

# PROPERTY MANAGERS COMPLIANCE IN PROPERTY INSURANCE POLICIES

## FOCUS ON FLASH FLOODING



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## Introduction

Extreme weather events such as droughts, heavy raining and floods are increasing due to water cycle acceleration. Seen mostly in Central Europe, major flooding caused by heavy raining in urban areas can be possible also here in Finland. Heavy raining especially near built-up areas can cause severe economical damages to regional economy since sewer networks are not designed to lead vast amounts of excess water during flood peaks.

In worst case scenario flash flooding can halt economic productivity in regional economy and cause negative impact far into the future. Insurance coverage of the area however can affect on the fastness of the recovery of the regional economy after the damages of flash flooding.<sup>1</sup>

In this study I focused reviewing condominium and real estate property insurances especially covering flash flood damages. Building managers appointed by the condominium apartment owners are responsible for following protection guides and rules written in the property insurance clauses. If protection guidelines are not followed, it is possible that in case the risk occurs the insurance company will not compensate losses fully or in worst case at all. This leaves condominium and real estate owners to pay the spread not covered by the insurance company.

## Materials and methods

In this study I did a quantitative research using electronic questionnaire to 1 258 property managers in Finland. Response rate was 20.5 % so in total 258 property managers responded to my survey.

### Literature cited

<sup>1</sup> Perrels, Adriaan, Veijalainen, Noora, Jylhä, Kirsti, Aaltonen, Juha, Molarius, Riitta, Porthin, Markus, Silander, Jari, Rosqvist, Tony & Tuovinen, Tarja 2010. *The implications of climate change for extreme weather events and their socio-economic consequences in Finland*. VATT Research Reports 158, Government Institute for Economic Research (VATT). 133p.

## Results

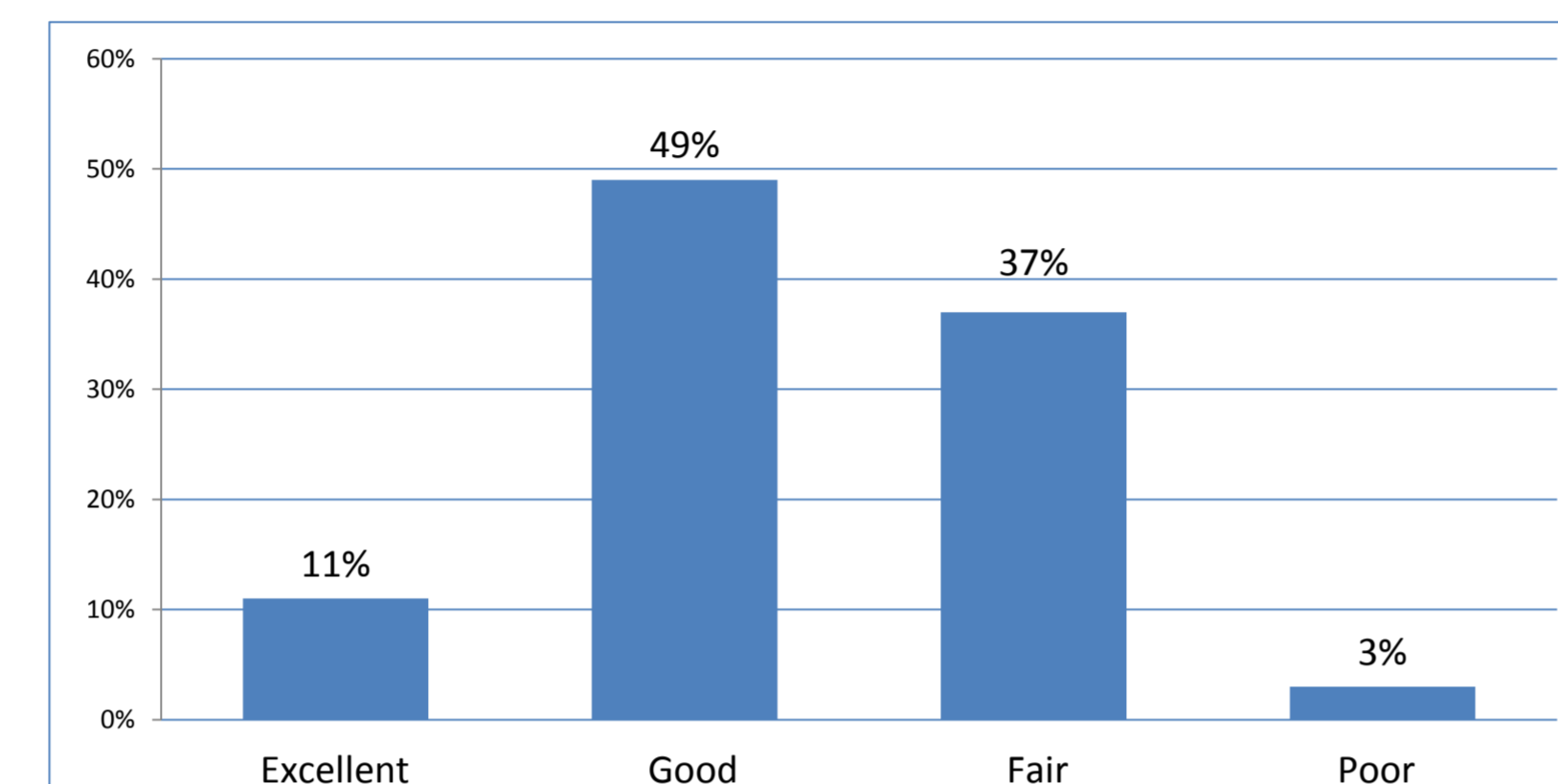


Chart 1 Property managers' knowledge of the buildings' insurance policies

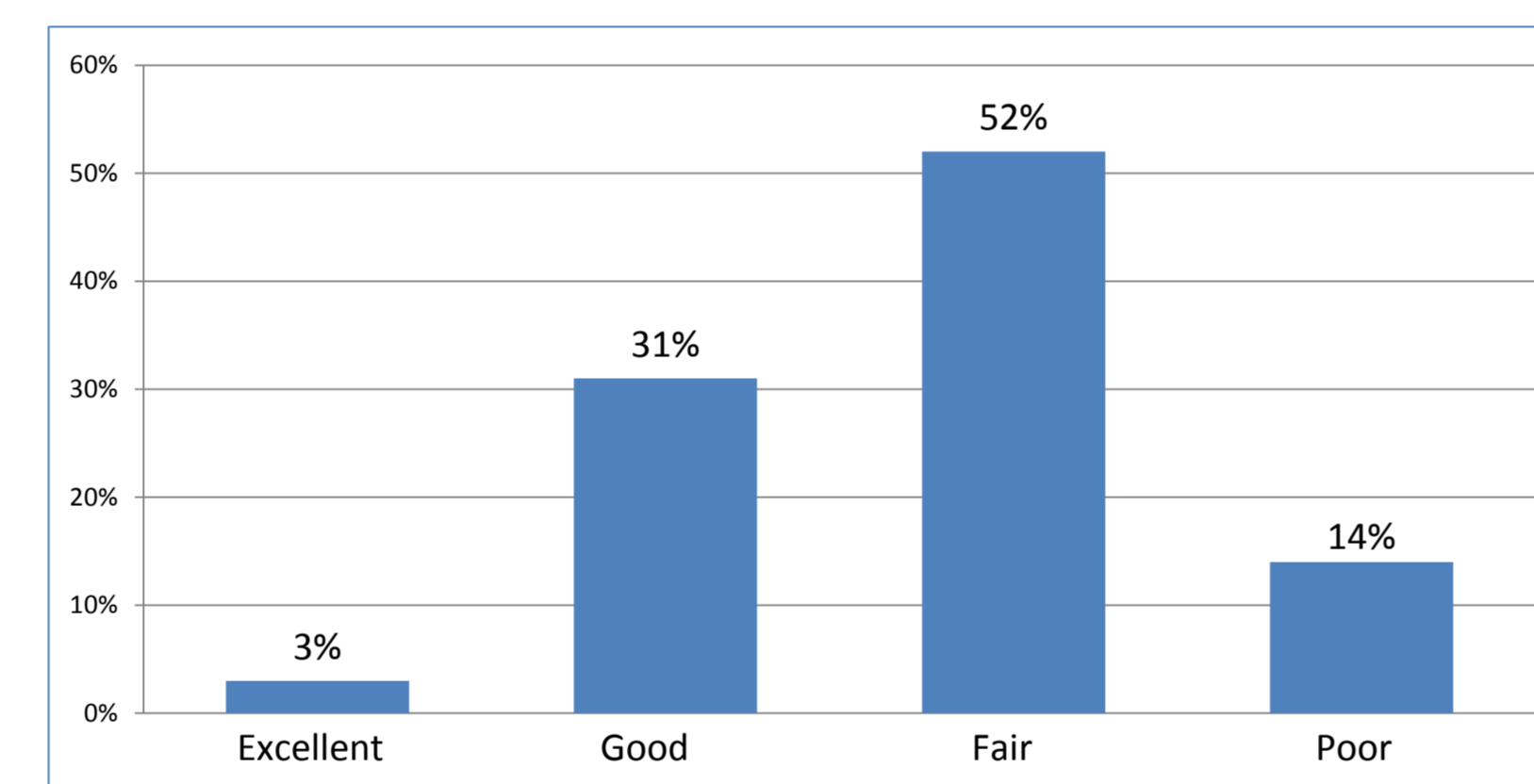


Chart 2 Property managers' knowledge of the protection guidelines and rules written in the insurance clause

Although knowledge of buildings' insurance policies is in fairly good level, the knowledge of protection guidelines and rules written in the insurance clause is in fairly poor level.

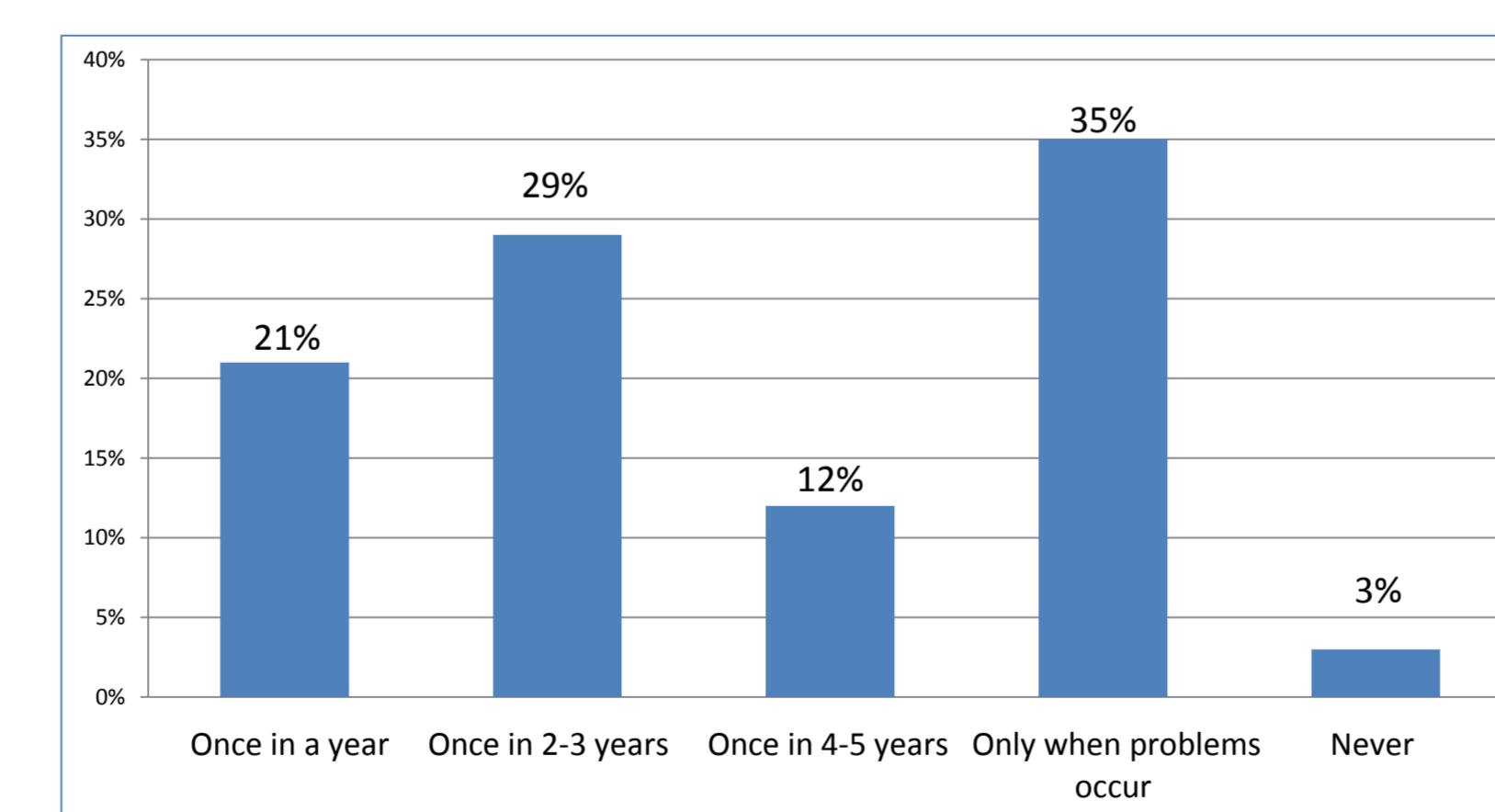


Chart 3 How often building managers inspect buildings' drainpipes and storm sewers

It is written in the protection guidelines and rules that buildings' drainpipes and storm sewers should be inspected annually. In my study I found out that only 21 % of building managers' follow this rule. If flash flooding occurs in urban areas in Finland, there is a danger that buildings are not completely covered by the insurance companies.

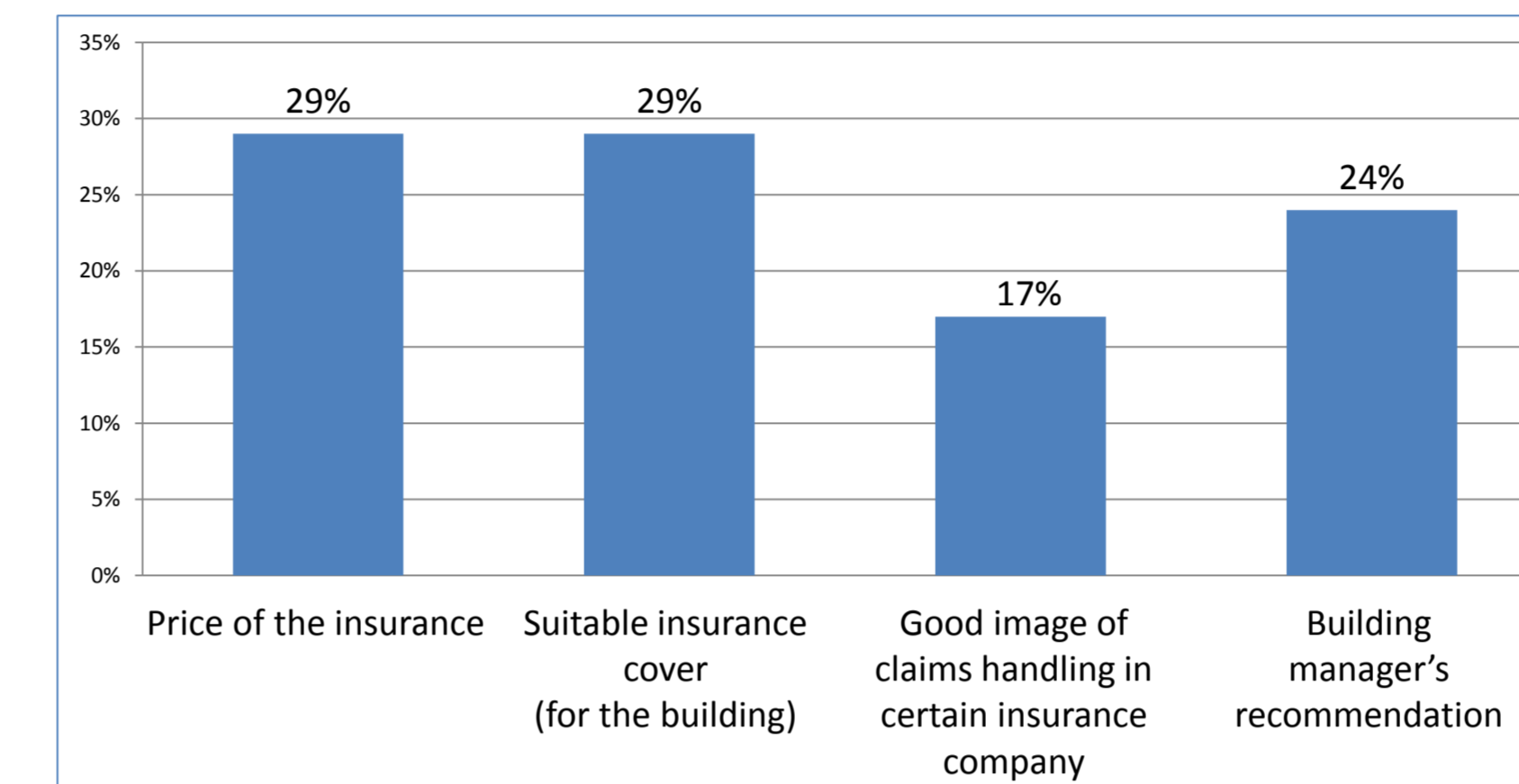


Chart 4 What is the critical factor when the board makes decisions about the insurance cover for the building

Insurance cover price was found to be one of the critical factors alongside suitable insurance cover when boards are choosing the cover for the building. Flood cover is usually included in all risk covers which are High-End products. Some insurance companies in Finland do not even offer flash flood cover in their property insurances leaving the insured in difficult situation in case decisions are not made by the suitable cover but other factors.

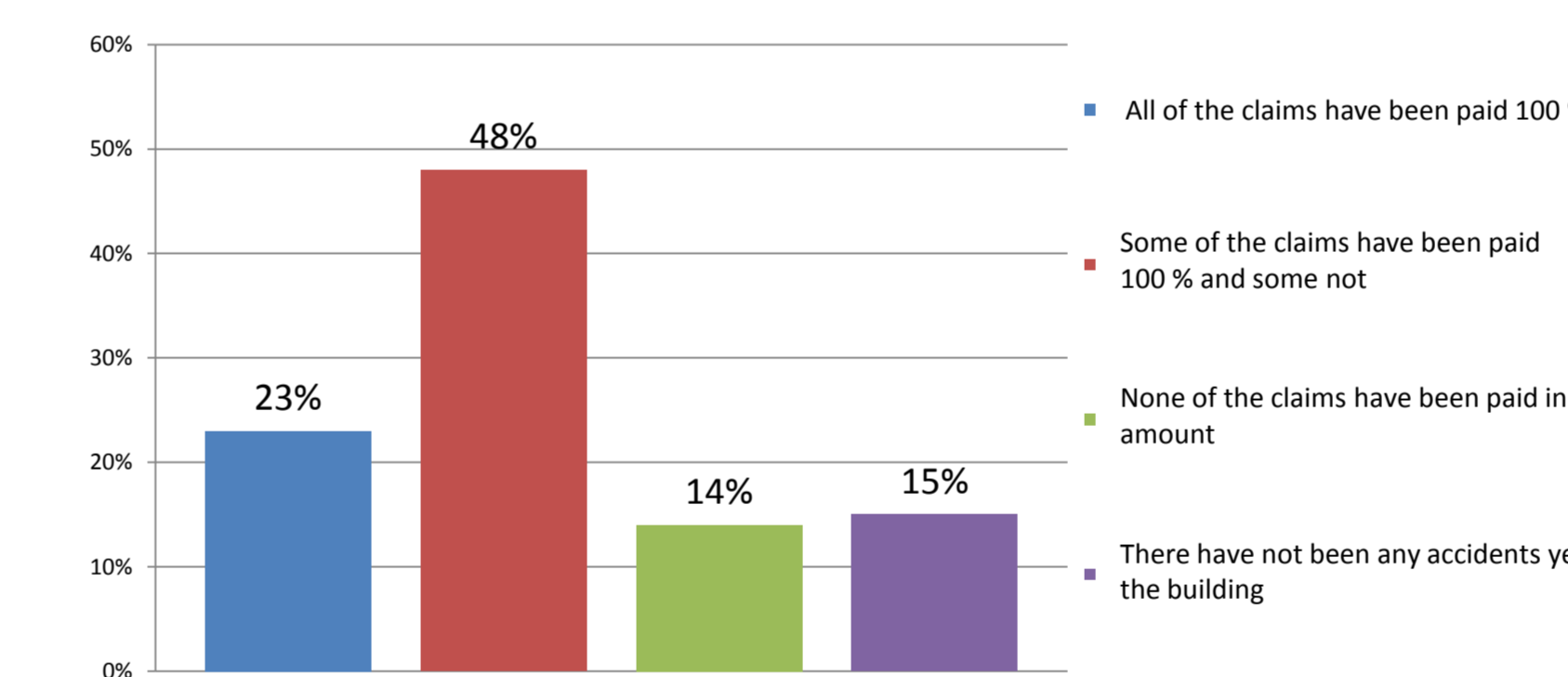


Chart 5 How claims have been paid in case of accidents (in the building)

Building managers have faced situations where claims have not been compensated in full amount by the insurance companies. One reason for this can be poor risk management in the building and also poor knowledge of protection guidelines and rules written in the insurance clause. Further studies are required to confirm this.

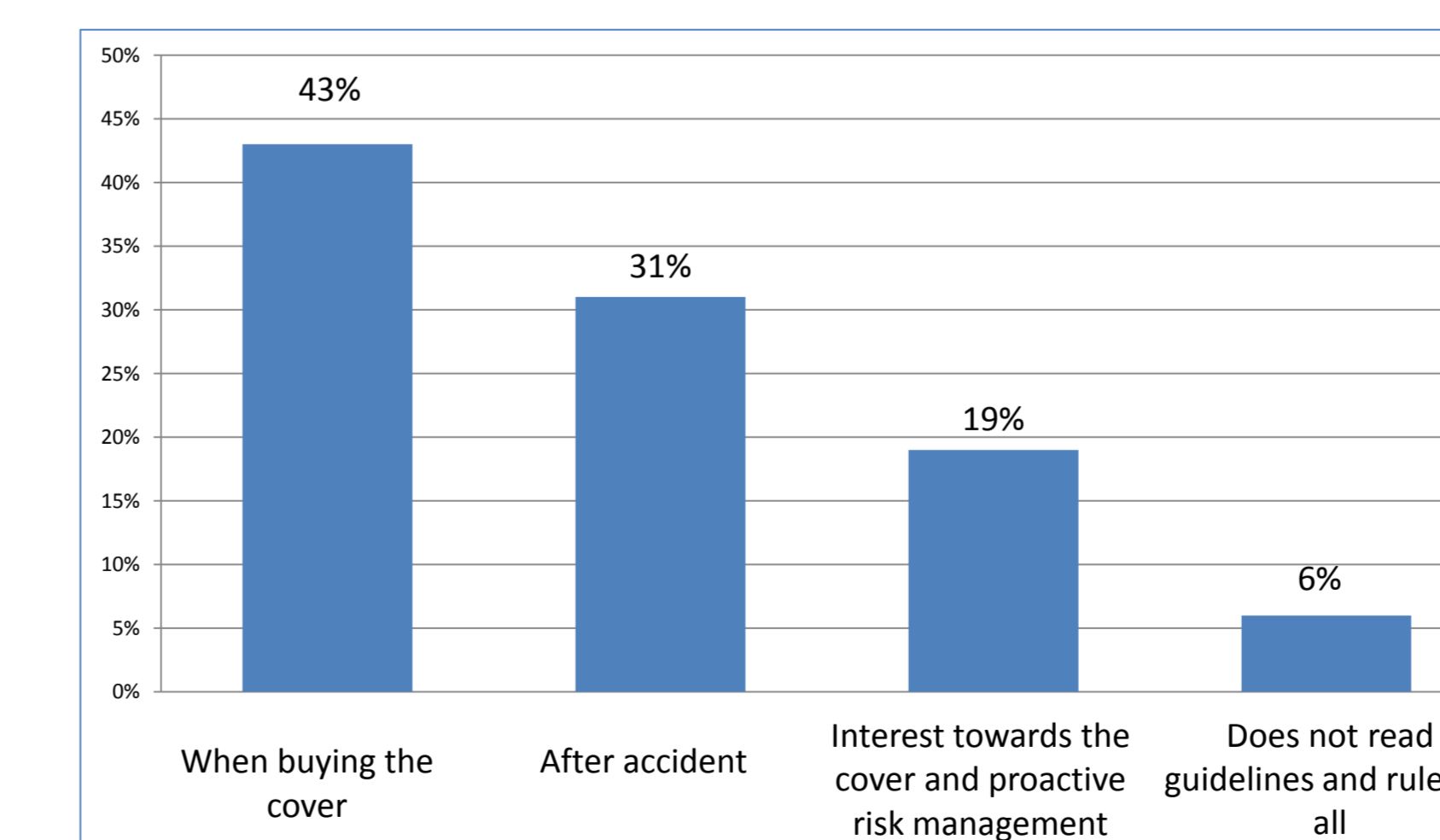


Chart 6 In what situation building managers usually read property insurance protection guidelines and rules

Only 19 % of the respondents read protection guidelines and rules because of their interest towards insurance cover and proactive risk management. Other options can not be seen as good risk management practices since protection guidelines and rules required by the insurance company need to be known and as well as followed in order to get the full compensation.

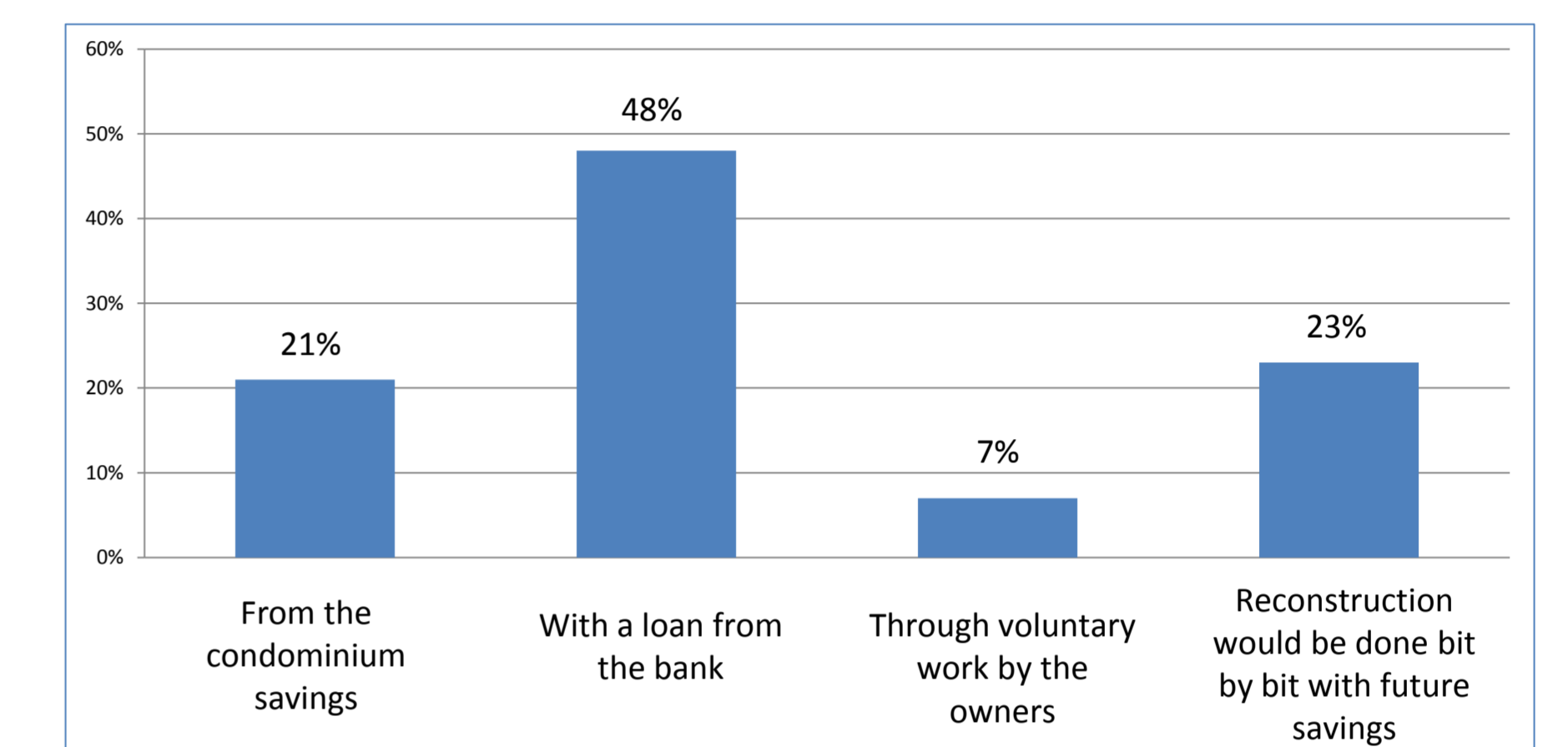


Chart 6 If claim is not paid in full by the insurance company how would condominium and real estate owners finance the missing amount

When property managers were asked how they see missing cover would most likely to be financed in case of reduced insurance compensation, almost half of them chose the loan from the bank -option. This extra cost, if flash flood occurs, will be a shock to most condominium and property owners when they live in belief that building is covered with insurance and protection guidelines and rules have been followed.

## Conclusions

The result of this study showed that the building managers' knowledge about the property insurance coverage is relatively good. However the most important factor, which is knowing the protection guidelines and rules in property insurance clause, is poor. About 79 % of the surveyed property managers neglected the protection guidelines set by the insurance clause and about 66 % of the property managers admitted themselves straight that they do not know very well protection guideline requirements set in the insurance cover. If flash flooding occurs in Finland near urban areas, there is a significant risk that buildings will not get full coverage from their insurance and this will have a negative effect in the regional economy in general.

For further information please visit

<http://tutkielmat.uta.fi/pdf/gradu05804.pdf>

