

December 11, 2002
NMHC 02-27

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APARTMENT COST OF RISK SURVEY

- NMHC is pleased to provide summary results of the recently concluded Apartment Cost of Risk Survey (ACORS) to better aid NMHC members in evaluating key aspects of their insurance coverage against peer companies.
- This summary memorandum provides a brief look at some key results. Complete results have been distributed on a participants-only basis.
- Recommended distribution to:
 - Risk Managers
 - Chief Financial Officers

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MEMORANDUM

TO: NMHC Members

FROM: Jay Harris, Vice President of Property Management
Elizabeth Feigin Befus, Legislative Analyst

RE: Apartment Cost of Risk Survey, November 2002

DATE: December 11, 2002

Earlier this Fall, NMHC conducted its first-ever *Apartment Cost of Risk Survey (ACORS)*. The survey, which will be conducted on a semi-annual basis, allows participants to compare important aspects of their insurance coverage (e.g., deductibles and rates) against their peers. The November 2002 edition covers property, general liability, employee/officer, workers' compensation and company automobile insurance. It also includes broker compensation information.

Full survey results are available only to firms who completed the survey; however, the following memo summarizes some of the key findings. The next ACORS survey will be conducted in Spring 2003, and all NMHC members will again be invited to participate.

Response Rate

Thirty-six firms representing over 700,000 units participated in the survey. The median number of units in portfolio among participants was 14,400 units. Participating firms included 31 owners and at least six fee managers. There were seven REITS, 28 non-REITS and one undesignated firm.

Property Coverage

- The median per-unit premium for property related coverage among reporting firms was \$137.97 or \$0.31 per \$100 of total insured value.
- Primary deductibles for property coverage ranged from \$5,000 to \$1.5 million per occurrence, with a median primary deductible at \$25,000 per occurrence.
- Median deductibles were \$50,000 for wind coverage and \$100,000 for California earthquake coverage.
- Firms reported median increases of 57 percent in their cost and 250 percent in their deductible at their last property insurance renewal.

General Liability Coverage

- The median per unit cost for general liability coverage was \$43.32, inclusive of primary and excess, or umbrella, coverage costs.
- Per claim retentions varied from \$1,000 to \$500,000 per claim.
- Firms reported median increases of 35 percent in the rate and 150 percent in their deductible at the most recent renewal.
- A majority of reporting firms did not use a third-party administrator for their claims management.
- In the environmental coverage area, a slight majority of firms (56 percent) have not purchased a separate environmental coverage policy, but a majority (56 percent) said mold-related risks were not specifically excluded from their current portfolio coverage.

Workers' Compensation Coverage

- Workers' compensation coverage among reporting firms was predominantly guaranteed-cost coverage.
- Firms reported 2.3 claims per 100 employees, although reported claims per 100 employees ranged widely among firms.
- The average annual premium, on a per employee basis, was \$519.37.
- Firms reported median cost increases of 13 percent for premiums and 85 percent for deductibles.

Director and Officer Policies

- The median rate increase for director and officer policies was 35 percent, with a median 250 percent increase for deductibles.
- The median company retention was \$100,000, and the median coverage limit was \$20 million although individual firm numbers varied widely.
- Employment practices liability figures revealed a reported 27 percent median increase in rates and a 100 percent median increase in deductibles at their last renewal. The median coverage limit was \$3 million with a \$50,000 median retention and a median premium of \$45,430.

Risk Management will be a key topic at the 2003 NMHC Property Management Forum, scheduled for April 14-15 in New Orleans and the 2003 NMHC Risk Management Forum tentatively scheduled for November 2-4 in Atlanta. For more information on NMHC's insurance initiative, contact Jay Harris at jharris@nmhc.org or 202/974-2344.