

REDUCING MULTIFAMILY RISK EXPOSURE AND INSURANCE COSTS

During RETCON 2024, Leonardo247 CEO Daniel Cunningham was joined by Sertis CEO Mark Gardella for a roundtable discussion on the multifamily industry's pressing issues around risk and insurance.

INSURANCE MARKET OVERVIEW

The cost of insurance has been a longstanding issue for the industry. However, in recent years, premiums have skyrocketed.

CONTRIBUTING FACTORS

▶ INCREASED CATASTROPHIC LOSSES

Notable premium fluctuations are mainly driven by multifamily housing in disaster-prone regions. For example, while Arizona and Florida have similar property counts, their median insurance costs per unit diverged significantly, varying from an average of \$197 per unit per year in Arizona to \$1,069 in Florida.

▶ SOCIAL INFLATION

The dramatic increase in frequency of “nuclear and thermal nuclear verdicts”. A nuclear verdict is a judgment of \$1M or more while a thermal nuclear verdict is a judgment of more than \$10M.

▶ LOWER LEVELS OF COVERAGE

33% of policies saw reduced coverage compared to the prior year, underscoring the trade-offs housing providers are making to counteract rising premiums.

The problem today is underwriters generally base their risk selection and pricing decisions on static data that may or may not be accurate. The result is that similar owners/operators will be painted with the same brush, regardless of the quality of the management team or the sophistication of their risk management program. With this in mind, Sertis was created and uses proprietary risk assessment technology supported by Leonardo247's fully digital operations and maintenance platform. This allows Sertis to provide risk-accurate pricing for multifamily owners who responsibly manage their properties.

BY THE NUMBERS

- 20 straight quarters of rate increases for the multifamily industry
- Insurance industry faces average annual natural catastrophe losses of \$133 billion (Source: Verisk)
- For 2022-23 policy renewals, 29% of housing providers experienced premium increases of 25% or more (Source: ndp analytics)
- Average jury award among the top 100 U.S. verdicts more than tripled between 2015 and 2019, skyrocketing from \$64 million to \$214 million (Source: National Law Journal)

REDUCING CLAIMS THROUGH ENHANCED RISK MANAGEMENT AND MAINTENANCE

The pressure of rising insurance rates is forcing companies to take stronger action to control their overall cost of insurance. You can't control the weather. You can't control inflation. But the efforts you make to reduce risk, improve maintenance, and minimize claims is within your control.



GUIDING QUESTION:

"How have you implemented company-wide maintenance and risk management best practices to mitigate risks?"

KEY TAKEAWAYS:

- If your company hasn't done so yet, you must immediately implement a thorough risk management inspection program that is followed by all. Make sure all risk management actions are tracked and completed. This helps confirm that maintenance items are on track and can also help provide important evidence in the event of a claim. All of the risk management behavior data gathered through the inspections and maintenance actions that comprise a suitable program must be stored in such a way that it is easy to report on progress and prepare reports as necessary.
- Reinforce a risk management mindset for your onsite personnel, they must prioritize risk management alongside their regular leasing, marketing and other operational tasks.
- Create consistency across properties by using an automated property maintenance and operations solution at all locations. This system should help define processes, schedule inspections on a regular basis, and track anyone who hasn't done their part and manage adherence to maintenance standards.
- Have an incident reporting process that tracks incidents onsite, documents all pertinent information, captures photos and signatures, and gives visibility to risk professionals in a timely fashion to help address claims quickly.
- Adopting technology, like Leonardo247, helps systematize risk management and preventative maintenance and creates the documentation you need in the event of a claim.
- There are helpful risk management templates used by property owners who effectively and efficiently manage their properties. [Click here](#) if you'd like to request a copy.

PROACTIVE INSURANCE STRATEGIES

With rates rising and carriers exiting the market, companies are trying various strategies to contain insurance costs.



GUIDING QUESTION:

"What proactive measures have you taken with your insurance program to manage costs?"

KEY TAKEAWAYS:

- Many strategies for managing the cost of insurance have been played out over the years, some of which are noted below. While some may be effective short-term, often they are not sustainable in the long-term. That is the reason for highlighting how a proactive approach to risk management is appropriate in combination with other long-term strategies.
- Creating a captive insurance company can reduce insurance costs but this is challenging, especially for smaller companies. The captive is completely funded, owned and controlled by the organizations that benefit from its existence. Creating the captive gives them an alternative to purchasing insurance on the open market and allows them to tailor the coverage to the specific risks associated with their operations.
- Fund a captive to pay out the deductible, and expand that captive to handle the rate increases. Work with insurance companies exploring ways to leverage company funds to match insurance rates effectively. This includes a renters insurance program that allows for assuming a portion of the risk.
- If possible, raise deductibles and take more up-front risk in liability claims.
- Split portfolio between different carriers who take different levels of risk. This might irritate your broker but can be helpful sometimes.
- Make sure you have your facts and data available to equip your broker to tell your risk management story in your absence.
- Adding water intrusion devices to help reduce water damage claims is an excellent idea, but currently there are few carriers giving meaningful rate reductions to recognize properties who have taken this additional step to reduce potential claims.
- Be aware of the economics of the insurance trends in states like FL, TX and CA when you are considering purchasing properties there.

OPERATIONAL AND INSURANCE INNOVATIONS

Insurance industry expectations for thorough and institutionalized risk management are increasing. It's not realistic to "keep your fingers crossed" and hope that nothing goes wrong. Multifamily operators can minimize their operating expenses by following best practices around consistent process and data tracking methodologies.



GUIDING QUESTION:

"Looking ahead, what operational innovations or insurance approaches are you considering to further reduce risks and costs?"

KEY TAKEAWAYS:

- Risk management at a minimum means thorough and consistent checklists and procedures that are completed by the site teams on a consistent basis.
- These procedures should be able to capture photos, signatures and follow-up actions taken to address any deficiencies that were uncovered.
- Key features of software to govern these activities would be inspections, tasks, workflows, document management and work orders.
- It is also important to have a process driving incident reports, as mentioned earlier, in order to minimize the size of claims.
- Technology has been coming to the rescue on these items. This is where Leonardo247 has been focusing for years and pushes out the right processes, and inspections, to the right people at the right time and is tracking that all those action items are getting done. Software like this is mission critical to any operator who wishes to demonstrate superior risk management and be rewarded by carriers with their best rates.
- These systems must easily aggregate the results of your efforts so that you can a) give your broker data to tell the story of your great risk management and b) defend the company against claims of negligence.

LEONARDO247 + SERTIS

As eluded to earlier in the roundtable discussion, in response to the insurance trends in multifamily, Sertis created a new, stable insurance market that offers competitive and stable premiums for owners who responsibly manage their property. Sertis utilizes a proprietary risk assessment technology, designed to lower the total cost of risk for proactive owner/operators committed to consistent, timely property maintenance. Developed in partnership with Leonardo247, the Sertis Risk Indicator (SRI) is an innovative scoring system that gauges the likelihood of insurance loss using exclusive, real-time operational risk data and property attributes. This enables brokers and agents to provide competitively priced, risk-accurate insurance coverage. Owners and operators should ask their brokers if they are eligible to take advantage of these Sertis programs and consider adopting software like Leonardo247 in order to start creating a track record of good risk management behavior that will reduce losses, claims, and, ultimately, insurance premiums.



Daniel Cunningham

CEO of Leonardo247

Daniel Cunningham is a technologist, author, and recognized thought-leader in the commercial real estate management industry. In 2014, he founded Leonardo247, the multifamily industry's leading operations and maintenance platform. In 2022, he co-founded Sertis (MGA) citing a need to provide competitively priced, risk-accurate insurance coverage for the industry.



Mark Gardella

CEO of Sertis

Mark Gardella, co-founder and CEO of Sertis, has extensive experience in the insurance industry spending a large part of his career at global companies like AIG, Zurich and Markel. Mark was also a founding team member and senior advisor at InRev and was the founding principal at Zephyr Innovation Advisors, providing advisory services to startups, incumbents, and investors in the insurance sector.