

The Economic Effect on Property and Casualty Insurance & Its Impact on the Florida Homeowner and Condominium Association Market

Florida's homeowner and condominium associations are in turmoil due to the current economic recession. Associations are battling increasing aged receivables which are directly correlated with the downturn in the economy. Rising delinquencies among homeowners increase the underwriting risk of an association which in turn, creates higher insurance costs. Insurance remains a leading budget line item and is an ongoing concern, so understanding the direct and indirect economic trends that affect the insurance industry will be important in dealing with future insurance costs.

The property insurance marketplace in Florida has been a soft market since 2007. A soft market means declining insurance rates. Property and Casualty Insurers generate growth either by increasing underwriting volume or increasing insurance premiums. In the recent recession, the P&C Industry has experienced a decline in underwriting profits and extensive investment portfolio losses. Underwriting profit decline can be correlated with the reduced premium volume written year over year and poor underwriting of risk. In 2008, industry wide net income has dropped 60.6 billion from 2006. In the 4th Q 2008, many insurance carriers' investment portfolios were in rapid decline due to the stock market retractions.

Reinsurance will play a contributing factor to increased insurance costs for 2010. Reinsurance is the coverage one insurance company purchases from a second insurance company for a risk insured by the first insurance company. Property insurers in the state of Florida have unique challenges as it relates to securing reinsurance each year. Due to multiple disasters in 2008 and the falling of the capital markets, increased pressure has been placed on reinsurance and most insurance carriers are expecting increased reinsurance costs for 2010.

In addition to the direct factors which affect the industry, the indirect factors play a major role. The housing market has caused numerous foreclosures, leaving homes and condominium units vacant. The retraction on real estate values has created declining replacement cost valuations, shrinking the amount of net written insurance premiums. Vacant condominium units and vacant homes increase insurance risk. As a result, the industry has witnessed an increase in reported insurance claims.

Be aware of the following type of claims or risk that affect insurance cost:

- A condominium unit is in the process of foreclosure. The unit owner turns the power off. Due to the condensation and humidity within the unit from not having the air conditioning on, mold grows throughout the entire unit causing a complete and total loss. The entire unit must be demolished to the studs and rebuilt.
- A vacant home has the exterior pool equipment, air conditioning and piping stolen since the property is vacant.
- Water leaks are very common and, if left undetected, can become a total loss.

- Slip and fall claims, fire claims and litigation suits brought against association board members increase during times of recession.
- The number of vacant dwellings or homes will cause an insurance carrier to not underwrite a risk or increase insurance rates due to the increased exposure.
- Claims frequency will impact insurance rates.

Insurance fraud is also on the rise as witnessed by the National Insurance Crime Bureau. The NICB reviewed 18,186 questionable claims in 2008 and 20,246 in just the first 8 months of 2009. Below is a trend of homeowner's insurance loss breakdown by cause of loss.

Cause of Loss	2005	2006	2007
Property Damage			
Fire Lightning	23.04%	33.16%	42.07%
Wind Hail	46.56%	29.04%	17.43%
Water Damage	15.52%	18.80	22.35%
Theft	2.39%	3.50%	3.52%
All Other	7.30%	9.37%	9.32%
Liability			
Bodily Injury	4.70%	5.36%	4.46%
Medical Payments	.49%	.76%	.85%
Credit Card	(4)	(4)	(4)

Source: ISO

The weak economy and soft market conditions are limiting the growth of insurance carriers. The recent volatility in the securities markets is contributing to further declines in the insurance marketplace. Additionally, the struggling homeowners and condominium associations, with their increased foreclosures are creating additional costs and unwanted risks. The combination of the direct and indirect factors will cause a hardening of the property insurance market in 2010. Be proactive with your insurance and recognize the factors that attribute additional cost to you and your association.