Insurance Premiums Have Skyrocketed

Insurance costs are a consistent cost-driver with increases far exceeding inflation and rising more rapidly than other cost categories. With the number of admitted carriers falling and the remaining carriers instituting more stringent underwriting conditions, regulated building insurance costs have skyrocketed.

Over the past 10 years, insurance costs have risen at nearly twice the 10-year pace of any other expense category, according to a recent industry survey and analysis undertaken by HR&A Economic Advisors. This is also supported by RGB data showing double digit increases annually for the past five years and has been widely reported by the Wall Street Journal, New York Times and other financial publications.

The simple answer as to why costs are higher is that insurance companies face increased economic risk in the NYC regulated market. The factors that lead to this assessment – beyond there being fewer carriers precisely due to the risk – are increased economic and policy uncertainty post-HSPTA, higher replacement costs, empty apartments, greater number of personal injury and climate-related claims. An additional consideration into why insurance costs continue to spike – inability, both practically and financially, to meet insurer requirements resulting from "Loss Control Inspections" where updates to electrical, plumbing and other mechanical systems must be completed within 30 days. Unable to meet these mandates, owners are forced to go to non-admitted or specialty carriers who step in with higher premiums, less coverage or more exclusions as policies are cancelled. Premiums double or triple in these situations.

Occupancy requirements are becoming harder to meet as vacant apartments lead to higher premiums. Partially vacant policies are more expensive and have the perverse impact of perpetuating the downward spiral as these policies lead to less revenue to invest in buildings which, in turn leads to worse building conditions, more vacant apartments and even higher insurance premiums.

Insurers also are claiming that they had discounted the market for the past 10-12 years and now they are charging more realistic rates citing catastrophic losses nationwide, deteriorated apartment conditions locally, and a need to increase rates in order to remain solvent and overall losses. ■