

THE HARD MARKET HANDBOOK

NAVIGATING THE MULTIFAMILY PROPERTY INSURANCE MARKET

VOL. 01

**MULTIFAMILY
EDITION**

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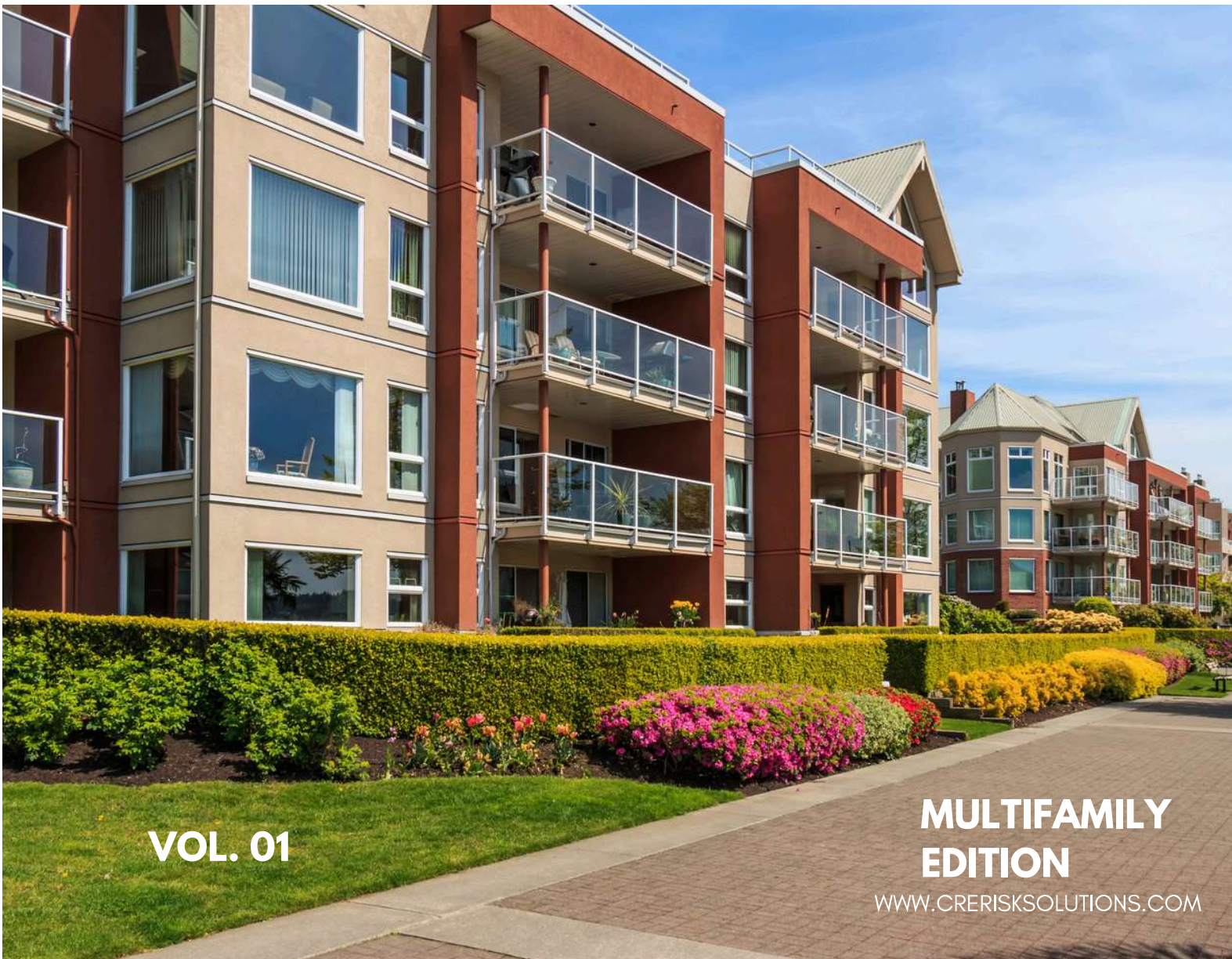




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01

INTRODUCTION

BAY AREA INSURANCE: A LEGACY OF EXCELLENCE

Bay Area Insurance, founded in 1982 by **Ron Roszell**, has been a mainstay in the insurance industry for nearly four decades. With a commitment to personalized service and tailored solutions, Bay Area Insurance has become a trusted partner for clients seeking protection for their CRE portfolios.

MEET THE KEY PLAYERS



**BILL HOSEA,
-CRE TEAM DIRECTOR**

» CRE Risk Advisors: A Strategic Division

- To meet the growing demand for specialized CRE insurance, Bay Area Insurance established **CRE Risk Advisors**. Led by **Bill Hosea**, this division focuses exclusively on CRE Insurance Solutions.
- Bill Hosea, with a wealth of experience, manages over **\$500 million** in CRE assets and continues to expand the portfolio. His strategic insights and risk management expertise benefit clients across the mid-atlantic.



BRIAN ROSZELL, AGENCY PRINCIPAL

Brian Roszell, now at the helm of Bay Area Insurance, brings 19 years of experience to the agency. His dedication to client satisfaction and industry expertise has been instrumental in the agency's success.

As the agency principal, Brian ensures that Bay Area Insurance continues to provide top-notch service and innovative solutions.



CHUCK GAY, -HEAD OF OPERATIONS

Chuck Gay has been an integral part of Bay Area Insurance for over **20 years**. His operational acumen and attention to detail keep the agency running smoothly.

Whether it's streamlining processes or managing day-to-day operations, Chuck is committed to providing best in class service.

» **Keystone Partnership and Market Access:**

- Bay Area Insurance's partnership with **Keystone** opens doors to a vast network of carriers. With carrier relationships exceeding **\$4.6 billion** in written premium allows us to negotiate more effectively on our client's behalf.

» **Boutique Service, Nationwide Reach:**

Situated in **Annapolis, MD**, Bay Area Insurance operates as a local, boutique commercial insurance brokerage with national resources.

Licensed in **over 36 states**, we are well-positioned to handle large property risks across the mid-Atlantic and beyond.

For more information, visit

<https://www.crerisksolutions.com/>

or reach out to Bill Hosea at **410-991-5041**

or via email at


bhosea@bayareains.com.



02

WHAT IS A HARD INSURANCE MARKET?

A hard insurance market refers to a period when insurance carriers tighten their underwriting standards, reduce coverage availability, and increase premiums for insurance policies due to unfavorable market conditions. This often occurs when insurers face significant losses, increased claims, or adverse economic conditions that affect their ability to provide coverage at affordable rates.



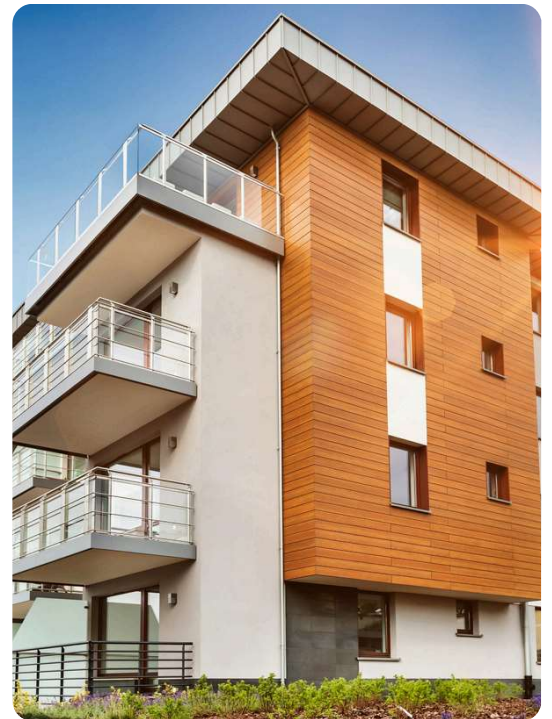
In the context of apartment building insurance, the current state of the market can be described as a hard insurance market. ***Several factors contribute to this situation:***

1. RISING CLAIMS:

The multifamily sector has faced an increase in claims due to various factors such as natural disasters, fires, and liability lawsuits. These claims put financial pressure on insurance companies, prompting them to adjust their underwriting standards and pricing to mitigate their risk exposure.

2. PROPERTY RISKS:

Unlike other asset classes of CRE, apartment buildings are majority frame construction and in many cases, non-sprinklered. Recent events like hurricanes, floods, and other natural disasters have heightened insurers' concerns about potential losses, leading to stricter underwriting guidelines.





3. CONSTRUCTION COSTS:

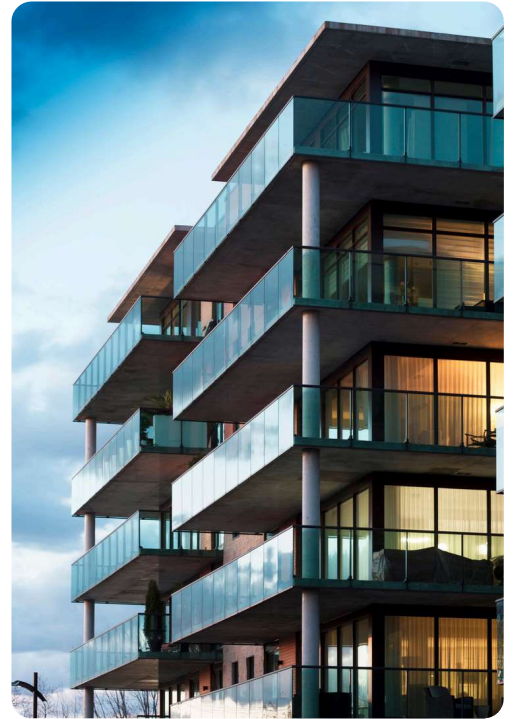
The cost of construction materials and labor has been on the rise, impacting the insurance market. Higher construction costs mean that insurers may have to pay more in the event of property damage, leading them to adjust their premiums accordingly.

4. ECONOMIC FACTORS:

Economic conditions, such as inflation and interest rates, can also influence the insurance market. In times of economic uncertainty, insurers tend to be more cautious and may limit coverage options or increase premiums to protect their financial stability.

5. PANDEMIC IMPACT:

The COVID-19 pandemic has introduced new challenges to the apartment building insurance market. Insurers are assessing the potential risks associated with rent defaults, business interruptions, and the overall economic impact of the pandemic, which can affect their underwriting decisions and pricing strategies.



CONCLUSION

These factors, combined with others specific to the insurance industry, contribute to the current state of apartment building insurance as a hard insurance market. Property owners in the multifamily sector now face difficulties in obtaining affordable coverage that adequately addresses their property's unique risks. It is essential for property owners to work closely with insurance professionals, understand the evolving market conditions, and implement robust risk management strategies to navigate the challenges presented by the current hard market.



03

HOW IS PROPERTY PREMIUM CALCULATED

Commercial property insurance for apartment buildings is calculated based on several factors. **Let's break it down:**

1. TOTAL INSURED VALUE (TIV)

» TIV represents the total value of the insured property, including the building structure, contents, and any other assets covered by the insurance policy.

- » For an apartment building, TIV encompasses the entire property, including common areas, individual units, and any equipment or fixtures.

2. RISK ASSESSMENT

- » Insurance companies assess the risk associated with the property. Higher-risk properties (such as those in areas prone to natural disasters or with a history of theft or vandalism) tend to have higher premiums.
- » Factors considered include location, construction type, occupancy, and security measures.

3. BUILDING RATE

- » The TIV is divided by 100 and multiplied by the rate
- » Let's use the example of a 6-cent loss rate per \$100 of a 5M TIV. The formula for the annual premium is:

TIV/100 X Rate

$$5M/100 \times .06 = 3,000$$



4. OTHER CONSIDERATIONS

- » **Property value:** The higher the TIV, the higher the premium.
- » **Business liability:** Coverage for injuries, accidents, or lawsuits related to the property.
- » **Loss of income:** If units need reconstruction, rental income may be lost.

5. AVERAGE COST

- » This varies greatly for affordable housing, 5 over 1s built post 2008 and traditional garden style apartments
- » The best course of action is to send over the OM and get your agent involved during due diligence.

NEW PURCHASES

Potential buyers need to know electrical panel, hvac and plumbing updates and year of roof so your agent can provide an accurate estimate. Your IRR and cash on cash won't be accurate without a solid insurance estimate.



A photograph of a modern, multi-story apartment building with white facades and blue-tinted glass balconies. The building is viewed from a low angle, looking up. A large blue number '04' is overlaid on the left side of the image.

04

UNDERWRITING

Let's delve into the details of how apartment building insurance is underwritten, covering various aspects such as risk assessment, loss history, and mitigation strategies.

1. RISK ASSESSMENT AND UNDERWRITING

» **Risk Evaluation** This evaluation includes factors like location, construction type, occupancy, and building features.

» **Underwriting Process:**

During underwriting, insurers gather information about the property, its history, and the management team. They use this data to determine the appropriate coverage and premium.



2. SPECIFIC CONSIDERATIONS

- » **Electrical Panel Recalls:** Insurers check if the building has outdated or recalled electrical panels. These pose a fire risk and may affect the premium.
- » **Proximity of Grills:** Grills placed too close to the building can increase the risk of fire damage. Insurers consider this when underwriting.
- » **Roof Age and Updates:** The age of the roof matters. Older roofs may have higher premiums. Regular updates and maintenance are essential.
- » **Management Team Experience:** A competent management team reduces risks. Insurers assess their qualifications and track record.
- » **Loss History:** Insurers review past claims and losses. Frequent claims may impact the premium.



3. MITIGATION STRATEGIES AND LARGE LOSSES

- » **Importance of Detail:** Insurers seek detailed information about large losses. Understanding the cause helps prevent similar incidents in the future.
- » **Mitigation Plans:** Insureds should provide plans for mitigating risks. For example:
 - If a fire caused significant damage, the insured might implement better fire prevention measures.
 - If water damage occurred, they might improve plumbing and drainage systems.
- » **Risk Management:** Insurers appreciate proactive risk management. It shows commitment to preventing losses.

4. 5-YEAR LOSS PICK

» **A 5-year loss pick** refers to the average loss experience over the past five years.

» **Importance**

- Insurers use this data to project future losses.
- It helps set appropriate premiums.
- A high loss pick may lead to higher premiums.
- Insureds can analyze trends and adjust risk management strategies.



CONCLUSION

Carriers want to know about the management and ownership. A well written narrative can go a long way. If there has been a large loss, there must be an explanation of what measures were taken to avoid similar losses in the future.



05

APARTMENT RISK MANAGEMENT

The Impact of Active Claims Management on Renewal Premiums

INTRODUCTION

In the complex world of insurance, managing claims effectively is crucial for both insurers and policyholders. Apartment communities face unique challenges, and having a dedicated claims management staff can significantly impact renewal premiums. Let's explore how this specialized team contributes to better outcomes.

1. PROACTIVE RISK MITIGATION

Having a dedicated claims management division allows for proactive risk mitigation. Here's how:

- » **Early Intervention:** When a claim arises, the team jumps into action promptly. By addressing issues early, they prevent minor incidents from escalating into major losses.
- » **Loss Prevention Strategies:** Risk managers analyze trends and identify areas for improvement. They collaborate with property managers to implement preventive measures, reducing the likelihood of future claims.

2. EFFICIENT CLAIMS MANAGEMENT

Relying solely on adjusters to manage claims is not ideal. Larger portfolios need independent claims managers.

- » **Reserve Mgt:** Liability claim reserves are set high. It's important to have a claims manager that can communicate effectively with the adjuster
- » **Reserve Reduction:** Claims managers push to close out open liability claims or at least reduce reserves in advance of renewal. This prevents lingering claims from adversely affecting renewal pricing.

» **Overworked Adjusters:** Reserves are set and not revisited throughout to policy term. This is why independent claims managers can follow up with adjusters to refocus attention towards reserve reduction.

3. INSIGHTFUL DATA ANALYSIS

Data-driven decisions lead to better outcomes. Here's how claims management contributes:

» **Loss History Analysis:**

If a fire loss occurred 3 years ago because of an electrical panel. How is this being mitigated for the future. Underwriters apply credits when this is documented.

» **Renewal Pricing:**

Sending several attachments as loss history is not effective. Underwriters dwell on the one big loss they see. It's better to spreadsheet a 5 year loss history with bullet points that explain large losses and mitigation efforts



4. MITIGATING LARGE LOSSES

Large losses can significantly impact premiums. Here's how the team helps:

- » **Detailed Investigation:** When a significant claim occurs, the team digs deep. Understanding the root cause helps prevent similar incidents in the future.
- » **Mitigation Plans:** Insureds collaborate with claims managers to develop risk mitigation plans. These demonstrate commitment to minimizing future losses.

5. THE IMPORTANCE OF A 5-YEAR LOSS PICK

Large losses can significantly impact premiums. Here's how the team helps:

- » A **5-year loss pick** reflects average loss experience over five years.
- » Insurers use it to project future losses and set premiums.
- » A strong loss pick indicates effective claims management and risk reduction strategies.



CONCLUSION

In summary, a dedicated claims management staff positively impacts renewal premiums by proactively managing risks, handling claims efficiently, analyzing data, mitigating large losses, and maintaining a favorable loss history. Insurers recognize the value of such teams, and policyholders benefit from more accurate pricing and better coverage.



06

HOW DO WE DETERMINE THE APPROPRIATE UMBRELLA LIMITS

INTRODUCTION

Determining the appropriate limit for a commercial umbrella insurance policy that covers apartment buildings involves assessing various factors. **Let's break it down:**

1. RISK EXPOSURE

- » Consider the size of your apartment building and the potential risks associated with it.
- » Larger buildings with more units may face higher risks due to increased exposure to accidents or lawsuits.

2. EVALUATE EXISTING INSURANCE POLICIES

- » Review your primary insurance policies (such as general, auto and employers liability) to understand their coverage limits.
- » Calculate the total liability coverage provided by these policies.

3. CALCULATE THE GAP

- » Determine the difference between your existing coverage limits and the potential liability exposure.
- » The umbrella policy should cover this gap to ensure adequate protection.



4. CHOOSE AN APPROPRIATE UMBRELLA LIMIT

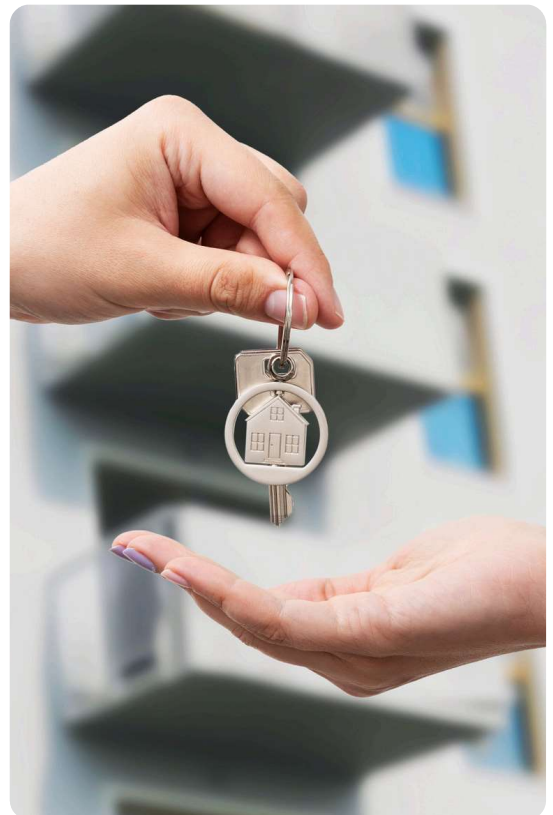
» Common umbrella limits for commercial properties range from \$5 million to \$200 million or more.

» **Consider the following factors:**

- **Building Size:** Larger buildings may require higher limits.
- **Location:** Urban areas with higher population density might necessitate larger coverage.
- **Risk Tolerance:** Assess how much risk you're willing to retain versus transferring to the umbrella policy.

» **Example:**

Suppose you own a 50-unit apartment building. Your existing insurance policies provide a total liability coverage of \$2 million. If you want additional protection, you might consider an umbrella policy with a \$5 million limit. This would cover the gap between your existing coverage and the desired level of protection.





CONCLUSION

Remember that each situation is unique, so consult with an insurance professional to determine the most suitable umbrella limit for your specific apartment building. Keep in mind that minimum underlying insurance limits and carrier ratings are essential criteria for eligibility.



07 SUPERIOR UNDERWRITING SUBMISSION

The Art of Multifamily Underwriting: Key Elements for Success

When it comes to multifamily underwriting, crafting a compelling narrative is essential. As an underwriter, you're not just crunching numbers; you're weaving a story that captures the property's essence and risk profile. Let's delve into the critical elements that make a multifamily underwriting submission stand out:



1. OWNERS AND MANAGEMENT TEAM NARRATIVE

» **Why It Matters:** The underwriter wants to understand the people behind the property. Highlight the owners' track record in the multifamily industry. Discuss successful projects they've managed and their experience navigating challenges.

» What to Include

- **Background:** Briefly introduce the owners and their expertise.
- **Past Successes:** Describe notable achievements, such as turning around distressed properties or achieving high occupancy rates.
- **Risk Management Approach:** Explain how the team handles risks and mitigates losses.

2. FIVE-YEAR LOSS PICK

» **Why It Matters:** The five-year loss pick provides insight into historical performance. It's like reading the plot twists in a novel—the ups and downs matter.

» **What to Analyze**

- **Patterns:** Look for trends—both positive and negative in losses over the past five years.
- **Mitigation Strategies:** If there were large losses, explain how they were addressed. Did the team implement better risk management practices?

3. PROPERTY CONDITION AND CAPITAL EXPENDITURES

» **Why It Matters:** The age and condition of key components impact risk. Think of it as describing the setting—the building's bones and infrastructure.

» **Key Components**

- **Roof:** When was it last replaced or repaired?
- **HVAC Systems:** Are they up-to-date? Regular maintenance?
- **Plumbing and Electrical:** Any recent upgrades?
- **Capital Expenditures:** Highlight recent investments in the property (e.g., renovations, energy-efficient upgrades).

4. SUBMISSION COHERENCE

» **Why It Matters:** Imagine reading a novel with missing chapters—it's frustrating. A well-organized submission is like a well-structured plot.

» **Best Practices**

- **Complete Package:** Submit all required documents together.
- **Avoid Bits and Pieces:** Don't send separate emails with scattered details.

5. MAXIMIZING PREMIUM OPPORTUNITIES

» **Why It Matters:** Just as a captivating novel gets noticed, a superior submission stands out.

» **How to Achieve It**

- **Quality Over Quantity:** Focus on substance, not volume.
- **Tell the Story:** Use narratives to connect the dots.
- **Timeliness:** Submit early—be the opening chapter, not the epilogue.



A modern multi-story apartment building with balconies and large windows. The building has a mix of light-colored and dark wood paneling. The balconies have glass railings and some have potted plants. The sky is blue and there are some trees visible on the left side.

08

E&S VS STANDARD MARKET

Let's explore the differences between **Excess and Surplus (E&S) lines** and **standard markets** for commercial insurance, particularly in the context of multifamily properties:

1. DEFINITION AND PURPOSE

» Standard Markets

- These are traditional insurance carriers that are licensed by the state to provide coverage.

- They offer standard policies for common risks and follow regulatory guidelines.
- Standard markets are suitable for straightforward risks with predictable characteristics.

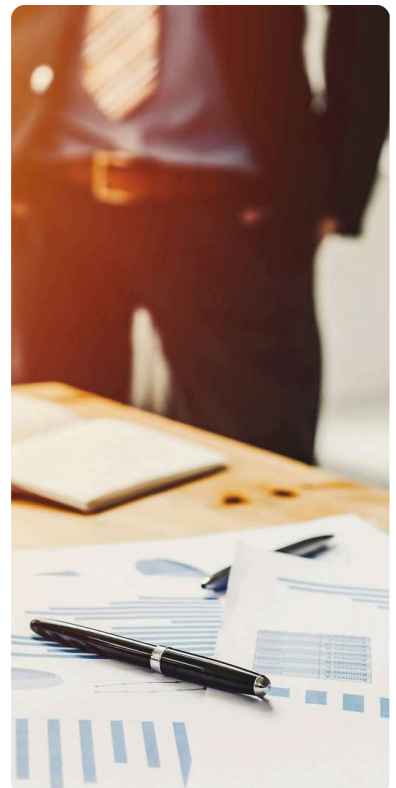
» E&S Lines

- E&S lines serve a vital role in writing **difficult-to-place** or specialty business.
- They cater to risks that standard carriers either cannot or will not cover.
- E&S policies are designed for unique, high-risk, or non-standard situations.

2. RISK TYPES WRITTEN IN E&S LINES

» E&S lines typically cover risks such as

- Properties with challenging features (e.g., distressed buildings, high vacancy rates).
- Unusual occupancy types (e.g., student housing, low-income housing).
- Properties with prior claims history or other risk factors.
- Risks that don't fit standard underwriting criteria.



3. LICENSING AND BINDING AUTHORITY

» Standard Markets

- Licensed carriers have binding authority.
- Retail agents can bind coverage directly.
- Agency agreements are in place.

» E&S Lines

- E&S carriers are not licensed by the state.
- Coverage is provided through wholesale brokers or managing general agents (MGAs).
- Retail agents do not have binding authority; the wholesaler is technically the agent of record.
- Retail agents must notify the wholesaler to bind coverage.

4. APPLICATION PROCESS AND LEAD TIME

» Standard Markets

- ACORD applications are commonly accepted.
- Lead time is usually shorter.

» E&S Lines

- Some carriers require their own application.
- Allow for a lead time of up to 60 days.
- Respond promptly to wholesaler questions.



5. RENEWALS AND CHANGES

- » • **Standard Markets**
 - Conditional renewal notices are sent for modifications.
- » **E&S Lines**
 - No requirement for advance notification if coverage is restricted on renewal.
 - Wholesalers may need to contact the carrier.

6. MAXIMIZING PREMIUM OPPORTUNITIES

- » **E&S Lines**
 - Craft a well-organized submission.
 - Include language specifying when coverage must be bound.
 - Act promptly upon confirmation from the wholesaler.

A modern, multi-story apartment building with white and light purple facades, numerous windows, and balconies with black railings. The building is set against a clear blue sky. A large blue number '09' is overlaid on the left side of the image.

09

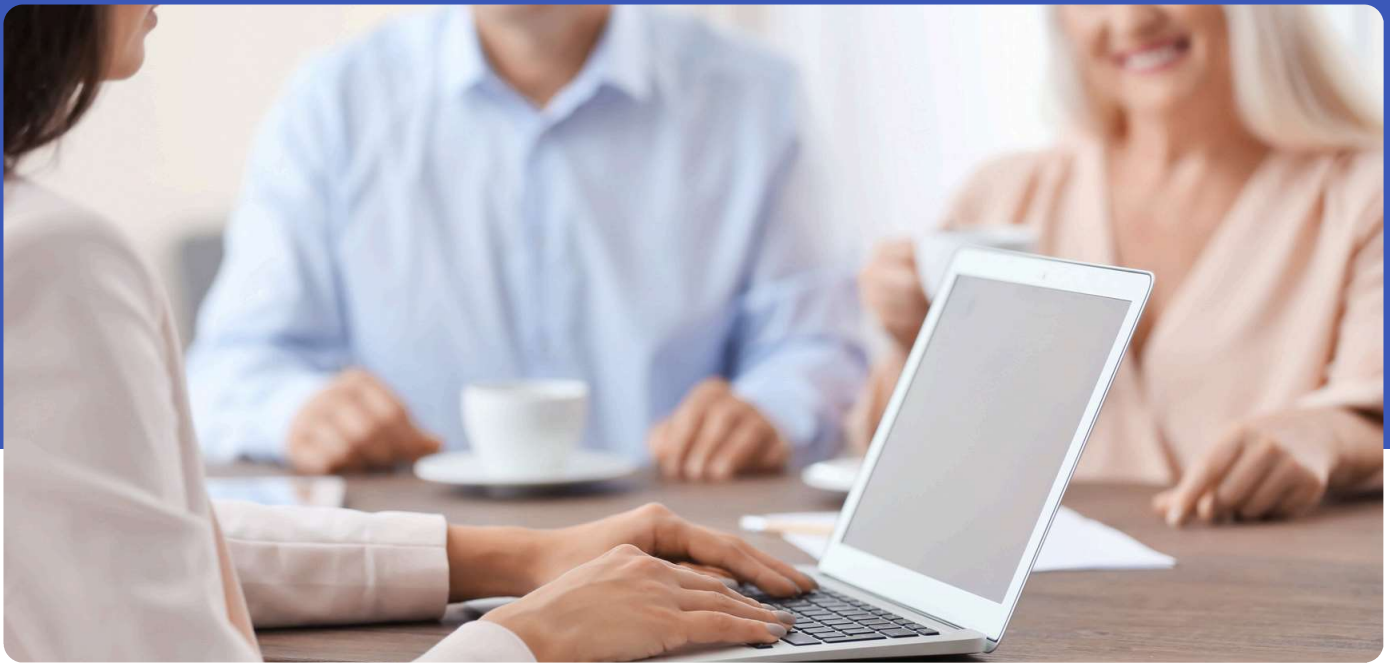
WHY SPECIALIZATION MATTERS

Let's focus on the importance of working with a specialized agent for multifamily commercial insurance and explore the complexities, market dynamics, and often overlooked critical coverages:

1. DEFINITION AND PURPOSE

» Complex Coverages

- Multifamily properties have unique characteristics, such as multiple units, shared spaces, and diverse tenant profiles.



» **Complex coverages** are needed to address these nuances:

- **Property Insurance:** Covers the building structure, common areas, and individual units.
- **General Liability:** Protects against bodily injury, property damage, and legal claims.
- **Umbrella/Excess Liability:** Provides additional liability coverage beyond primary policies.
- **Business Interruption:** Covers lost rental income due to property damage.
- **Workers' Compensation:** Essential if you have on-site staff.
- **Environmental Liability:** Addresses pollution risks.
- **Assault/Battery:** Protects liability coverage if owners are brought into litigation for an unsafe premises.

2. CHANGING MARKETS

» The multifamily insurance market is dynamic:

- **Hard Market:** Recent years have seen rising premiums due to natural disasters, inflation, and supply-chain disruptions.
- **Transition Market:** We're moving from a hard market to a transitional one, where pricing dynamics shift.
- **New Entrants:** Fresh insurance markets are undercutting renewal pricing, creating opportunities.
- **Risk Assessment Tools:** Carriers use tools like RiskMeter to evaluate crime risk at specific locations.

3. ASSAULT AND BATTERY COVERAGE

» Critical but Overlooked:

- Assault and battery claims have surged, impacting multifamily properties.
- Carriers may exclude or limit this coverage due to increased incidents.
- Landlords often underestimate the need for specific assault and battery protection¹⁴.

» Why It Matters:

- Incidents like sexual assault and armed robbery can occur on multifamily premises.
- Without proper coverage, property owners face financial risk and legal challenges.
- Specialized agents understand the importance of tailored coverage for these risks.

4. ADVANTAGES OF SPECIALIZED AGENTS

» Industry Knowledge:

- Specialized agents deeply understand multifamily risks and coverages.
- They tailor solutions to your specific needs, considering location and building specifics.

» Market Access:

- Specialized agents work with carriers specializing in multifamily insurance.
- They explore new markets beyond incumbents, providing more options.

» • Risk Mitigation Strategies:

- Specialized agents help you navigate complex risks, including assault and battery.
- They ensure you secure appropriate coverage while managing costs.



CONCLUSION

In summary, partnering with a specialized agent ensures you get comprehensive coverage, stay informed about market shifts, and address critical risks like assault and battery. Don't overlook the expertise they bring to safeguard your multifamily investments