LOOKING 50

1981

By Timothy Cline
Cline Agency Insurance Brokers

It was October 23, 1981, and my life was about to make a tremendous change of course. The meeting had been arranged by a good friend of mine, singer and dancer Betty Barbalics, who I had met early in my seven-year career performing as a pianist and trombonist at Disneyland, as part of a seven-piece Dixieland band called Jazz Minors. While Disney worked our band into the ground with physically-demanding shifts, I came to learn that Betty had an insurance gig during the day. She suggested that I might be good at insurance and thought she would introduce me to her boss, the legendary Robert "Bob" Little.

Bob was already recognized by many as State Farm's "Condo King" because he was one of the first of 17,000 State Farm agents nationwide to fully embrace writing coverage for condominium associations, cooperatives, and planned unit developments.

I was ushered into Bob's office and was immediately confronted by a desk that had so many stacks of files, it was nearly impossible to see Bob sitting behind them. There was a single piece of art on his office wall that depicted a homeless man from skid row reading a copy of the Wall Street Journal. (Later Bob would tell me that this drawing reminded him that it "doesn't matter what you know, it's how you apply what you know that matters.")

Bob offered me a job at the conclusion of our meeting. I returned the next day to begin what would be the rollercoaster ride of a lifetime. Looking back, having Bob as a mentor was almost always fun – but the commercial insurance marketplace we participated in wasn't always easy.

Over the 17 years I spent managing Bob's condo division we were able to grow his insurance agency from a modest "Mom and Pop" operation into the largest State Farm agency in the country. I would eventually go on to build my own insurance agency from the ground up, now known as Cline Agency Insurance Brokers.

In the intervening 42 years from when I first started with Bob Little until now, here are the major insurance-related events we weathered.

CID INSU

1984

1984-1987: THE LIABILITY INSURANCE CRISIS OF THE 1980'S

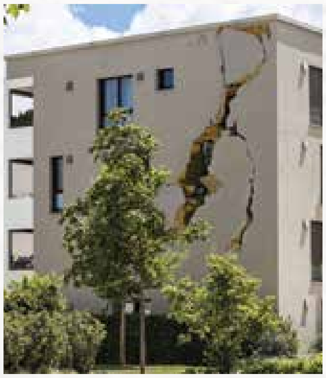
The country experienced a volatile economic period during the mid-1980s. During these years, insurance carriers experienced rising claim activity and soaring reinsurance costs coupled with sagging returns on their investments. The marketplace experienced runaway high, multi-million dollar jury awards combined with the triple-threat of asbestos, mold, and lead-based paint claims. In the case of common interest developments, it signaled the need for tort reform. The legislature couldn't respond quickly enough, and rates skyrocketed. The premiums for general liability for many commercial insureds increased by an average of 300%! In some cases, the rate increases were too little, too late – with some carriers going insolvent.

Perhaps the greatest impact in the CID community was experienced by planned developments. There just wasn't enough premium in the policies to offset the claim activity. It became so difficult to insure planned developments during this crisis that attorneys drafting governing documents for new developments were encouraged to broaden the insurable interest to include not just the common areas but also to include an obligation to insure the dwellings too. This meant the board was obligated to insure the dwellings (whether attached or detached). To this day, we stumble across planned developments that appear to be a collection of detached single-family homes but are nevertheless insured similar to how we would insure a condominium association.

G BACK

YEARS

1994



1994: THE NORTHRIDGE EARTHQUAKE

Early on January 17, 1994, a 6.7 magnitude earthquake struck Southern California. The shaking only lasted 10 to 20 seconds, but the catastrophic loss of life, injuries, and building damage resulted in an estimated $21 billion in insured losses, making this event one of the most expensive claims in U.S. history.

The outcome of the Northridge Earthquake is still being felt today:

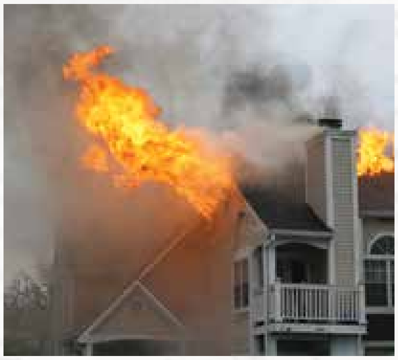
Prior to the earthquake, State Farm, Farmers, and Allstate independently wrote earthquake coverage for individual units, and this meant broad coverage, competitive terms, and rates. After the calamity, the first step was for these three carriers to move all their personal lines coverage over to the state-run California Earthquake Authority, formed in 1996 to write earthquake coverage for participating carriers. Thereafter, these same carriers chose to stop writing earthquake coverage on most, if not all of their commercial policies, including earthquake protection for condominium associations, cooperatives, and planned developments.

When the earthquake struck, the "tuck-under parking" garage at Northridge Meadows Apartments collapsed, causing the upper level to "pancake" onto the lower level, resulting in 16 deaths. In response, underwriters had an increasing concern for garage areas with one or more dwelling areas above. Today, a real emphasis is placed on the viability of soft story parking, and the retrofitting of older structures has not only been encouraged, but actually required in some cities like Los Angeles and Santa Monica.

Prior to the earthquake, 5 and 10 percent deductibles were commonplace. Now 15 and 20 percent deductibles are more commonly offered, which means potentially larger special assessment for owners.

The shift to commercial properties from legion carriers (such as State Farm, Farmers, and Allstate) to the excess and surplus lines marketplace has resulted in more restrictive policy forms and higher premiums. Additionally, because the majority of them are non-admitted carriers, the policyholders no longer have the benefit of protection of the California Guarantee Insurance Association Fund in the event of an insolvency.

URANCE



2017-2023: THE CALIFORNIA HOA WILDFIRES AND INSURANCE AVAILABILTIY CRISIS

July 2023 was the warmest month in at least the last 1,000 years (and maybe in the history of humans living on Earth). Consider this: Of the ten (10) largest wildfires of ALL time, eight (8) of them occurred in the last six years including the super-destructive Camp Fire.

In the old days, carriers wanted brush cleared back a minimum of 300 feet. Realizing now that wind-driven embers can travel up to two miles, underwriters are now relying on brush reports, which typically will provide the underwriter with a brush score between 0 (low) and 100 (extreme) and a carrier will have a tolerance level that they will not exceed.

For example, an underwriter might find a property with a brush score of not greater than "45" or they will issue a declination or, if they are presently on a risk, send the HOA a non-renewal. To further understand how brush scores may be illustrated, go to: hazards.fema.gov Be advised that each carrier will have its own approach to the brush score. The results for the vendor that a particular carrier may rely upon can vary greatly from the data for the exact same address (reflected on the FEMA maps) and, even if the two entities agree on the same risk score, their tolerance for a particular brush score will vary, thus impacting the outcome.

2017

(Continues on page 12)

LOOKING AHEAD

Much about the insurance industry has changed since the 1980s, but if experience is any indicator, the ups and downs of the market are cyclical. We can learn from the Liability crisis of the 80s. Back then the premiums were sky high and the outlook was bleak. But we made it through thanks to the innovation of industry leaders and lawmakers alike. So there's hope even now, in the midst of the hardest insurance market we've seen in a generation. Things may look bleak now, but there's light at the end of the tunnel. The long…dark… winding tunnel.

***Timothy Cline** is one of the United States' foremost authorities on insurance for common interest developments. He is CEO of Cline Agency Insurance Brokers, with offices in Los Angeles, California and Portland, Oregon. He and his staff specialize exclusively in coverage for condominium associations, homeowners associations, planned developments and cooperatives throughout California, Oregon, Washington, and Arizona. In addition to speaking weekly before homeowner groups, Tim is a regularly featured speaker at educational seminars and programs throughout California and the U.S., including numerous programs sponsored by Community Association Institute (CAI). His involvement and expertise have made him the recipient of more than a dozen awards from CAI. For the last 20 years, Tim has been part of the teaching faculty and editorial committee of the California Association of Community Managers (CACM). During this time, he has helped author CACM's Advanced Insurance Principles curriculum. Tim has spoken at the California CPA's Common Realty Conference several times. He has been invited to speak at several CAI National Conferences including Denver, Atlanta, Anaheim, Nashville, Palm Springs, Tucson, and Orlando; and has been quoted in articles regarding condominium associations published in the Los Angeles Times, The Daily News, Investors Journal, and the Wall Street Journal.*