

The state of the insurance industry: Insurance for real estate professionals

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The market for professional insurance over the last few years has generally been considered a "soft" market. A soft insurance market is typically defined as a prolonged period of lower premiums, greater availability of coverage and more relaxed underwriting guidelines, all due to increased competition amongst insurers and desire to write certain profitable classes of business.

Those involved in the real estate professions may have, or are starting to experience a different scenario however. There are several reasons for this, including an increased number of claims, decreased premium volume for the carriers as firms have downsized or shut down completely due to the economy, or other economic impacts of the down economy such as poor investment results, all negatively impacting the profitability of the insurer. Many inside the insurance industry predict that the overall market for most types of commercial insurance will be hardening over the next several months. But for real estate agents and brokers, appraisers, title agents and even real estate attorneys, the trend away from the soft market is already here.

Some of those being hit the hardest are title agents and appraisers. Many independent title agent operations have closed their doors or significantly trimmed operations. At the same time, many insurance carriers who were writing professional liability insurance for title agents have dropped that line or raised premiums. For those remaining businesses, they are faced with higher premiums and fewer choices.

Appraisers have seen the greatest increase in insurance claims as we have noted previously in these columns. Consequently, underwriting guidelines have tightened, premiums have gone up and we have seen increasing policy restrictions. The greatest fear may be that the FDIC will be suing appraisers, and some carriers are instituting restrictions on claims brought by lenders and/or the FDIC. Even more problematic is that at least one carrier is no longer offering retroactive coverage. As most claims may take a couple of years to develop, the absence of retroactive coverage is potentially dangerous to any insured. Other carriers are restricting coverage on new appraisers, trainees or commercial appraisers. The Landy Agency continues to offer coverage at no additional cost for Trainees or for retroactive coverage, and also insures commercial appraisers.

Attorneys involved in real estate law are also experiencing a hardening of the market. While the past few years has been an extremely soft market for attorney malpractice insurance, that is rapidly changing for those practicing real estate law. Underwriters now classify real estate law as a higher hazard area of practice and/or are restricting the percentage of real estate law they will accept to offer coverage. Consequently, insurance premiums are increasing for those attorneys.

Real estate sales firms have not been exempt from the hardening market. While they have not been affected as seriously as some other professions, overall they are experiencing the same coverage and underwriting pressures and premium increases as their peers in other professions. Agents and

brokers who continue to operate in the more traditional sales/leasing framework are being impacted far less than agents venturing off into BPO's, mortgage modification, short sales and other activities previously considered outside the general functions of a sales agent.

One bright spot has been for home inspectors and property managers. Both professions are seeing increased availability of coverage, including additional options for things like mold inspection coverage for home inspectors and property preservation coverage for property managers doing foreclosure work. Generally, premiums are more competitive for these groups as well.

The hardening of the insurance market for many real estate professionals is a reflection of the overall economy and the turmoil in the industry. It may be at least a couple of years before we see any indication of a soft insurance market returning.

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