

Lantana Insurance Committee Report

February 16, 2023

Background:

In the last couple of years, insurance premiums, particularly Property & Casualty, have risen dramatically in the State of Florida. The competitive market has shrunk. Some insurers have gone under financially, others have left the state, and those that are willing to write policies have less risk tolerance. While huge claims from recent and catastrophic storms are part of the problem, litigation by policy holding plaintiffs against insurance companies is a huge problem in our state. Litigation data shows that the FL insurance companies total cost of successful plaintiff claims breaks down as follows: policy holders get 8%; insurer's cost to defend 21%; plaintiff's attorneys 71%. Many of the claims are fraudulent or frivolous, especially where the policy holder assigns their benefits over to storm-chasing construction and roofing firms. The 2023 FL State Legislature is putting forward legislation to address the litigation problem with the intent and hope that insurers will come back into the market. Other factors include recent inflation resulting in the higher cost of materials and labor and the Champlain Towers collapse in Surfside, FL.

With improved market conditions, rates can actually go down or stay relatively the same, as they had for some years a decade ago.

In January 2023, the Lantana Board of Directors formed an Insurance Committee and asked it to meet with our broker, Mr. Victor Dalrymple, President of Assured Partners (formerly Ranew Insurance Agency). This was prompted by several factors:

- A 110% increase in our premium attributable to market conditions and a new property valuation replacement cost study completed on November 5, 2022.
- We also did not know the extent to which former boards have reviewed our policy and policy options and made sure our broker was getting and presenting quotes.
- The Board wanted to see other carriers' quotes this year.
- It was learned in January 2022 that our Flood Zone designation by FEMA was revised which may negatively impact our flood premiums.
- The Board wanted to consider changing our renewal date from our current calendar year (ending December 31) to begin and end sometime in the Spring, before hurricane season.
- The Insurance Committee decided to produce a report that would inform owners and help educate this and future boards on insurance.

Committee members are board member Amy Kalman, owner Tony Falco, and our property manager from Dependable Property Management, Angela Phillips.

About our insurance policies:

As is true for most condo and home owners associations, we have six policies and a flood policy.

The Hartford Insurance Company currently writes our flood policies for our five buildings. Flood insurance is not a competitive market. Our 2023 flood premiums are \$5,721 per residential building and \$876 for the Clubhouse for a total Flood of \$23,760 with a \$5,000 deductible for each of the five buildings. This amount is actually \$1,004 less (~4%) than 2022 and 2021. We

are unclear as to the reason for the decrease but it may relate to a change in FEMA's National Flood Insurance Program (NFIP) methodology in determining flood risk and flood policy prices.

Since the 1970s, rates have been based upon what FEMA terms static measurements that emphasized a property's elevation within a zone on a Flood Insurance Rate Map (FIRM). FEMA considered that their legacy methodology resulted in unfair and inequitable price increases and decreases. In 2022 NFIP changed the way it determines flood risk and prices flood policies. The new system is called *Risk Rating 2.0: Equity in Action*. While the flood maps still designate geographical areas for varying levels of flood risk, Risk Rating 2.0 incorporates more flood risk variables including flood frequency, flood types, distance to water, elevation, building construction type, and the cost to rebuild. In January we learned that FEMA changed our flood zone designation from X (the most favorable rating) to VE, the worse possible rating. We had this designation some years ago but the Lantana Board in 2014 was successful in submitting to FEMA a Letter of Map Amendment (LOMA) with a submitted elevation study that showed Lantana properties to be 17-18 feet above sea level whereas a key metric for FEMA is 15 feet.

In January one of our owner's mortgage lender contacted our insurer, Hartford, to ask for our policy declaration page to show Flood Zone VE instead of X. Doing so, would not seem to benefit the lender in any way in that our buildings are insured to the maximum that NFIP will insure (\$250,000 per unit, therefore \$6,000,000 per residential building). In fact, should premiums rise, the lender's action would seem counterproductive to their interest. Going forward, we are concerned about how the VE designation will impact our association premiums and the individual flood premiums for Lantana owners who carry flood. As stated within the recommendation section of this report, we will discuss with Mr. Dalrymple whether we should submit to the NFIP another LOMA at this time.

To understand more about Risk Rating 2.0 visit:

[Frequently Asked Questions - Risk Rating 2.0: Equity in Action \(floodsmart.gov\)](https://www.floodsmart.gov/frequently-asked-questions/risk-rating-2.0-equity-in-action)

The six other policies we carry are: Property & Casualty, General Liability, Crime, Directors and Officers, Workman's Comp, and an Umbrella policy. Each of these policies has a different insurer. Our total 2023 premium for these together is \$181,501.

Together, our total 2023 insurance cost is \$205,261 (~ 23% of our annual budget).

Of the \$181,501, \$165,557 (91% of the total premium) is Property & Casualty (P&C). For that reason, most of what follows pertains to P&C.

Important Factors:

Our broker, Mr. Dalrymple, is not an insurance agent working for an insurance company. He works on behalf of Lantana. His role is to "shop" premium quotes each year from the various insurance carriers writing policies. His commission is paid by the insurance company as a percentage of the premium, the amount of which along with other possible forms of compensation from the insurer, may vary by insurance company.

Insurance companies will only work with a single broker company. That company is called our "broker/agent of record." Assured Partners is our broker of records.

It is important to have a broker with experience in condo insurance and that he/she be with a firm that has a good book of business in condominiums.

Should there be a need to submit a claim for a serious event, such as a hurricane, it is important that our broker prioritize and service our needs in a timely way to help us quickly bring in the contractors needed to mitigate and prevent further damage.

Policy holders may engage a public adjuster if unsatisfied with an insurance company's offer.

Frequency of claims is a factor that may cause insurance premium increases.

Changing insurers frequently, and particularly in this tight market, is not prudent.

A 90 day notice is necessary to terminate a carrier to avoid financial premium penalties.

Admitted vs. Non-Admitted Insurance Carriers:

Admitted carriers are licensed in FL and comply with the state's regulations and the state verifies their policy forms, rates, and requirements. If the admitted insurance company fails, the state's insurance fund will make payments on claims as needed. This guarantees coverage.

Non-admitted insurance carriers are not covered by the state if the insurance company were to become insolvent. Non-admitted companies are considered somewhat higher risk but may offer lower premiums.

Summary of Insurance Committee meeting on February 2, 2023:

Present: Amy Kalman, Tony Falco, Angela Phillips (left early due to an emergency), Victor Dalrymple.

Our total insured value (TIV) from our recent valuation is \$33,865,087. Our insured valuation is 100% of the cost of reconstruction and has nothing to do with the appraised or market value of our units. Market valuations are to be performed every few years. Our previous valuation study (2018) had a value of \$23,587,695 – a difference of \$10,277,392. At the time of last renewal (12/31/22) our broker informed the then board that the 2018 valuation could be carried forward for several months into 2023, which is not in hurricane season, before effecting a new and higher rate. The board polled itself and chose (not unanimously) to renew under the higher valuation on January 1, 2023.

Mr. Dalrymple has more than 20 years' experience with Ranew Insurance Agency and both he and Ranew are well regarded in the broker agency business community. Lantana has had a longstanding relationship with him and Ranew.

While it is fair to say that Mr. Dalrymple has represented Lantana over the years with our best interests in mind, our Property & Casualty insurer, American Coastal, has been renewed each year for at least the last three years. In advance of the meeting, we requested to see the competing quotes from other insurers but none were provided and therefore it is assumed that none were solicited.

American Coastal is an admitted insurer whereas one of the others mentioned at the meeting, Frontline, also writes many coastal policies but is non-admitted.

In 2021, American Coastal increased its hurricane deductible from 2% to 5% causing some policy holders to seek better terms from other carriers. To illustrate, on a total loss using our current valuation, each owner would be responsible for \$17,638 for the deductible compared to \$7,055 at 2%. While a total loss is unlikely, to offset a deductible payment for any large loss to be funded by way of a special assessment, owners should maximize the inexpensive "loss assessment" benefit in their individual insurance policies.

Regarding changing the policy start and ending date to April/May, Mr. Dalrymple stated that American Coastal will not consider changing the renewal mid-year. He also said that if we drop American Coastal they may not consider another policy with us for several years.

While it may seem logistically easier to move the policy date away from the year-end hectic holiday time, one of the committee members expressed concern that a premium increase not budgeted may result in a budget shortfall that will have to be addressed by way of other line item cuts or a special assessment.

Mr. Dalrymple said that premium renewal quotes can be received 30 days prior to expiration which would offer sufficient time for evaluation and decision-making. He also stated that at year end if an insurer has capacity they may want to hit business targets, making it possible to get a better quote...at least that was his past experience when there was more competition.

Mr. Dalrymple said a new insurer may do an inspection and we should not be doing concrete restoration at that time.

Mr. Dalrymple said that Lantana is well maintained and should have no problems with the structural integrity evaluations and milestone inspections that will be forthcoming with the new legislation. When asked, he said that our concrete restoration work will not harden our buildings and improve our premium rate, nor will our insurers likely ask for a structural engineering study.

Recommendations:

- 1) Request that Mr. Dalrymple get quotes for Property & Casualty from all admitted insurers and at least one non-admitted insurer.
- 2) Once the quotes are received the board should review and decide upon a course of action based upon the information presented in this report, the quoted premiums, the terms, conditions, exclusions and deductibles of each quote.
- 3) In the latest FEMA Flood Insurance Rate Map (FIRM) our Flood Zone status changed from X to VE (i.e. from most to least favorable). The committee and/or board will discuss with Mr. Dalrymple whether we should submit to the National Flood Insurance Program (NFIP) a new Letter of Map Amendment (LOMA) request or a LOMR-F (Letter of Map Revision Based on Fill). We will discuss with him and consider the potential premium increase within the new NFIP's Flood Rating 2.0 if we do nothing, the benefit of a successful LOMA, cost to file, projected timeframe, and any other factors he is aware of.
- 4) Having pre-storm identified construction restoration vendors on hand as part of a "Hurricane Action Plan" is a value-added service that Ranew and Dependable can help us with.
- 5) Changing our general ledger chart of accounts (classed 7510 "Insurance General and Flood") which are now on one line into "Property Insurance/All Other" and a second line for Flood. This would show annual premium increases, decreases, and proportions between the two main areas.
- 6) Suggest ways the board may be able to fund our premium, or a large portion of it, without financing at the current annual percentage rate of 7.229% which is an annual cost of \$6,075.