard to insurance premiums. With this said, however, it is our opinion that it is unlikely we will see the dramatic premium increases experienced after 9/11. **General premium increases in the range of three to five percent, or perhaps as high as eight percent, should be considered a realistic possibility at this point.**

Market relationships, line of business, risk evaluation and control, and brokerage expertise, combined with the end result of the reinsurance and TRIA issues discussed above, will undoubtedly play significant roles in determining whether premium increases are on the low or high side of the current forecast.

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What should community associations do?

Community association board members and managers should define their insurance and risk management needs, ideally by working with an insurance professional knowledgeable in establishing insurance goals, and perhaps with their attorney and accountant. Now is an ideal time to voluntarily consider higher deductibles, not only to mitigate premium increases, but as an affirmative action to reduce claim activity and maintain continued insurability in the standard insurance marketplace.

Does risk management matter?

Risk management and loss control are serious considerations for any insurance company. Loss history is of great concern to an insurer, especially with large numbers of small losses. The community association that can show an insurer a serious effort at pinpointing potential risks and controlling exposures, such as by eliminating or transferring them or by increasing deductibles, makes a better insurance impression.

As deductibles increase, whether by choice or insurance company mandate, so does the potential out of pocket expense for the association. Affirmative risk management to effectively mitigate this exposure is imperative to protect the financial integrity of the association.



Also, all community associations should have a disaster plan that identifies and quantifies the physical and financial resources necessary to maintain operations after a disaster. The plan details the steps necessary to avoid, reduce, or transfer loss exposures. This disaster plan should include a section on how to respond to terrorism. For more information on how to plan for disasters, please see the Emergency Preparation newsletter in the "Publication Library" section of our web site at [www.usicondo.com](http://www.usicondo.com).

Where do I go for more information?

In times of uncertainty, community association board members and managers should carefully consider the advice of the insurance agent and/or company with which they work. The professional insurance agent can provide risk management advice to help plan for premium and/or deductible changes and suggest the best way to deal with current events.

If you have any questions or need further information, please contact Steve Dickerson (703-205-8788 or [Steve.Dickerson@usi.biz](mailto:Steve.Dickerson@usi.biz)) or Theresa Swan (703-205-8753 or [Theresa.Swan@usi.biz](mailto:Theresa.Swan@usi.biz)).