Insurance at River Woods

Overview

The River Wood Homeowner's Association, through its elected Board of Directors, is charged with providing insurance for all the homes and grounds by the Declaration of Covenants (the basic "constitution" of the Association). This can be done, say the covenants, either through a master insurance policy or through individually purchased insurance. For reasons we will describe below, the boards have always chosen to use a master policy to insure River Woods homes and grounds.

What does the master insurance policy cover?

The master insurance policy covers all homes and all the common grounds, assets of the Association, including the pool, retaining walls, association buildings such as the office, the garage, payroll and all equipment and tools. In the event of damage to or destruction of homes, it will restore the home to original condition, **not including** any personal possessions or additions/improvements made since the home was built, subject to any deductibles.

Why a master plan? Why not let homeowners insure their own homes?

There are four principal reasons the various boards governing the association have always chosen a master policy.

1. There is no way for the board to ensure all homes are insured if it is left up to individual homeowners. Even if the board were to insist on homeowners showing a certificate of insurance, there is no process to require it. And even if a homeowner were to produce such a certificate, nothing stops them from canceling the policy the following day to save money, and the board would have no way to find that out.
2. If an uninsured home were damaged or destroyed, by fire or other cause, it probably couldn't be rebuilt by the owner out of pocket, and the burned-out remains would be rebuilt through an assessment of all homeowners (as the board is required to maintain the appearance of the Association).
3. With different homes insured by different insurance companies, different appraisers would be evaluating damage, and might come to different conclusions. If, for example, hail damaged all the roofs on a 4-unit building, appraisers from one company might authorize replacement for one unit, while appraisers from another company might not authorize replacement for the roof of an adjoining unit. As the roofs might be contiguous, this would be difficult, if not impossible, to resolve.
4. Finally, it probably wouldn't save homeowners any money. They would not only have to pay to insure their own home, but they would have to pay for a separate policy to insure the rest of the 87 acres owned by the Association, including D&O policy, Crime policy and liability for injuries anywhere on the property as well as repair or replacement for the pool, office, etc. The total premium of the two policies would probably be as high or higher than a master policy.

Why do homeowners have to insure the Association's property?
Because the homeowners **are** the Association. All 87 acres, including all buildings, vehicles, tools, pool, etc., belong to the Association. And the owners of that Association are the 324 owners of the 324 homes in River Woods. There is no other legal entity involved.

What about my furniture, personal possessions, and any improvements I've made to my townhouse? Are they covered if there is a fire?
No. Insuring personal possessions is the **not** the responsibility of the Association, but of the individual homeowner. That's why we encourage – **strongly encourage** – all homeowners to purchase a supplementary policy to cover their personal possessions, any improvements they have made to their home and – very important – any deductibles the master policy may have. These supplementary policies, called HO-6 policies, can be purchased from most insurance agencies.

How does the Association make sure it gets the best possible price for the master policy?
Through a bidding process. In March each year, the manager begins the valuation revisions, estimating how much the value of houses, pool, equipment etc., have changed. These estimates are given to our insurance broker – currently Kraus-Anderson Insurance – and they submit this information, along with a solicitation for bids, to A++-rated insurance companies known to have interest in insuring townhouse associations.

The initial estimates usually come in July. These are estimates only, and the final bid in August may change. Final bids will often vary from the estimates, depending on several factors (discussed below), and these final bids are normally guaranteed for 30 days. This means it's impossible for us to give a very early warning of sharp increases. In 2022, for example, the initial estimate in June was for a 30% increase: the actual increase in the bids in August was nearly 60%.

When the final bids are received in August, Kraus-Anderson Insurance reviews them, then makes a presentation to the River Woods board, with their recommendations. The board reviews the proposal, makes any changes they deem appropriate, and approves the final proposal, basically, the lowest price we can get this still provides needed coverage. Kraus-Anderson Insurance then sends out bills directly to homeowners or mortgage companies for those with escrowed insurance premiums.

What's Kraus-Anderson's role, and why have we used them for over 30 years?
Kraus-Anderson Insurance is an insurance broker, meaning they act as the Association's agent, seeking bids from insurers all over the country. We pay them nothing for this. Like all insurance brokers, they get a fee from the insurance companies we select to insure the Association. We do pay Kraus-Anderson Insurance a relatively low fee to handle the administration of the policies, which includes billings to homeowners, collection of fees, issuing of certification of insurance, new certification when homes are purchased during the year, and answering appropriate questions. For example, homeowners who use HO-6 policies need to make sure those policies cover the deductibles of the master policy and will often have their agents call

Kraus-Anderson Insurance to make sure the two policies mesh. Those deductibles can change each year.

Kraus-Anderson has represented River Woods for over 30 years for two reasons: they provide excellent service for us and are very familiar with the complex insurance situation for townhouses and our townhouses in particular. We've talked with other brokers, and while all brokers will solicit bids, not all, in fact, not many, will provide the other services we need. In addition, many are not familiar with the marketplace for townhouse/condo insurance. Market familiarity is important, because insurance carriers often change frequently in their willingness to insure townhouses, and you must know who is insuring townhouses to solicit bids properly.

Could insurance premiums be lower if we used another broker or solicited insurance ourselves?
No. Broker's fees are set by the insurance companies, and they are the same whoever the broker is. And it wouldn't be practical for us to try to solicit bids directly. Because our staff, unlike Kraus-Anderson's staff, doesn't deal with insurance companies all day, every day, we are nowhere near as familiar with the industry. Not only that, but most companies will not deal directly with us. They usually will only deal with brokers, as the insurance carriers are not set up to engage directly with those they insured, including time educating prospective customers who don't know the industry.

The companies that do deal directly with customers, whose ads you see on TV – State Farm, Progressive, American Family, etc. – generally have no interest in insuring townhouse associations our size. That is the responsibility of the partner broker as part of the services provided and speaks to the importance of the length of relationship, services provided and knowledge base of the broker about the Association.

Why don't they want to bid, and why do we need four insurance companies to insure us?
River Woods townhouses are not an attractive customer for insurance companies. We have too much value concentrated in too small an area, and our townhouses are almost 50 years old. The F0 tornado that struck southern Burnsville in late August 2022, probably damaged 20-30 homes. Much of the tornado's path was through Crystal Lake Park, where there were no homes. And no one insurance company insured all the homes that were damaged, so it's likely that no one company paid claims on more than four or five homes. In contrast, had that F0 tornado's path been three miles north, and hit River Woods directly, there could have been many more homes damaged, and if there were only one carrier for the Association, they would have been stuck with the whole bill. Insurance companies don't want to risk that level of loss.

That's why it's been many years since we've had one company willing to handle the master plan. Frequently we had two companies, but recently insurance companies have been even more reluctant to insure townhouse and condo associations, so this year it required four insurance companies to provide property coverage for River Woods. We sent out bid requests to 25 A++ rated insurance companies, and only four responded with bids. And none of the four would handle the whole association. Each handles part of the almost $75 million value of the Association.

Why is the price of insurance so high? Why does it take sudden large jumps from one year to the next, even though we haven't had many claims from River Woods
Insurance companies are national, sometimes international, companies. To remain financially stable and to continue the A++ financial ratings its insureds (including River Woods) require, the insurance carriers need to collect more total money in premiums than they pay out in total claims. When major disasters hit, like hurricane Katrina in New Orleans, hurricane Sandy in New York, wildfires on the west coast that destroy hundreds of homes, or floods in various part of the country, the insurance companies pay out far, far more in claims than they've collected in premiums from those areas. To maintain their stable financial ratings, the carriers increase premiums for everyone in the country, not just the areas the disaster hit. The result is that premiums everywhere go up, sometimes dramatically.

Also affecting premiums are the increased costs of repair and rebuilding. As you've probably noticed in the last few years, supply chain issues have caused the price of lumber and other materials to spike in price. Insurance companies are aware of this and know that restoring a damaged home will cost much more in 2022and in the future than the same repairs would have cost two or three years ago. Insurance carriers are now frequently running building valuation reports on properties to verify buildings are insured to the appropriate limit, given the increased cost of construction or repair to partially or completely damaged buildings.

Finally, premiums are affected by the experience of the individual townhouse associations. We've been fortunate in River Woods; in that we've had few fires and relatively few major damage claims.

Raising premiums isn't the only way insurance companies protect their financial strength ratings. Insurance carriers can and will increase deductibles to reduce both their costs and the number of claims. Only a few years ago, our deductibles were $5,000 (except for water damage, which was $15,000). This year (2022/2023), the deductibles are $25,000 across the board. That's why we strongly recommend that you have an HO-6 policy to cover deductibles as well as your personal goods. And because deductible amounts may change annually, you need to review that HO-6 policy annually to make sure it covers the current deductible amount.

Why do we have to pay it all in advance? What happens if we can't pay the higher premium?
Insurance companies require payment in advance for these policies. (Companies that market direct to consumers will sometimes – for an extra monthly fee – let you make monthly payments during the insurance period. Companies writing policies this large won't.) If you don't make your share of the master policy payment on time, the Association will pay for you so the policy will be in effect, and collect from you, with appropriate financial penalties, just as it does if you don't pay your monthly fees. It will be more expensive for you if you don't pay promptly, but this ensures that everyone will be covered by insurance.

What the Association can do, if you request it, is add 1/12 of your estimated monthly insurance payment for the **next** year's policy to your monthly association fees and escrow that money during the year. When next year's insurance is due, the Association will pay your insurance bill, (billing you for any amount the escrowed amount doesn't cover). This won't save you money but might make it easier for you to pay in advance in smaller monthly payments.

Why don't you just include insurance in the monthly fees? Other associations do this.
For better or worse, our Declaration of Covenants requires our monthly fee to be equal for all homeowners. But River Woods' 11 different styles of homes have different square footages and different valuations, and to bill everyone the same would be unfair to owners of the smaller, less-valuable homes. Your share of the master insurance policy premium is proportional to the size of your townhome. Larger homes pay a higher premium, smaller home a lower premium. We could not recognize that difference if insurance were included with fees.

All townhouse associations are governed by their Declarations of Covenants, and they all tend to be different. Even townhouse associations built by the same developers at the same time, tend to have different covenants with different requirements. Comparing fees and insurance realistically for any two townhouse associations is impossible without comparing the respective Declarations of Covenants.

We hope this education on how our policy and processes work, your more informed as to the market and what we do as a Board and office to secure the best possible pricing.