Insurance Non-Renewal

March 22, 2024

In late December Carnelian Woods was notified by Farmers Insurance that our policies would not be renewed after they terminate on March 31, 2024. Since all policies except workmans comp were bundled, this meant Carnelian Woods would lose insurance for property/fire, general liability, excess,liability, directors and officers, cyber, crime and auto. The board has Brian Grant with Pacific Premier Insurance Associates (PPI) scouring the market for replacement policies. Due to the insurance climate in California, it has been a difficult task.

The good news is that we have found replacement policies for almost everything using a combination of carriers and these will be in place by March 31. The bad news is that, like for many of you, property insurance has been elusive and looks to be extremely expensive. Our current budget allows for about $80,000 for property insurance this year. That is now nowhere near enough.

Farmers non-renewed Carnelian Woods due to the fire risk and claims made–maybe understandable, since the total bill for repairs from last winter 2022/23 have topped $830,000 with still more work to go. PPI has contacted 22 insurance companies and wholesalers and came up with three options:

1. Replacement cost coverage (what lenders want to see and the CC&Rs require) in the amount of $56,000,000 is estimated to cost about $1,000,000 per year. That cost would require more than doubling of homeowner dues, and be payable every year. The executive council decided that this is not a viable option.
2. Actual cash value coverage (not what lenders want to see or the CC&Rs expect) in the amount of about $25,000,000 through the California FAIR Plan (CFP) plus a separate Excess and Surplus policy is estimated to cost about $300,000 per year. Insurance without replacement cost coverage will likely not satisfy lender requirements for existing loans, will likely impede future unit sales that require loans, and does not satisfy the CC&R requirements. In use, should a large claim occur, only about 45% of the repair cost would be covered by insurance and homeowners would use their Loss Assessment rider coverage (usually about $10/year) on their HO-6 policy to pay for the large assessment the association would need to impose to pay for the repairs. This pairing seems to be the equivalent of replacement cost coverage, but lenders likely won't be happy.
3. California FAIR Plan (CFP) (for the association) with the CC&Rs rewritten to allow homeowners to individually insure the interior *and* the exterior of their unit with replacement cost coverage from an insurer of their choice (but often CFP). The estimated cost of association-paid premiums plus the individually-paid premiums is about $555,600. The association component would likely fit within the budget but require

an average additional expenditure of about $4,200/year by each homeowner for their individual policy. Changing the CC&Rs and voting on them would take several months, and the association would need to track and ensure that each homeowner has the appropriate policy.

The long term plan was Option 3 as likely the least expensive option that supplied replacement cost coverage and that would not require an increase in dues to pay for. Option 2 would be used in the short term until Option 3 could be implemented…that is, until Tuesday this week, when PPI informed us that CFP changed its mind and would no longer offer insurance in the Option 3 scenario for our buildings.

What Happens Now?

We are still investigating other creative insurance options, but until we find a more viable option, we are pursuing Option 2.

- CFP has been unresponsive as to our policy status (they are swamped), so unless we hear from them by April 1, Carnelian Woods will have no property insurance as of that date.
- We will implement Option 2 as quickly as we can.
- Lenders are not the loss-payee and are rarely an additionally-insured so lenders won't immediately know that the property insurance has lapsed. Lenders might annually check for insurance and that can happen at any time. We don't expect, at least in the short term, many homeowners to hear from their lenders.
- If lenders do respond to the lack of insurance by forcing a homeowner to buy a particular policy, that may be a good thing as it is insurance and is more than the association can achieve in the commercial insurance market at present. Similarly for lenders of new buyers.
- Option 2 cost for the remaining six months in this fiscal year is estimated at $150,000, while we only have $51,300 remaining in the insurance budget. A separate email will explain how this $98,700 shortfall will be funded. This will include an immediate increase in the regular assessment and the possibility of an emergency assessment when actual costs are known.
- Be aware that Option 1 might become necessary if our creative options fail and there is no lender tolerance for what we can put in place.

What Can I Do?

- HO6 insurance policies (the type you should have on your unit) usually have an optional available rider called a "loss assessment rider" (more on this separately at a later date). It is usually very inexpensive, around $10 for $50,000 in loss assessment coverage. You should immediately add as large of an amount as you can get onto your policy. Some policies will pay for assessments to pay the insurance deductible and some will not. The CFP deductible is required to be at least $75,000 ($636/unit) so a rider that pays the deductible is desirable.