AmWINS Group, Inc.

CLIENT ADVISORY

OVERCOMING THE CHALLENGES OF PLACING MULTI-FAMILY REAL ESTATE

The real estate sector consists of many different types of premises-related accounts, including office buildings, shopping centers, malls, industrial warehouses, and apartments. Due to the frequency and severity of losses, habitational properties or apartment schedules are most commonly placed with E&S markets. This also applies to shopping centers and malls that are located in geographic areas where the crime scores are typically higher than the national average, or where the risk has a higher frequency of claims and is suitable to taking a retention and employing an aggressive third party administrator (TPA).

But the majority of real estate accounts placed in the E&S marketplace are multi-location apartment schedules. In recent years, many casualty markets have struggled with being profitable on these risks, and some have stopped underwriting this class entirely. **What makes this class so difficult for carriers to be profitable, and why have so many markets either exited the space or tightened their guidelines?**

Obviously, profitability is tied to thin rates and/or overly generous claims settling, but there are several other factors when it comes to this class:

1. UNIQUE CLAIMS = GENERAL LIABILITY? NOT ALWAYS.

One factor is that there are so many more unique claims which ultimately get tagged to the general liability (GL) carrier. Just about anything that goes wrong – other than traditional property losses such as fire, wind, flood, etc. – is considered a GL claim. While it used to be that the owner or manager had to be negligent in order for a GL claim to be paid, that's hardly the case anymore. Carriers have traditionally been the most concerned with "typical" GL claims including slip-and-falls, violent attacks, and sexual assaults; they now have to also deal with unique, obscure claims for which a GL carrier is ultimately held liable. This diminishes any chance of the account being profitable.

Here are some examples of fairly obscure claims, both of which settled for well over $1,000,000:

a. At a property for elderly tenants, a woman wanted to take a bath. She drew the bathwater, didn't realize how hot the water was until she got into the tub, and couldn't get out fast enough before she was scalded.

b. A motorcyclist was trying to enter a gated apartment community but didn't know the appropriate gate code. The motorcyclist was closely following the car in front whose driver had the access code. Unfortunately for the motorcyclist, once the car passed through the entrance, the gate "arm" closed abruptly and knocked him off his motorcycle, causing injury. The claim eventually closed for nearly $1,000,000.

Again, these "once in a lifetime" claims are particularly present in the multi-family sector, with many of these claims eventually closing with substantial defense and indemnity payments. When reviewing five years of loss runs, it is not uncommon to see at least one of these type of claims (paid or reserved) for between $500,000 to $1,000,000, as well as one or more of the "traditional" claims mentioned above, on the even very best habitational property risks.

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CONTACT

To learn more about how AmWINS can help you place coverage for your clients, reach out to your local AmWINS broker or marketing@amwins.com.

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2. IT'S TIME-CONSUMING TO UNDERWRITE LARGE APARTMENT SCHEDULES.

When compared to other risks, it takes an exorbitant amount of time to properly underwrite a large schedule of apartments. Very few habitational accounts include locations that have been part of a portfolio for a five-year period. As such, "new" locations are continually being added, and the corresponding loss information is rarely available. It's virtually impossible for underwriters to have a true picture of historical losses for all locations. Comparatively, underwriting a manufacturer is relatively simple: the underwriter knows the product being manufactured, and if the risk has been in business for five years, he or she has an accurate loss picture. That's rarely the case with habitational schedules. For this reason alone, many markets have stopped writing large schedules. It's also time-consuming for a carrier to run crime reports on every location prior to quoting.

HOW AGENTS AND BROKERS CAN HELP THEIR INSUREDS

Most claims occur because of lack of maintenance and/or lack of security. Both may seem like fairly obvious needs, but it takes capital to maintain a large schedule of locations which not all property owners have. One of the first questions a broker should ask is, "What is the insured doing about maintenance and security?", "What is their annual budget?", and "What items are routinely maintained?" There is a direct relationship between well-managed and well-maintained properties and the corresponding loss experience.

If a large claim is listed on the loss runs, a broker should question the insured about what has been done to remedy the situation. For example, in the claim mentioned earlier in this article involving the tenant with scalding bathwater, the owners locked the temperature of the hot water heaters on their property to 110-120 degrees to ensure this type of loss would not happen again. It's important for a broker to make sure the underwriter knows what actions have been taken when a large claim has occurred.

When it comes to addressing security – or lack thereof – the solution is also straightforward. Guards are needed in locations with high crime. Cameras should be installed. Keys should be changed when tenants move out. Front doors need to have peep holes. Sliding glass patio doors should be secured. The area should be well lit. Advising insureds to take these seemingly obvious but critical actions can make a major difference when it comes to keeping their losses (and premium) to a minimum.

While there are carriers still willing to underwrite apartments, the number is decreasing, and most of them have limitations. They may shy away from larger schedules, restrict the number of units, or not offer any Assault & Battery coverage, especially if there has been a claim. Some carriers have a maximum percentage of subsidized, students or elderly tenant units they will accept. Also, most carriers will not offer per-locations aggregates, but rather they prefer to cap the policy aggregates at $5,000,000 or $10,000,000.

By understanding the difficult nature of underwriting this class for carriers, proactively helping their insureds to mitigate risk, and being more involved in claims handling, agents and brokers can create a win-win situation for all parties. Not only are they positioning insureds in the best possible light for underwriters, thus leading to better terms for their clients, they are also helping to make sure that carriers view this class as one that can be written efficiently and profitably.

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