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Licata Risk Advisors warns owners of "dirty little secret"

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Licata Risk Advisors has just released a new study called "There's a Scandal Brewing in Commercial Property Insurance" available free of charge at http://licatarisk.com/risk_management_news_and_reports.html.

Your building's replacement cost is \$100 million and your property insurance limit is \$500 million. Very secure, right? Not necessarily!

Risky property insurance plans are being sold in the marketplace with very little -- if any -- disclosure about how they actually work. Large numbers of properties owned by various unrelated entities are being aggregated by insurance brokers and covered under programs that leave the properties exposed in the event of an 'unexpected' large loss.

For example we've reviewed programs where \$3 billion of property are subject to a "per occurrence limit" of only \$500 million. The contractual obligations have been flipped so that the risk of unexpected loss now rests with the insureds, not the insurers!

How it works - a sneak peak at the report

In the traditional method an owner insures the building or portfolio of buildings for 100% of their replacement cost. The insurance is dedicated to that property.

Under the new model, however, insurance brokers are pooling together property portfolios of many unrelated owners into a single insurance program with a shared limit. Hungry brokers are selling the new programs aggressively, but the shared limit is likely to leave some owners uninsured.

One plan we looked at didn't even pass the common sense test. All values were on the west coast of Florida within a couple of hundred miles of each other. The limit "per occurrence" was 18% of total values exposed. There is no number of computer models sufficient to entice me into that program.

A major problem is the lack of disclosure, so buyers entering the market should get well-informed before they sign up.

Frank Licata is president of Licata Risk Advisors, Boston, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540