



Florida Market Still Reeling from Surfside Condo Collapse

The deadly collapse of a 12-story beachfront condominium north of Miami Beach sent shockwaves through the Florida insurance market. One wing of the 40-year-old Champlain Towers in Surfside, Florida, crumpled to the ground suddenly on June 24, 2021, killing 98 people. Several carriers have exited the Florida property market as total settlements rise to more than \$130 million, and others are pulling back on property and liability coverage. Faced with the potential for steep losses, insurers are raising rates and deductibles and becoming much more selective. In such a challenging market, it's crucial to work with experienced, knowledgeable brokers who can provide guidance through a more complex, demanding placement process.

FOCUS ON BUILDING AGE, CONSTRUCTION, AND LOCATION

The collapse came amid a hardening market where insurers were already seeking to rein in mounting catastrophe losses. The Surfside disaster raised concerns that more unanticipated, man-made catastrophes may be waiting to happen, at a high cost in lives and losses. It's not just the property market. The collapse has also heightened concerns in the general liability and D&O markets.

The losses have been mounting. In March, a tentative settlement of more than \$55 million had been reached with insurers in a wrongful death lawsuit against two engineering firms and the law firm representing the condominium association.¹ A state judge also approved a separate \$83 million settlement for those who lost their homes and belongings.² That money would come from insurance and the sale of the property, which was expected to bring at least \$120 million.

Given the potential losses, insurers are now scrutinizing building construction, structural integrity, maintenance, and water intrusion more intensely. Damage from water pooling and intrusion over the years is believed to have played a significant role in the collapse of the Champlain Towers, which was built over an underground garage and featured a pool deck, according to a Miami Herald report.³

Amid concerns about water intrusion and deterioration, insurers are paying more attention to property location,

particularly buildings closer to the beach and more exposed to saltwater intrusion, which can heighten the damage over time. Rusty rebar, for instance, may have been a factor in the Surfside collapse. Waterproofing is a significant factor since, as rebar rusts, it can lead to concrete cracking and breaking and may provide less support for the building. Rusting of structural support beams also poses risks. Insurers want to ensure that buildings have proactive maintenance agreements and that sprinklers and piping have been maintained and updated to forestall any water-related damage.

Age is another concern. Miami-Dade strengthened its building codes after the widespread damage caused by Hurricane Andrew in 1992, and the state has also updated its building codes. State legislation to require so-called milestone inspections for condominium buildings more than three stories high after 20 years for buildings within three miles of the coast, and 30 years elsewhere, made significant progress but did not pass this session.⁴

For older buildings, insurers are seeking engineering studies to identify problems such as concrete spalling or balcony deterioration. Carriers also want up-to-date engineering studies for older buildings to demonstrate that the structure is sound and that there have been significant upgrades where necessary.



FOCUS ON FINANCIAL RESILIENCE

Carriers are focusing on the financial resilience of building owners and associations and examining their decisions on maintenance and repairs. Finances are a significant concern, as carriers want reassurance that the owner or association has the money to undertake regular maintenance and, more significant, periodic upgrades. Carriers are often asking for financial reserve studies to ensure the building can be maintained into the future.

At Champlain Towers, engineers had recommended millions of dollars in repairs. ABC News reported that unit owners were nearing a deadline to make payments of tens of thousands of dollars just before the collapse.⁵ According to the grand jury report, the association board president had warned residents that the visible damage was worsening.

BOTTOM LINE

The Florida property market has been tightening for several years, driven by the U.S. and global catastrophes that have led insurers to scale back capacity. The collapse of the Surfside condominium has added momentum to the hardening trend. In this market, insureds need to present their best case to underwriters and support it with hard information. Being proactive about maintenance and repairs is crucial, as is taking a

As they evaluate condos, insurers are scrutinizing Association board minutes for any problems that may have been identified and the steps taken to correct them. Under a Miami-Dade County ordinance passed in March, condominium and homeowner associations will have to make their financial statements and structural safety reports public.⁶

These concerns about building safety and board actions extend to the general liability markets as they can present a significant life safety issue. D&O carriers, for instance, are also screening association finances as well as decisions made by the boards as to maintenance and reserves, particularly any decisions to not proceed with recommended repairs.

proactive stance toward reserve studies and reserve funding for maintenance and repairs. In addition, accurate record-keeping has become vital to provide proof of building upgrades and maintenance over the years. While the market has become more complex and challenging, experienced brokers with deep knowledge of the markets can help obtain the best possible programs for insureds.

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General Underwriters in the United States focused on community association products with over 8,000 homeowners and condominium associations currently insured. Coastal Insurance Underwriters is a subsidiary of Constellation Affiliated Partners, LLC. Learn more at www.ciuins.com.

ENDNOTES

1. Tentative settlement of more than \$55M reached in Surfside condo collapse lawsuit., CNN, march 8, 2022. <https://edition.cnn.com/2022/03/08/us/surfside-condo-collapse-lawsuit-preliminary-settlement/index.html>

2. Judge gives nod to Surfside unit owners \$83M settlement, Insurance Journal, March 8, 2022. <https://www.insurancejournal.com/news/southeast/2022/03/08/657381.htm>

3. House of Cards, Miami Herald, Dec. 20, 2021. <https://www.miamiherald.com/news/special-reports/surfside-investigation/article256633336.html>

4. SB 1702: Building Safety, Florida Senate. <https://www.flsenate.gov/Session/Bill/2022/1702/?Tab=BillText>

5. Before building collapse, \$9M+ in repairs needed, ABC News, June 27, 2021. <https://abcnews.go.com/US/wireStory/building-collapse-million-repairs-needed-78518874>

6. Miami-Dade approves public records for condo associations, Associated Press, March 2, 2022. <https://news.yahoo.com/miami-dade-approves-public-records-134224336.html>