



HindmanSanchez

# UNDERSTANDING HOMEOWNER ASSOCIATION INSURANCE

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## MASTER POLICY

State laws pertaining to condominiums and most project legal documents creating condominiums require the association to carry a master insurance policy covering the entire project including the individual units. This is the only approach to insurance that makes any sense in a high rise project, and in most lateral projects it also makes sense because of the interrelationship of individual condominium units and the project's common areas. In planned unit developments, the advisability of having a master policy depends to some extent on the type of construction. With attached townhouses or row houses, it is possible that a master policy is preferable to individual policies covering each dwelling. A master policy may cost less money than a collection of individual policies; it is also easier to insure adequate coverage for the entire project with a master policy than it is with individual insurance policies issued by different companies. Usually the developer of a project will have purchased an insurance policy that will be in effect at the time the board of directors is taken over by the new owners. The project legal documents will generally specify whether the insurance policy should be a master policy covering all of the improvements in the project or whether it covers only the common areas improvements or improvements owned by the association and leaves it to individual owners to insure their own property. Certainly the most efficient way to handle insurance in either a condominium or a planned unit development project is to have a single master policy covering all of the units/lots and to have each separate unit/lot owner carry only liability insurance and personal property insurance covering the contents of their unit dwelling or office, as well as payment of the master policy deductible amount. This will eliminate conflicts among carriers because of overlapping coverage, will save overall premiums, and should eliminate gaps in coverage as well as duplication in coverage.

## INDIVIDUAL POLICIES

Individual condominium unit owners can obtain a special condominium policy covering the contents of the unit and personal liability. This is usually called or referred to as an "HO-6" policy. Such a policy will cover loss or injury within the unit, but will not include liability for actions occurring in the common area, and will not include damage to the common area. The unit owner or lot owner can obtain additional endorsements to the HO-6 policy, including an "all risk endorsement," an endorsement for payment of the master policy deductible amount, a living expense endorsement, a rental coverage endorsement (if he/she has rented his/her unit out and loses rent as a result of fire or other damage), and a loss assessment coverage (covering special assessments levied because of uninsured losses to common areas). The owner can also get a special endorsement for rain damage, which may be important because the master policy will generally exclude rain damage and the HO-6 policy may not cover it. Where individual policies are required instead of a master policy, the association legal documents should set minimum insurance standards to be met by each owner, or copies of policies should be required to be filed with the association. Procedures should exist to ensure application of insurance proceeds to repair of the property. Proceeds may be made payable to a trustee who will contract for all repairs using the proceeds of the individual policies. Some master policies exclude rain damage to the interior of the building unless the rain entered through a hole made by the wind, allow for depreciation to be deducted on any loss to carpets and built-in appliances, and limit coverage on glass breakage to so much per pane with a maximum per occurrence unless the loss is caused by fire, wind or hail. Therefore, the individual owner must protect with his/her own insurance by obtaining a rider to cover: personal property, including furniture and clothing; fixtures (depending upon whether the master policy covers fixtures); glass breakage (depending upon master policy coverage); additional living expenses; loss of rental income (if unit is rented); personal liability; loss assessment (coverage for payment of special assessments occasioned by inadequate insurance coverage for loss to common areas); and the amount of the master policy deductible.

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**CASUALTY INSURANCE**

"Casualty" insurance is a broad term which is used to describe property insurance. It is sometimes called "all risk" or "comprehensive" insurance.

**LIABILITY INSURANCE**

Liability insurance protects the association due to damages because of bodily injury or property damage for which the association is legally liable and which is caused by an occurrence covered by the insurance policy. Although liability or "public liability" (as it is sometimes called) covers many areas, there are also certain matters that are generally excluded from liability coverage. Some of these include injuries from automobiles, boats or aircraft; injury to employees arising out of employment; injuries arising from discharge of smoke, fumes or chemicals; damages for false arrest, malicious prosecution, wrongful entry, eviction, libel or slander; contractual liability, host liquor liability; nonowner automobiles. Most, if not all, of these exceptions can be covered under separate policies or additional riders. The best method of protecting individual members of an association, whether incorporated or unincorporated, from unlimited tort liability is through a comprehensive insurance program including adequate public liability insurance. In addition to public liability coverage included in the master policy, each individual homeowner should carry his/her own public liability policy to cover injuries or damage which occur on his/her premises rather than the common area.

**COMPREHENSIVE OR ALL RISK COVERAGE**

Comprehensive or all risk coverage is also referred to as "extended coverage" or "special form coverage." "All risk" usually means that you are insured for "all forms of physical loss" except for specific exclusions which are mentioned in the policy. Fire, theft and vandalism are normally included in an all risk or comprehensive policy.

**FLOOD INSURANCE**

Flood insurance may or may not be available, depending upon where the project is located. In designated flood hazard areas, flood insurance may be required by lenders or by secondary lending agencies, such as FNMA or FHLMC. If the project is located in a designated flood hazard area, the individual policies which the owners carry on their contents should include flood damage, and the association should obtain flood insurance through its agent.

**WORKER'S COMPENSATION**

If the association has any employees, it is required to carry workers compensation insurance. The amount of the premium is generally determined by the total employee payroll. Generally, non-compensated volunteers of nonprofit organizations are not considered employees for purposes of workers' compensation unless the board of directors has specifically declared prior to any injury occurring that the people performing such voluntary services are deemed to be employees while performing such services. An association might wish to do that in order to provide some insurance coverage for injuries of members serving voluntarily without pay, and verify this coverage with its insurance carrier. Examples of employees for which the association would be required to carry workers' compensation insurance if they are on the association payroll would be maintenance personnel, on-site or resident managers, guards and gardeners. In some states, laws require that workers' compensation be carried for workmen or contractors who work on the premises even though they are not employees of the association.

Under Colorado law, the definition of the employer/employee relationship has been broadened statutorily to include subcontracted work which is part of the regular business operation of the employer. (CRS 8-41-401). Therefore, an association which regularly contracts for a service, such as landscaping, may be considered an employer of the persons associated with the landscaping maintenance. The liability for injury travels "up the chain" from the injured person, to the subcontractor to the association. If the subcontractor fails to consistently carry worker's compensation coverage for laborers, the association may

incur liability from two sources: first, claims due to injury or death; and second, premiums. If a claim due to injury or death occurs and the subcontractor for whom the injured party works fails to carry worker's compensation insurance, the association may be liable for 1½ times the amount of the claim. Additionally, if the claim triggers an audit, or if a routine audit occurs and the subcontractor failed to carry adequate coverage, the association may be charged a premium for the period of time that the subcontractor failed to carry adequate coverage.

#### **AUTOMOBILE INSURANCE**

In the event the association owns any vehicles, it should carry adequate automobile insurance, including personal injury, liability and property damage, medical and comprehensive including fire, theft and vandalism on the vehicle.

#### **NON-OWNED AUTOMOBILES**

If the association does not own an automobile and does not have automobile coverage but has a basic public liability policy, that policy may exclude from coverage the damages or liability arising out of the use of non-owned automobiles. The association should obtain an endorsement to its liability policy that will include non-owned automobile insurance coverage. This will cover the association or an officer, director employee of the association should he/she be using his or her own automobile on association business when a loss occurs.

#### **DIRECTORS' AND OFFICERS' INSURANCE**

Officers and directors of an association may be subject to personal liability for suits brought by owners and third parties. The association should obtain adequate insurance protection to cover its officers, volunteers and employees. The association's documents should contain specific authorization for the purchase of this type of coverage. The insurance may not cover liability for intentional acts or liability arising from civil rights violations or liability resulting from failure to purchase adequate insurance for the project. However, it is necessary to have such coverage if the association expects to have its members serve in positions that subject them to potential personal liability. Some officers' and directors' liability policies are issued on a "claims made" basis, which means that they offer protection only for claims made during the policy period based upon acts occurring while the policy was in effect. Other policies may protect against claims arising during the policy period regardless of when the act occurred. Some policies will not cover officers and directors for liability from claims arising from actions taken while they were on the board when the claims are made after they are no longer on the board. The association should shop around and try to get the broadest coverage possible, and should be sure to inform officers and directors exactly what the extent of the coverage is. Of course, the association should indemnify its officers and directors against personal liability that is not covered under the association's policy.

#### **RAIN DAMAGE**

Most blanket insurance policies exclude rain damage to the interior of units unless rain enters through a hole made by the wind. Even if the rain is forced in by the wind, there may not be coverage unless the building sustained actual damage first. A homeowner can obtain rain damage coverage by asking that his/her standard unit owners' policy (HO-6) be broadened to include rain damage. Rain damage coverage is normally included in the standard HO-32 rider. The coverage under policies, of course, varies greatly, and it is important that the unit owner determine exactly what coverage there is under the master policy and what coverage can be obtained under his/her unit policy by additional riders. This is to eliminate the gaps in coverage so that no matter how or where the loss or damage occurs, it is covered by some policy.

#### **AUXILIARY STRUCTURES**

Auxiliary structures such as fences, signs, pools, carports, etc., may not be covered under a standard comprehensive or all risk casualty policy unless they are specified. The board should be sure that auxiliary

structures are covered, and that, if necessary, their values are included in computing the total amount of insurance to be carried.

#### **GLASS COVERAGE**

It may be necessary to add glass coverage or "plate glass coverage" as an additional rider to an insurance policy in order to get full coverage.

#### **DRAM SHOP COVERAGE**

If the association operates a bar or at any time dispenses alcoholic beverages, it is essential that the association get a dram shop coverage rider to its liability policy.

#### **ASSOCIATION PERSONAL PROPERTY**

If the association owns personal property, such as recreation room furniture, pool furniture, or pool cleaning equipment, that personal property should be insured to full actual cash or replacement value under the association's master policy. Standard "all risk" insurance policies may exclude theft of property that is not part of the building, and therefore, exclude theft of personal property. Care should be taken to be sure that such personal property is covered on a replacement cost rather than a depreciated value basis.

#### **BOILER AND MACHINERY**

In a project which has a steam boiler, there should be a "boiler and machinery" policy to cover damage to the boiler and to the structures caused by explosion of the boiler. Generally, "all risk" protection on the building will not include or will specifically exclude boiler coverage. Boiler and machinery coverage can also cover sudden and accidental breakdown of pumps, compressors, boilers and motors.

#### **UMBRELLA COVERAGE**

An association should probably have liability coverage of at least \$1 million, and more for a large association. One way to obtain higher coverage limits is to purchase an umbrella policy, which covers liability to limits in excess of what is covered by the basic policy. An umbrella liability policy is broader in some areas than the basic liability package policy. Umbrella coverage depends upon there being some underlying coverage to handle the liability up to a certain level, and therefore, the premiums on an umbrella coverage tend to be considerably less.

#### **TITLE INSURANCE**

When the new board of directors takes over the operation of the association from the developer, it should check to see whether or not the developer of the project purchased title insurance on property deeded over to the association. If so, that insurance can be relied upon in the event there is any problem with title to the association's property in the future. In a phased project, the board of directors might consider requiring a title insurance policy on any common area property that is annexed to the association as part of an additional phase.

#### **PROPERTY DAMAGE INSURANCE**

Such coverage is intended to protect the association's property, including buildings and all commonly owned property such as recreation room furniture or pool furniture from loss or damage from hazards such as fire, windstorm, collapse of the building, and other hazards. Property damage is generally included in an "all risk" coverage policy; however, it is important to note what exceptions are listed in a so-called "all risk" policy.

**PRODUCT LIABILITY INSURANCE**

If the association operates dining or food service facilities or has vending machines which dispense food under its operation and control, it should include product liability coverage.

**"CLAIMS MADE" or "OCCURRENCE" COVERAGE**

In purchasing liability insurance, particularly in the case of officers' and directors' liability insurance (see DIRECTORS' AND OFFICERS' INSURANCE section), it is important to distinguish between a policy offering "occurrence" coverage or "claims made" coverage. Claims made coverage means that only claims which are made during the period that the policy is in force are covered. Even if the event causing the claim occurred during the period that a claims made policy is in effect, if the claim is not made until after the expiration of the policy, there will not be coverage. Alternatively, if a claim is made during the period the policy is in effect but the event occurred before the policy went into effect, there may be coverage, depending upon whether or not the policy specifically excludes claims for events occurring prior to the period of coverage. If the coverage is "occurrence" coverage, then a claim arising out of an event that occurred during the period the policy was in effect will be covered, even if the claim is made after expiration of the policy.

**REPLACEMENT COST**

Policies may be written to provide coverage based on replacement value rather than depreciated value. Unless otherwise specified, replacement cost means the cost to replace original kind and quality and does not cover upgrades. Endorsements are available to cover actual replacement costs including upgrades.

**INFLATION GUARD ENDORSEMENT**

It is possible to obtain an endorsement which provides that the amount of insurance will automatically increase by a specified percentage every year or by the amount of the increase in the cost of living index or some other construction cost guide. This is particularly important coverage to have during periods of rapid inflation.

**BUILDING ORDINANCE ENDORSEMENT**

If the project does not conform to present building or zoning codes, which is often the case, most building codes or zoning ordinances provide that if such a building suffers more than 50% damage, it cannot be repaired without bringing the building into conformity with current building codes and zoning ordinances. Normally, insurance would not cover the extra costs to bring the building up to code or to add additional parking spaces, if that is what is required. These extra costs can be insured by special endorsement to cover changes in building ordinances since its original construction.

**POLICY EXCLUSIONS**

It is important to be aware of what the exclusions are under policies which supposedly are "comprehensive", "special form" or "all risk". Generally, the following are excluded unless they are covered by specific endorsements or riders: damage from termites, dry rot or fungus; damage from underground water; damage from rust; damage from settling; damage from animals or birds; damage from electrical shorts (unless fire occurs); glass damage; damage to signs are not generally included; exploding of steam boilers (see BOILER AND MACHINERY section); earthquake; flood; war; landslides; rain damage to interior of the building unless wind made the hole through which the rain was driven; water damage that occurs over an extended period of time.

## WAIVER OF SUBROGATION

Under a standard insurance policy, after the insurance company has paid for physical damage to the property, the company has a legal right to recover its loss from the parties who were negligent and caused the loss. The association's policy should contain a waiver of this right of subrogation against the individual owners so that the insurance company doesn't turn around and collect from the individual owners the amounts which the insurance company has paid. A typical waiver of subrogation clause would read as follows: "The insurance company, for and in consideration of \$ \_\_\_\_\_ and other good and valuable consideration, covenants and agrees that, in the event any sums are paid to the insured under the insurance conditions of this policy, it will not exercise any legal or equitable right it may have as a result of the payment of such sums as against any unit/lot owner, officer, the board of directors or the manager. The insurance company further covenants and agrees that in the event this endorsement or the policy to which it is attached is cancelled, reduced in amount or its conditions altered, it will give 10 days' written notice of such changes to each of the above persons."

## CO-INSURANCE

Most insurance policies require that a building be insured up to its full value or at least a substantial percentage of its full value. That is because the higher the value insured, the higher the premium. The insurance company doesn't want to be in the position of having to pay more for a building than the amount of the insurance carried. Therefore, many insurance companies require that you carry 80% or more of the value of the building in casualty insurance. If you fail to carry that much insurance, a coinsurance clause says you will be penalized and become a coinsurer. As a general matter, it is best for the association to carry insurance in the amount of 100% of the replacement value of the improvements.

## HOW TO PURCHASE INSURANCE

The board of directors should appoint an insurance committee, or should delegate one of its members to be responsible for investigating and recommending what insurance to purchase. As in the case with lawyers and accountants, insurance brokers tend to specialize, and homeowners' associations insurance is an area of specialization. The association should only deal with a broker who is experienced in handling owners' association insurance. One way to determine is to ask the broker's level of experience and how many owners associations he currently insures. It is customary to get two or three bids or proposals from different insurance brokers or insurance agencies prior to acquiring the insurance policies. The same specifications should be given to each insurance agent prior to asking for a proposal. There is a great difference in the coverage and language of insurance policies offered by different companies. Since most insurance policies are so complicated that they are not easily read and understood, the association has to rely upon the expertise of its broker in interpreting the policies and in comparing them to find out which policy offers the best coverage for the best rate.

If there is some doubt about the liquidity or stability of the insurance company, you can ask the broker to check it out in the latest "Best Report". The Best Report rates insurance companies based on their financial strength and their overall conduct of business.

## CROSS LIABILITY ENDORSEMENT

A cross liability endorsement provides coverage when one unit/lot owner sues another owner or the association for injuries resulting from an accident in the common area. It is possible that the definition of "insured" appearing in the master policy will solve the problem. Check with your broker to make sure that the language of the policy either automatically includes the cross liability endorsement or that the endorsement is added to the policy.

**CHECKLIST OF SPECIFICATIONS FOR INSURANCE COVERAGE**

1. Blanket, comprehensive, all risk protection on improvements including buildings, pools, fences and auxiliary structures and "all risk" contents coverage, including theft. Coverage to include:
  - a. All improvements and betterments (including those added by owners).
  - b. Stipulated amount clause.
  - c. Inflation guard endorsement.
  - d. Waiver of subrogation clause.
  - e. Appropriate deductible.
  - f. All losses payable to association as trustee for owners.
  - g. Replacement cost endorsement.
  - h. Additional owner coverage will not reduce master policy coverage.
  
2. \$ \_\_\_\_\_ liability protection including:
  - a. Personal injury with no exclusion relating to employees.
  - b. Non-owned automobiles.
  - c. Comprehensive general liability endorsement.
  - d. Severability of interest clause.
  - e. Products and host liquor liability.
  - f. Owners as additional insureds (for common area).
  - g. Contractual liability.
  - h. Minimum amount per person guest medical payments (for example, \$1,000.00).
  - i. Cross liability endorsement.
  - j. Personal injury rider to cover slander, libel and related claims.
  - k. Automobile insurance for employees.
  
3. \$ \_\_\_\_\_ directors' and officers' liability insurance; specify deductible and participation. Policy must be on a "claims made" basis, and should include protection for prior officers.
  
4. \$ \_\_\_\_\_ blanket bond to cover directors, officers and employees.
  
5. \$ \_\_\_\_\_ umbrella coverage.
  
6. Workers' compensation.
  
7. Title insurance on association real property.
  
8. Common charges insurance where one owner defaults and the others have to pay their share to make up the default.
  
9. Clause prohibiting cancellation without 30 days' notice from the insurance company.
  
10. Flood insurance.
  
11. Water damage coverage.
  
12. Watercraft liability (where applicable).
  
13. Garage keepers' liability (where applicable).
  
14. Golf cart coverage (where applicable).
  
15. Machinery and equipment (owned or leased) located in the common area.

**GENERAL INSURANCE DISCUSSION**

Each unit/lot owner should know precisely what is and what is not covered by the insurance policies carried by the association. Since each owner is required to pay his/her assessments even if his/her dwelling is uninhabitable due to fire or other damage, his/her policy should include an emergency shelter rider to cover his/her additional living expenses and to cover his/her obligations to pay assessments. Owners who rent their units/lots should also carry rental loss insurance. Unit/lot owners should be required to notify the association of any alteration in the improvements to their unit/lot which would add to their replacement so appropriate adjustments in the master policy can be made.

Care should be taken to insure that the master insurance policy covers all of the common area, and that there are no gaps in coverage between the master policy and the individual policies which result in a lack of coverage on a portion of the project. The board of directors has the responsibility to see that adequate insurance covers the perils which good business judgment indicates should be insured against, for the preservation of the property of the owners and the payment of claims against them. Failure to make prudent provision may result in personal liability. The directors must review the insurance policies which are in existence when they take over the association to make sure that the insurance is adequate. Although the directors may and should obtain assistance from specialized insurance brokers finding and filling gaps in coverage, it is the ultimate responsibility of the board to analyze the potential areas of loss and to make sure that insurance provides adequate coverage.

Most policies contain some deductible clause. An important question is how much of the initial loss is the association prepared to assume in order to reduce its premiums? In a project having a large number of separate buildings, a clause setting a deductible per building may be undesirable. In a large high rise, a single large deductible clause may be undesirable in a situation in which the damage is confined to a few units, unless the owners of the damaged units carry their own insurance.

When several different insurance companies are involved, a loss which affects the common area and some of the units/lots requires adjustment between the carrier for the association and the carriers for the unit/lot owners. Prorations have to be made and a decision arrived at as to who receives the proceeds of the policies. Questions of what control is exerted by the association over insurance proceeds payable to individual unit/lot owners must also be answered. This problem could, of course, be reduced or eliminated by having a single company cover the common area and all property now owned separately by unit/lot owners.

Where the master policy fully insures the buildings and individual unit owners have their own policies, there may be over-insurance. This would lead to total recoveries exceeding the actual loss unless contribution clauses can be applied by the insurance company which result in proration or division of the liability of the different carriers. The association policy should state that it is the primary coverage; otherwise, losses may not be paid in full even if fully covered. The primary policy controls the amount of coverage, and contributing policies only make up a percentage of the coverage.

Estoppel may prevent proration where the same insurance company issued the master policy and one or more unit policies and accepted duplicate premiums on a single risk. However, in most cases where there is multiple coverage, the loss will be prorated among the different carriers so that the total insurance proceeds do not exceed the total loss. Where there is proration, the association should receive a sufficient amount of the proceeds to reconstruct the project, including all the common areas which have been damaged. The unit owners should receive only enough of the proceeds to repair what was damaged or destroyed within the units after the association has received sufficient funds for rebuilding the common area. To avoid conflicts and complications arising from the existence of several different insurance policies, the declaration can prohibit owners from carrying individuals policies which duplicate the master policy. This might eliminate some of the problems, but it might also prevent the unit/lot owner from being able to insure permanent improvements and fixtures in his/her unit/lot, and could create problems for him/her in obtaining a loan. An alternative is to coordinate all of the unit/lot owners' policies. However, this does not necessarily eliminate all of the loss adjustment and subrogation problems. Another alternative would be to

require unit owners to place their policies with the carrier issuing the master policy to the association. However, some state laws would prohibit that as an "unfair insurance practice".

The master policy should cover liability of unit or lot owners in the common area since their individual policies will probably not cover them in the common area. The master policy should also include the unit/lot owners as named insureds (by referring to them as a class, not necessarily individually by name).

The following is a checklist of specific recommendations concerning the insurance program that should be considered for a common interest project:

1. Declaration and master policy should preclude contribution between the master policy and policies purchased by unit owners.
2. Conduct of a unit owner should not constitute grounds for avoiding liability under the master policy.
3. Authority to adjust losses should be vested in the association, not the insurance companies.
4. Association or trustee should control expenditure of insurance proceeds to rebuild damaged project.
5. Coverage sufficient to pay assessments while a unit is uninhabitable following a casualty loss should be included.
6. Waiver of subrogation rights with respect to the association and unit owners, and cross liability endorsement should be included.
7. Each unit owner should have an individual liability policy covering personal exposure for torts, whether in his/her unit or elsewhere.
8. If the master policy contains a coinsurance clause, unit owners should be required to notify the association of all improvements to their units, or the master policy should state that the value of the project for coinsurance purposes includes only improvements installed by the association. The purpose of this is to prevent the inadvertent failure to insure to the coinsurance percentage required, and, as a result, not recover the total proceeds due in the event of a loss.
9. Individual policies should be filed with the association so they can all be reviewed to eliminate potential conflicts with the master policy.
10. The question of whether insurance proceeds should be used to restore a destroyed project, or be paid to the association for distribution to the members, or to mortgagees, should be resolved with the company issuing the master policy at the time the policy is purchased.
11. In the case of commercial condominiums or mixed residential and commercial condominiums, proper allocation of premiums must be made to the units generating excess insurance costs.

## EVALUATING RISK MANAGEMENT PROGRAMS

Every community association should have a risk management plan, carefully devised, executed and monitored with the help of professionals. Risk Management plans contain two major elements: risk control and risk protection. Risk control is the effort to prevent property losses and personal injury from happening. Risk protection is basically the insurance package that protects the association financially when

accidents do occur. An effective risk control program will result in fewer claims against the association's insurance, which means lower premium costs.

The following checklist covers the basics of the two elements of an effective risk management plan.

#### **RISK CONTROL**

- \* Have you made all association members part of the risk control team, by encouraging them to report conditions that could cause accidents?
- \* Have you had a formal walk-through of your development, involving board members and insurance carriers, to more formally identify potential hazards?
- \* Do you have your plumbing and boiler systems inspected regularly?
- \* Has an association safety committee been established?
- \* Have you conducted safety classes for employees?
- \* Do you have a prepared emergency plan in case you suffer a tornado, hurricane, earthquake or other catastrophic event?
- \* Do you know if your contracts or agreements obligate you to indemnify or defend any other parties?
- \* Do you have adequate warning signs in parking lots, near the swimming pool, and in other common areas?
- \* Do you regularly monitor and keep records to review your progress in preventing accidents, and thus, reduce insurance claims?
- \* Are roofs, gutters, fences, laundry equipment, storage spaces and sidewalks regularly inspected for damage?
- \* Is the association in compliance with local fire and other safety codes?

#### **RISK PROTECTION**

- \* Have you formed a "partner" relationship with your insurance agent and carriers, in which you carefully evaluate and plan your present and potential insurance needs?
- \* Do you review losses to determine the actual cause of loss and establish guidelines to deter future losses?
- \* Do you prepare formal bid specifications incorporating mandatory coverages and optional coverages?
- \* Do you have special coverage for "business-type" amenities operated by the association, such as a restaurant serving liquor or a marina where gas is sold?
- \* In purchasing general liability insurance, have you carefully reviewed all possible liabilities to determine if additional "umbrella" coverage is needed?
- \* Do your bid specifications enable you to compare the price of each separate item of insurance between several insurance company offerings?

- \* Do you review losses periodically to determine if you could achieve a savings by taking higher deductibles?
- \* Does your insurance program at least meet the minimum standards required by the association documents?
- \* From your own files, could you reconstruct for the prior four years, on a yearly basis, actual premiums paid by policy and the amounts of claims paid and the amounts of claim reserves?

#### AUTHORITY FOR ASSOCIATION TO PURCHASE INSURANCE

1. STATE STATUTES
2. LEGAL DOCUMENTS:
  - a. Declaration
  - b. Articles and Bylaws
3. Problems occur when responsibility for insuring is unclear or ambiguous

#### Slide 1

##### MASTER POLICY

1. Insures common area (or common elements)
2. May insure all of the individual units and lots
3. Broad Master Policies eliminate gaps, invoke a single deductible, involve fewer adjustors in case of a claim

#### Slide 2

##### INDIVIDUAL POLICY (HO-6 POLICY)

1. Covers loss or injury within the unit
2. Endorsements by owner can add coverage for:
  - a. living expenses
  - b. rental loss
  - c. special assessments arising due to uninsured loss
  - d. rain damage
  - e. personalty with extraordinary value, i.e. furs, jewelry, art
  - f. may add fixtures, carpets, appliances

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TYPE OF COVERAGE

1. Casualty ("all risk", "comprehensive")
2. Liability Insurance
3. Flood Insurance
4. Workers' Compensation
5. Automobile
6. Directors and Officers (D & O)
7. Boiler and Machinery
8. Title Insurance

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ENDORSEMENTS TO POLICY

1. Replacement Cost Endorsement
2. Inflation Guard Endorsement
3. Nonconforming Building Endorsement
4. Cross Liability Endorsement

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ADDITIONAL INSURANCE PROVISIONS

1. Policy Exclusions
2. Waiver of Subrogation
3. Coinsurance
4. Deductibles

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## TESTING YOUR INSURANCE QUOTIENT (I.Q.)

All community associations are vulnerable to the loss of property and finances. Thus, board members have a fiduciary duty to protect association assets. The association's insurance program is the keystone to asset protection. How does the board of directors go about determining the particular insurance needs of the community and setting up an effective association insurance program?

At first, this may seem like a complex job as today's marketplace offers community associations a wide array of insurance alternatives. The very abundance of these available options can turn the selection process into an overwhelming task.

Buying an insurance policy, however, is not a one-step process but is the end product of a series of investigations the board of directors have to make about how to protect association assets. Those steps include identifying the risks and then eliminating, transferring, or assuming those risks.

It is essential that board members educate themselves about the process leading up to the insurance purchase. The following quiz is designed to give board members an idea of how much they know about this process and how much they may need to find out.