M&T Insurance Agency, Inc.

Business Insurance: Considerations for Property Owners and Managers

As soon as a piece of property receives its certificate of occupancy, transforming from a construction project into real estate, many things change. Not the least of which are the risks a property owner and/or manager undertakes. Especially today, when the property and casualty insurance market is hardening and premiums for most types of coverage for real estate are rising, it is important to have the right team to manage the transition and ongoing needs you may have.

Start by understanding the risks you have as an owner

Protecting your real asset – the actual property – comes first and foremost. How much is the property worth? Inaccurate property valuations can be a major challenge for owners. Evaluations should be made on an annual basis to help ensure a property is accurately insured to value and inform of any updates needed to insurance coverage.

In the current insurance market, insurers are looking at property valuations more carefully. If they feel an asset is undervalued, they may impose a higher replacement cost at the onset of coverage. It's important for the owner to have regular property appraisals conducted, every three to five years, in order to justify replacement values to insurers.

Procuring your own appraisals on a regular basis can also assist with lender negotiations. Lenders often obtain their own valuations, which may differ from what an owner has on file and has already reported to their insurer. Having a separate third-party appraisal on hand to present to a lender can assist in bridging the gap between the owner's valuation and the lender's valuation.

Consider where the property is located and what laws and regulations are in force in that area. Different geographies bring their own complexities. For instance, the labor law in New York City enforces a strict liability on real estate owners for anything that occurs on their premises, regardless of what risk transfer mechanisms are in place. Knowing, understanding, and preparing to deal with the laws and regulations unique to your area is key.

In addition, it is essential for a property owner and/or manager to **understand each asset's catastrophic "CAT" exposure** and the implications with regards to insurance cost and coverage. For example, many of the FEMA flood maps changed after Hurricane Sandy, resulting in reduced capacity and higher rates for buildings that were not previously considered to be in a Special Flood Hazard Area (SFHA) zone. It is important to evaluate a property's changing exposure to perils such as flood, but also to evaluate portfolios as a whole. Portfolios can present an issue with aggregation of risk – there could be too much CAT exposure in a concentrated area. This can also affect insurance coverage and rates, so it is important to monitor the changing risk profile of a portfolio as you acquire and divest assets.

Slips and falls and other personal injury risks may always be the nemesis of a property owner, particularly in high-traffic commercial areas or multifamily real estate where you have 24-hour exposure. In the case of personal injury, an entirely different set of issues comes into play. It is important to put the proper risk transfer language into any third party contracts such as security, snow removal, and other vendors, to help limit exposure to the owner and/or manager. All contracts should be audited and reviewed on a regular basis to help ensure the most appropriate protections are in place.

Remain educated on the factors changing the landscape today

The nature of insurance is cyclical. For the past eight+ years the property insurance market was described as a "soft" market, with rates remaining low and plenty of available capacity in the marketplace. However, we have seen a shift in the past 12 months. The investment environment has seen slower growth and catastrophic events have exposed the insurance industry to increased losses, such as the California wildfires, convective storms, and wind/hail storms. We have also seen reduced capacity in certain areas such as wood frame construction and habitational occupancies, as many markets have exited this space. All these factors have contributed to a "hardening" market, where insureds can expect increased underwriting scrutiny, reduced coverage for CAT-exposed properties and higher rates.

Many insurers that offer general liability coverage also offer workers compensation and auto liability coverage. Workers compensation rates have steadily increased over time due to the rise of medical costs. However, insurers are still evaluating risks on a case-by-case basis and considering both the class of business and loss history. Auto liability has become an area of concern for insurers for all classes of business. Rates continue to climb due to distracted driving, deteriorating roads and other infrastructure, and higher physical damage costs due to technology within most vehicles today. While auto and workers compensation are not specific to the real estate industry, higher losses in these areas may put pressure on insurers to raise rates across the board and have been impacting general liability rates.

Mitigate your risks for the long term

When you're in the real estate game, you can't avoid risk. But you can mitigate some of it by staying ahead of the changes that may impact your investment by talking with industry professionals that have your best interests in mind.

- **Understand your valuations:** Keep abreast of what the property is worth and what it may cost for repairs or to rebuild. Know that you are properly insured to value, with the right coverage to pay for rebuilding to your standards. For example, if your structure consists of large amounts of aluminum, how is the replacement value affected as the price of the metal fluctuates? Analyze what ratio of risk you want to retain versus transfer that makes the most sense for your needs on a long-term basis.
- **Understand your risks:** Do you have a water mitigation plan in place? What do your evacuation plans look like? Do you have proper contractual risk indemnification and risk transfers in place? How are you tracking certificates when you have vendors on-site to help ensure you're protected? Audit what you need and don't need.
- **Continue your education:** Understanding how and why property valuations are changing can help you spot new areas that need insurance.

When it comes to protecting your interests, the adage holds true; you need to prepare for the worst and hope for the best.

How M&T Insurance Agency (MTIA) can help

At MTIA, we strive to make a difference for our clients by forming lasting relationships built on our role as strategic advisors. We do this by bringing you into the fold every step of the way – tailoring our guidance to help provide the best solutions for your unique needs and goals.

Partnering with MTIA provides access to:

- Insurance professionals who know how to navigate the marketplace
- Skilled analysts who can examine your past claims and future insurance needs
- Actuaries who can evaluate your risks and help you manage costs
- Advisors who work hand-in-hand with every level on your team
- A long-term relationship that helps implement, manage, and monitor risks and insurance strategies
- Guidance and resources to continue to support you

Let us show you how we're different. Call 1-800-716-8314 or visit mtia.com.