

REAL ESTATE INDUSTRY GUIDE

A Guide to Self-Insurance

Thriving in a Challenging Insurance Market Through Self-Insurance



For real estate owners and operators, the past year has been tough. Insurance rates are soaring, particularly on property coverage, and they may have difficulty simply securing adequate insurance at any price.

The skyrocketing costs and diminished availability have made self-insurance — which can reduce premiums by retaining risk in-house — a viable alternative for select real estate portfolios.

Self-insurance means a company is electing to retain risk as opposed to transferring it to a third-party, such as an insurer. Self-insured businesses allot capital on their balance sheet to cover claims instead of paying a premium to an insurer.

While self-insurance is usually just one part of a complete insurance program, it can be an attractive option for real estate entities with multiple properties or insurance policies. For example, designating a percentage of coverage a company would normally buy for perils, such as floods or earthquakes, or placing insurance with multiple carriers.



It's a tough market out there

For reasons beyond their control, commercial property owners and portfolio managers are finding it particularly difficult to get affordable insurance. Insurers are suffering record-breaking losses from catastrophe-related claims, and rebuilding costs have risen due to inflation, supply chain challenges and outdated property valuations.

And the cost of reinsurance, which protects primary insurers, has gone way up, putting pressure on those primary insurers to raise rates.

Things have gotten so bad that even well-maintained properties with no prior claims history are being hit with rate increases. As reported in [HUB International's 2023 Mid-Year Rate Report](#), real estate property insurance rate increases are ranging from 10% to 20% at renewal — or as much as 200% in catastrophe-prone areas over the last five years. And in certain situations, real estate owners can't find coverage at all.

Relying on strong risk management for self-insurance

Not all real estate owners and operators are good candidates for self-insurance: Self-insurance is suited to filling in specific parts of a larger insurance portfolio and requires strong risk management to back it up. Lenders can play a pivotal role approving or rejecting self-insurance on their collateral.

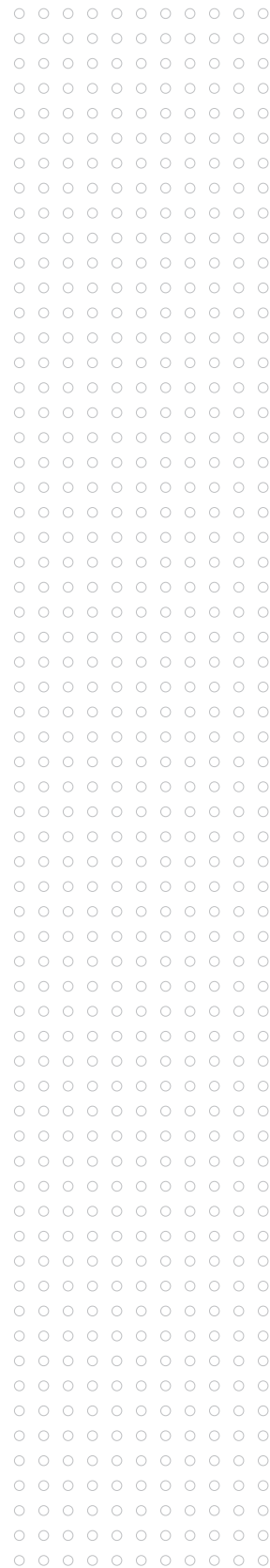
Self-insurance gives real estate owners more control over their insurance program, claims and risk management. And when owners put their own capital towards self-insurance, underwriters are often willing to provide other needed coverage or higher limits.

Self-insurance structures

There are many ways to structure self-insurance programs. For example:

- Real estate owners and operators can self-insure excess policy layers, allowing them to shift savings towards the primary policy.
- Self-insurance can cover individual policies, such as property or general liability, if one coverage is too expensive or unavailable through the standard or excess markets.
- There is also captive insurance, in which real estate entities transfer risk to a wholly owned insurance company while accessing the reinsurance market for additional capacity. Captives can help companies satisfy lender requirements while building a long-term approach to insurance.

Because there are so many different structures for self-insurance, it's important to consult with an insurance broker with self-insurance and real estate industry expertise to learn all of your options.





CHECKLIST

The questions you need to ask before embarking on a self-insurance program

Here's what to ask when deciding whether self-insurance is the best way to insure your real estate assets:

- Does self-insurance actually save money?**

Self-insurance should be more affordable and provide better coverage than from a traditional carrier. But that's not always the case. You need to know the numbers before embarking on a self-insurance program.

- Will a short-term insurance plan suffice?**

Self-insurance is often better as a short-term option for a single coverage, such as for wind damage or wildfire, that's too expensive or with limits that are too low. Property owners may need to be comfortable without a long-term solution.

- What do your lenders say about self-insurance programs?**

Every borrower must maintain insurance as a condition of their loan. Lenders need to grant approval for self-insurance and specify how much risk can be self-insured. A captive program may be a way to satisfy lender requirements.

- Is there enough time?**

Structuring a self-insurance program takes time, so insureds need to plan far ahead — it's not a last-minute option in hopes of securing coverage or cutting costs.

- Is the technology adequate?**

The complexity of self-insurance programs requires the technological wherewithal to evaluate and manage risks, as well as ensure compliance. Strong data and analytics capabilities are needed.

- Do you have strong risk management strategies?**

Without a strong risk management program, self-insurance can't work. You can evaluate the strength of risk management efforts using data and analytics.

- Can your broker handle self-insurance?**

Evaluating self-insurance is complicated and cumbersome, requiring specialized knowledge. An experienced real estate insurance team can assemble the different elements in a self-insurance program for maximum impact.

Contact HUB International's [real estate insurance experts](#) to learn more about self-insurance and if it's the right option for you.

Strategic support that puts you in control.

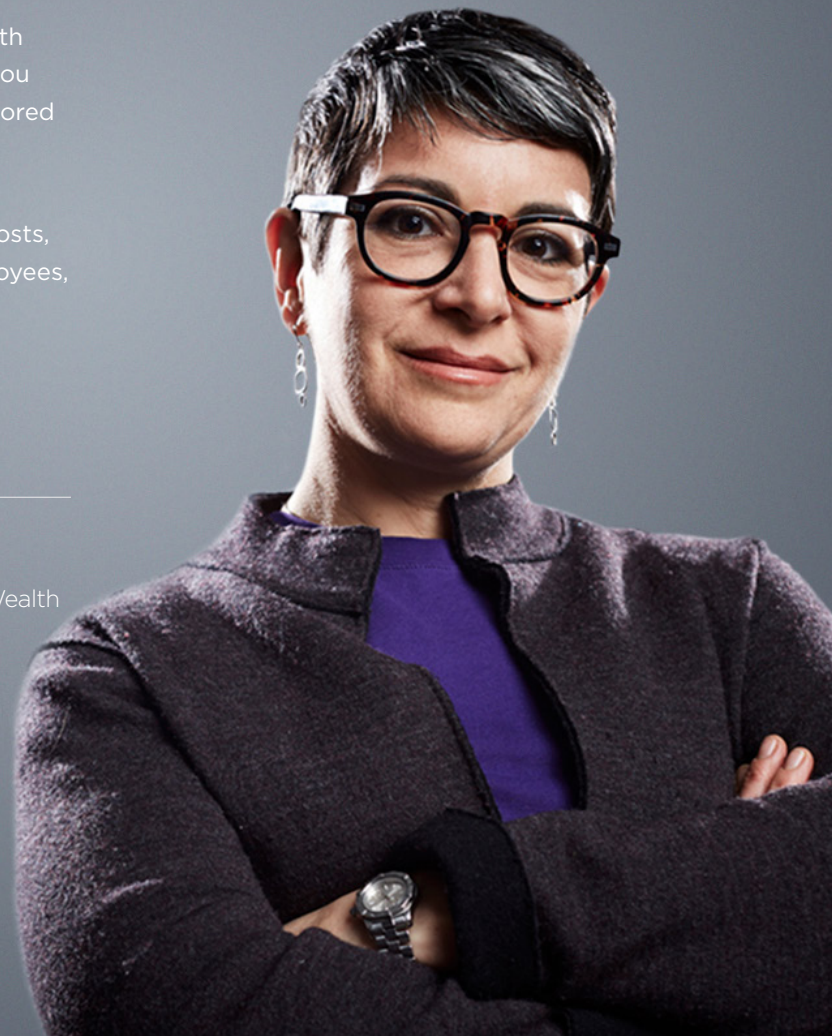
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