
Managing Through the Turmoil of the Property & Casualty Insurance Markets

Thursday, Jan. 25, 1:00-2:30PM ET

Presented by:



&

STRENGTH
MATTERS®



Meet Our Presenters

Nathan Kerr

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Insurance Exchange



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STRENGTHMATTERS®

We serve as the nonprofit affordable housing industry's go-to information network for financial learning.

We are collectively working to ensure a thriving, well-capitalized, high-performing affordable housing sector.



STRENGTHMATTERS®

2024 Financial Management Conference [September]

Join us to provide input into this year's conference agenda. What topics do you want to hear from experts and peers on?

Two informal Zoom meetings to be held in Feb-March. Dates to be announced in the Strength Matters newsletter when confirmed.





Boot Camp on Financial Reporting for Rental Housing Not-for-Profit Enterprises

11-week live Zoom course covering the complete life cycle, from predevelopment to year 15, of an affordable housing development.

Enrollment for May-Aug. session will start in late March.
A fall session will likely be offered, running from mid-Sept.-Dec. 2024

Typical Feedback:

- *“So nice to be able to see how all of the pieces fit together!”*
- *“I have a better understanding now of those involved which helps me understand who should own each aspect of the process internally”*
- *“There were so many practical take aways”*
- *“Instructors are effective as they practice in the field and have war stories to share”*

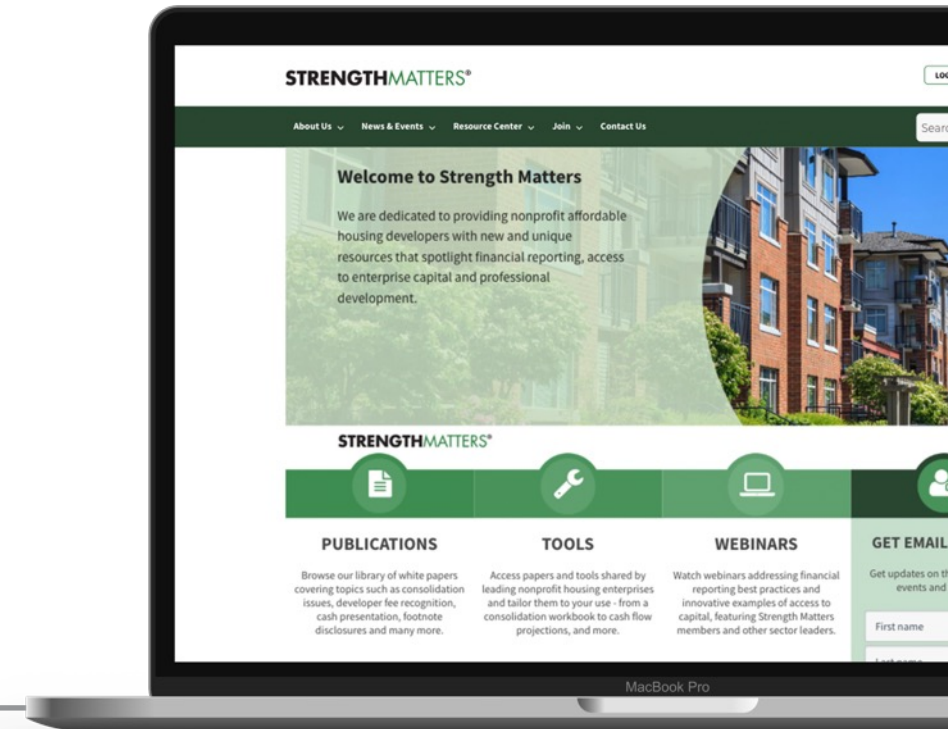


Go-To Information Network for Financial Learning

Annual subscriptions available to access a huge library of resources at www.StrengthMatters.net

Access includes previous webinars and:

- Best practice guidance papers on financial statement reporting including key areas such as:
 - Disclosures
 - Developer fee elimination
 - Related party transactions
- Templates for:
 - Five-year cash flow projection
 - Monthly finance-development meetings
 - Grant tracking
 - Procurement policies



Let CHAM Be an Asset to You!

The Consortium for Housing and Asset Management is the only national association of affordable housing asset managers.

CHAM offers nationally recognized certificate programs:

- **Asset Management Specialist:** A foundational training for anyone looking to get started or freshen up their skills.
- **Certified Housing Asset Manager:** An advanced training program that dives into the analytical and financial responsibilities of asset managers.

info@chamonline.org | www.chamonline.org



Annual Asset Management Conference

Join CHAM on an exciting journey to elevate affordable housing.

Explore innovative strategies, unleash creative solutions, go on neighborhood tours and engage in peer to peer discussions while learning best practices from around the country.

Conference registration opens in April 2024.



QUESTIONS?

- Please use the **Zoom Q&A** feature to submit all questions.
 - *Q&A is located on the black menu bar. If menu is not visible, move your cursor to view.*
- We will pause for questions during the presentation.
- This webinar platform is “view & listen” only for participants. Presenters cannot hear participants during the webinar.
- Slides and a recording of the presentation will be available in a few days on StrengthMatters.net and CHAMonline.org.

CPE REQUIREMENTS

- **We use polls and the Zoom attendance record to verify participation throughout the webinar.**
 - Participants must submit ALL polls and be logged in by 10 minutes after the scheduled webinar start time to receive a certificate.
- **If you plan to petition your state board of accountancy for CPE credits, please submit ALL polls, INCLUDING the final evaluation.**
- For more information on CPE credits, contact Lindsay Wells at consult.lwells@gmail.com.

Q: For your organization, how much responsibility for insurance decisions do you have?

- **A lot**
 - **Some**
 - **A bit**
 - **Not much**
 - **None**
-

Back to School — Not Just Boring Insurance!

- Probability & Statistics (or gambling)
- Finance
- Psychology
- Economics 101



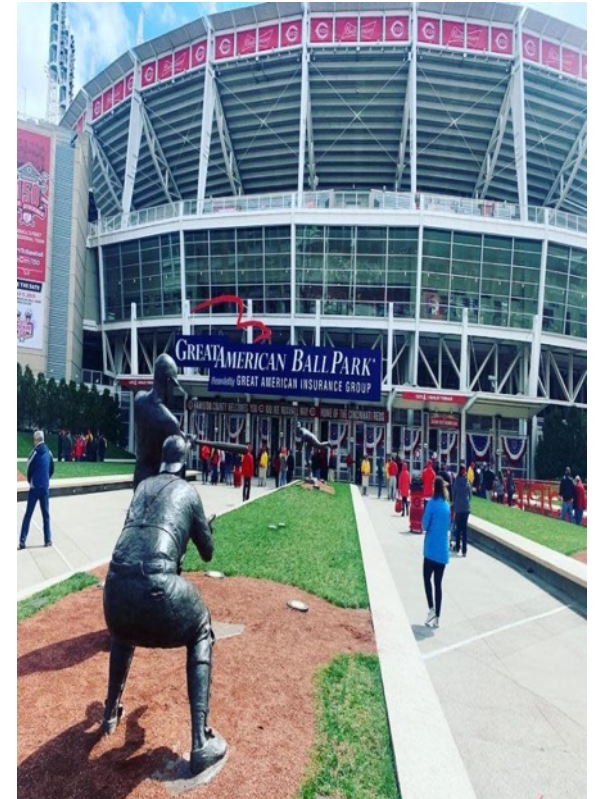
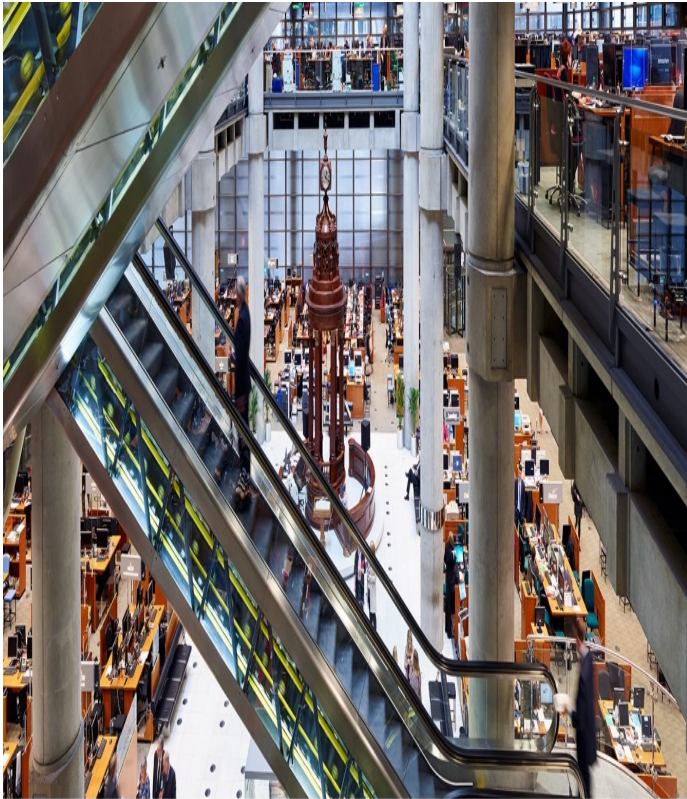
How it all began — True Risk Transfer



No Loss OR Total Loss!



Insurance Today



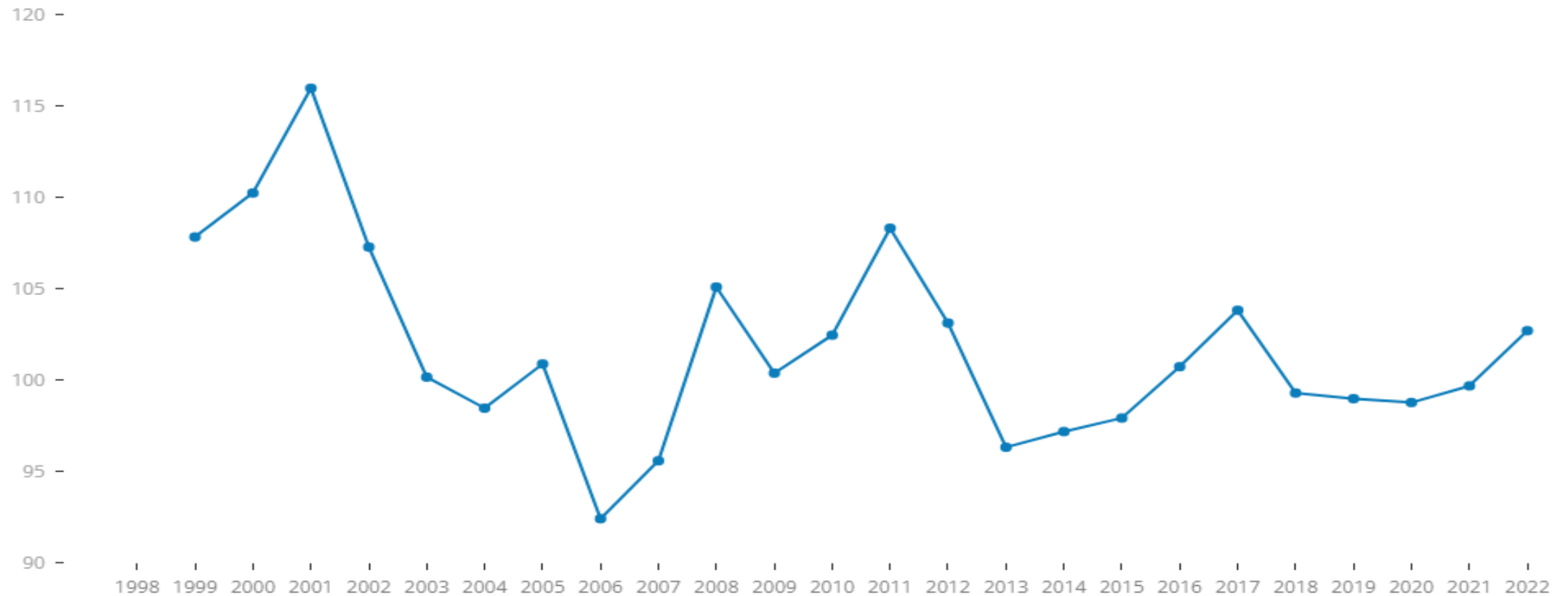
Buffet's "Float"

- I'll take your money now, invest it and pay it back over time
- Typical Claims Payout Pattern
 - Year 1 – 20%
 - Year 2 – 35%
 - Year 3 – 25%
 - Year 4 – 10%
 - Year 5 – 5%
 - Year 6 – 5%



Cyclical Industry

Property/Casualty Insurance Combined Ratio, 1998-2022 (1)

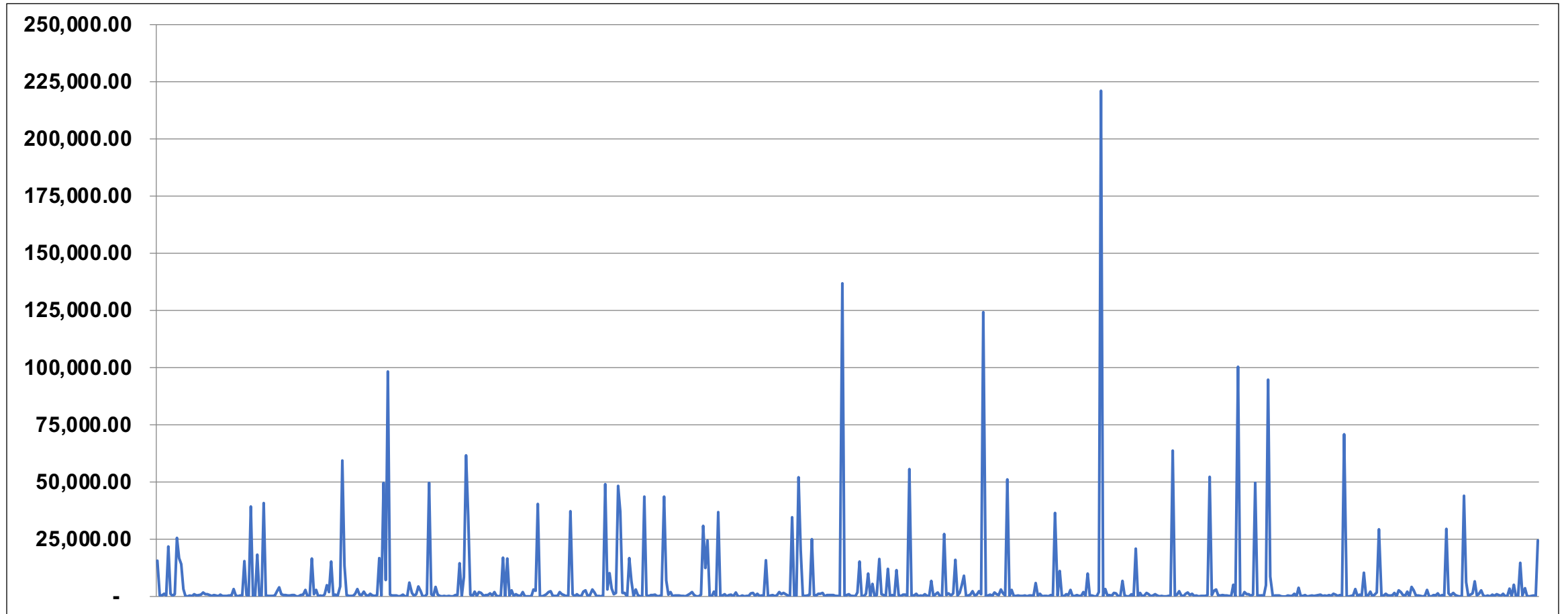


Source: NAIC data sourced through S&P Global Intelligence; Insurance Information Institute.

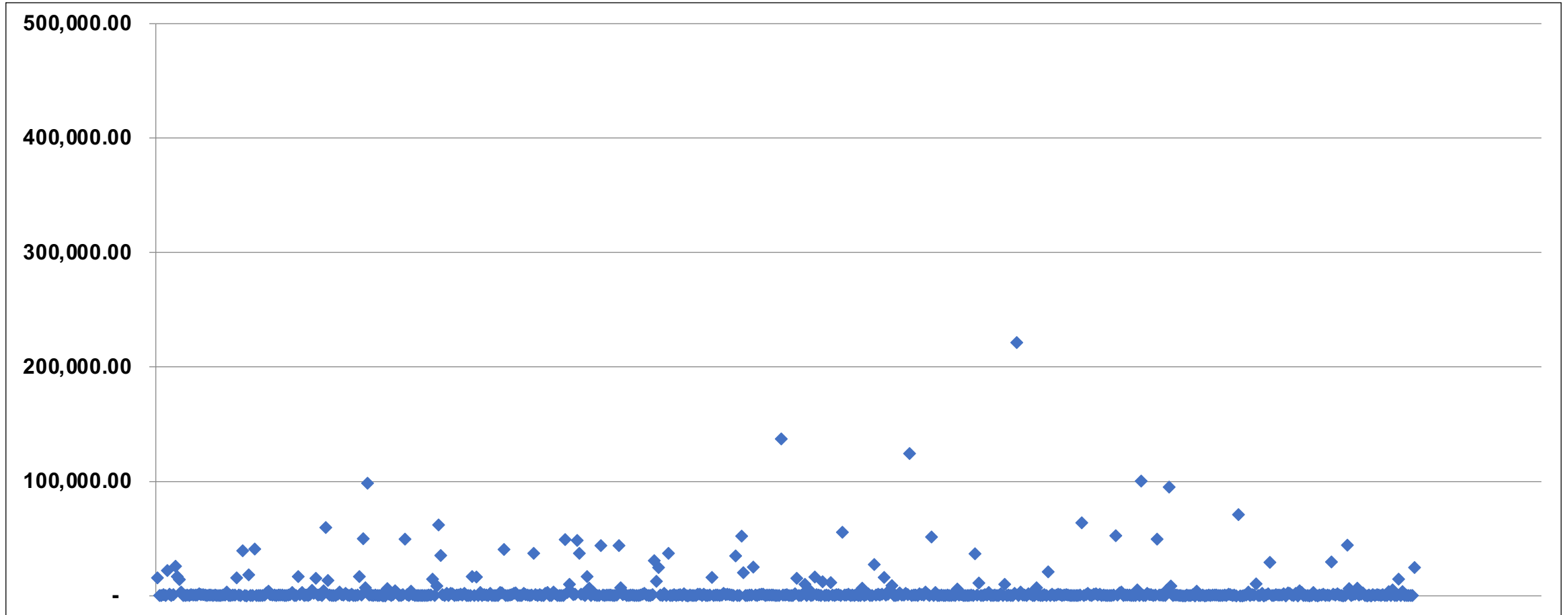
Insurance = Predatory Lending

- Everything turns on losses
- $\text{Premium} = \text{Expected Losses} + \text{Overhead} + \text{Risk Premium} + \text{Profit}$
- In many cases, insurance premiums = 2x – 4x expected losses!!
- Real life example – Over a 7-year period, a client paid \$4mm in premium and only had \$900k in losses

Claims Volatility (Underwriter's Lens)



Or...Cash Flow Predictability?



The Law of Supply/Demand — Kind Of....

- Demand is relatively static as most companies are required to purchase insurance
- Supply – Major restriction - Capacity continues to shrink (Prop/GL/Umb)
- Standard (Admitted Markets) vs. Excess & Surplus Lines (Non-Admitted)

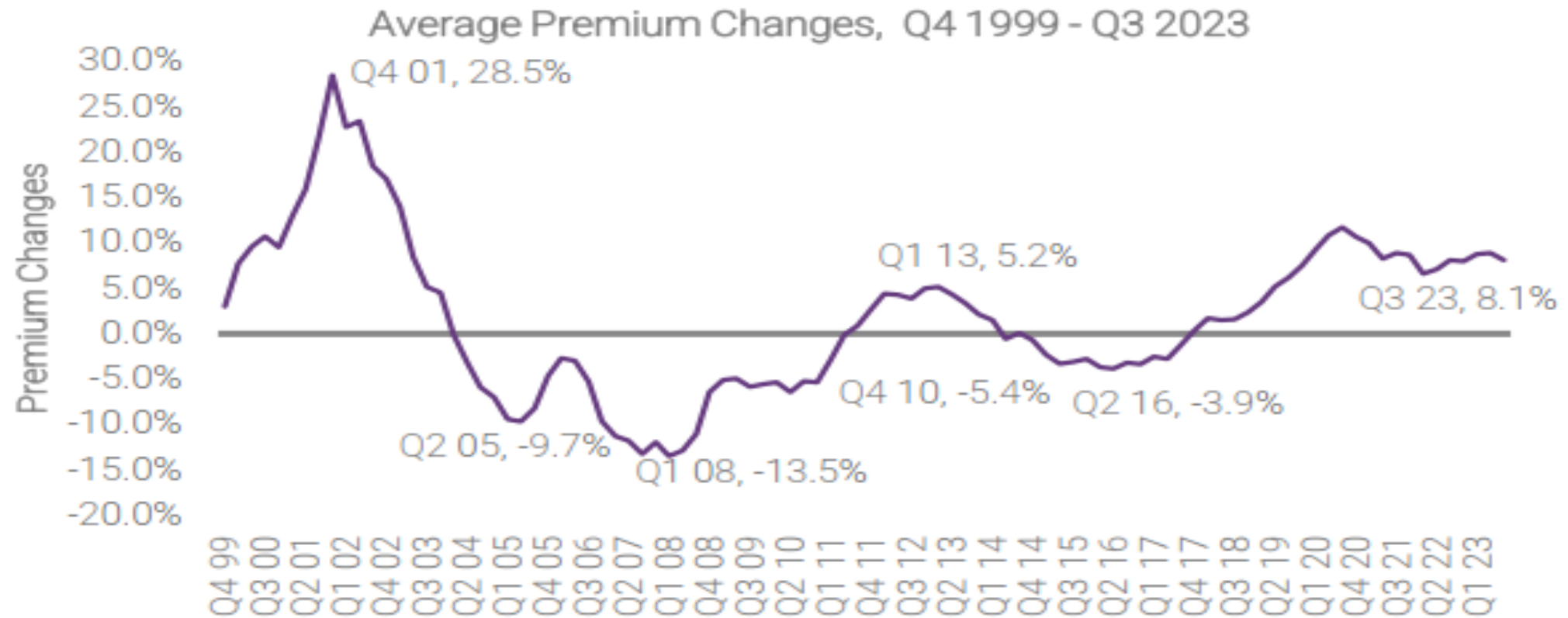


Perfect Storm

- Major Losses (Many Unpredictable)
- Low Interest Rate Environment (in the beginning)
- Inflation (Construction Costs, Nuclear Verdicts, Medical Costs, Auto Repairs, etc.)
- Cost of Goods Sold (Reinsurance)



Cyclical Industry



Source: The Council of Insurance Agents & Brokers

It's All About Risk Management

- The money you spend on insurance and risk is your money
- Insurance is an inefficient banking mechanism except at catastrophic levels
- There is no such thing as risk transfer, only risk sharing



Q: What is Combined Ratio?

- **A recipe for how to make oil/vinegar salad dressing**
 - **A metric for evaluating the profitability and financial health of an insurance company**
 - **An 80's rock band**
 - **A math problem taught to elementary school children**
-

Alternative Type of Insurance — HPIEx

- Captive Insurance Company – Member owned with member oversight
- Net Profit and/or Net Loss are returned to the members
- Accountability
- Shared Layer
- Shared Cost of Expenses
- Direct Access to the Reinsurance Market



Q: Were you familiar with HPIEx before today?

- Yes
- No
- Not sure

London Market Overview

- Met with Nine London Reinsurers
- How the reinsurance market views affordable housing



Other Factors Impacting Affordable Housing

- Valuations
 - Covid
 - Inspections
 - Delayed Maintenance
 - Inflation/Cost to Repair
 - Cost of Labor
 - Difficulty Hiring
-

HPIEx Types of Property Losses

- HPIEx most effected by tenant caused losses
- Interior Fires
 - Kitchen Fires
 - Electrical Fires
 - E-Bikes & E-Scooters
- Water Damage
 - Supply Lines
 - Sprinkler Head Activation
 - Overflow



General Liability & Excess Liability

Violent Crimes have increased – Shootings

- Habitability Claims – Bed Bugs
- Properties Carved due to location
- Increased deductibles and/or sub-limits for Assault & Battery



Risk Management

- Improve your overall risk management program
- Inspections & Documentation
- Plan for what to do when a claim occurs. Create an atmosphere of competence.
- Claims Management — Being proactive in handling a claim.
 - List of Vendors
 - Written Procedures
 - Chain of Command
 - Coordination
 - Communication



Q: Have you experienced higher losses in the past 2 years?

- Yes
- No
- Not sure

Q: Have you increased your loss control activities?

- Yes
 - No
 - Not yet
 - Not sure
-

Make your risk best in class

- Don't insure what you can retain
- Don't let the regulators or the banks make all the decisions
- Have a good story to tell
- Tell it well



Don't insure what you can retain

- Set deductible level at risk tolerance
- Insurance should not break even
- Insurance should be for the big events, not the small
- Consider alternative risk transfer arrangements



Q: What's your organizations current deductible?

- <\$10K
- \$10K-\$25K
- >\$25K
- Don't know

Don't let the banks make the decisions

- Amenable Deductible Provisions



Don't let the regulators make the decisions

- Safety procedures are to protect people first, then property
 - OSHA is a minimum standard — do better
 - Fire Code is a minimum standard — do better
- Insurance company recommendations are a valuable tool



Have a good story to tell

- Risk management as core value
 - Identify and Quantify Exposures
 - Loss Control
 - Prevention
 - Reduction
 - Transfer
 - Non-Insurance
 - Insurance
 - Monitor



Have a good story to tell

Identify Exposures

- Know your property
 - Statement of Values continually updated and maintained
 - Updates to key systems done and documented
 - Sprinkler data easy to document
 - Know your wiring
 - Know your fire detection systems



Have a good story to tell

Identify Exposures

- Know your loss history
 - What happened?
 - Why?
 - How much?
 - What can we learn to prevent other events?
- Know what is happening in the industry
- Imagine what else could happen...



Have a good story to tell

Loss Control

- Engineering Controls
 - Stove Top Fire Stops
 - Flood Dams
 - Sprinklers
 - Sprinkler head caps
 - Water Bugs
 - Overflow alarms
 - Fire divisions
 - Water shut off
 - Bollards



Have a good story to tell

Loss Control

- Human Element Controls
 - No Smoking policies
 - Tenant Rules
 - E-bikes and Scooters
 - Window safety
 - Pumpkins
 - Christmas Trees
 - Grills
 - Housekeeping Procedures
 - Training
 - Informational postings by season



Have a good story to tell

Loss Control

- Inspections
 - Every employee entering a unit documents conditions
 - Smoke Detectors functioning? (Check battery every time in unit)
 - Exits clear and accessible?
 - Windows safe from climbing children?
 - Any evidence of rule violations?
 - Employee not assigned to site inspects at least quarterly
 - Inspections include
 - Checking all fire protection devices
 - Checking stairs
 - Checking railings



Have a good story to tell

Transfer

- Non-Insurance Transfer
 - Vendor Contracts
 - Explicit requirements
 - Signed contracts
 - Certificate Review
 - Follow up system



Tell your story well

- Start Early
- Be Nice
- Be Loyal
- Don't be complacent
- You are in charge



Tell your story well

- Orderly Statement of Values
- Procedures manuals
- Sample Checklists
- Insurer Tours
- Keep track of loss runs
 - Review at least quarterly
 - Be proactive in claims management



Q: How well do you think your organization is telling your story?

- **Excellent**
 - **Very well**
 - **OK**
 - **Fair**
 - **Not great**
 - **No idea**
-

CONTACT INFORMATION

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