

Additional Readings

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Reading #1: Master Insurance Glossary

Parts of an Insurance Policy

Insurance Policy

A contract between the insured party and an insurance carrier that consists of the following items:

Declarations Page:

This page describes the contract. It usually lists the—

- issuing company
- named insured and address
- policy number
- policy period
- policy premium
- type of policy
- amounts and limits
- optional coverages
- forms and endorsements.

NOTE: The declarations page can be more than one page long.

On the declarations page for any property package policy:

The limit under Section 1 applies to the coverage for sudden accidental loss of the insured party's own property.

The limit under Section 2 applies to liability coverages.

Forms:

Insurance forms define—

- who or what is covered
- covered causes of loss
- qualifications to coverage.

There will always be some forms in a policy that are unique to the state involved because the insurance industry is state-regulated.

Endorsements:

Short insurance forms that can be included in a policy in order to add to the coverage— or subtract from it.

Optional Coverages:

Provisions within a form or endorsement that only apply if noted on the declarations page. Multiple options usually appear in the longer forms.

Common Policy Conditions:

The basic provisions that apply to all insurance coverages in the policy.

examples: conditions for premium payment, renewal, cancellation

May appear in a longer form or a separate endorsement.

Glossaries:

Section of a form that defines key terms and concepts used.

Glossaries are important because the policy may define a word more narrowly than its common usage.

A narrow definition is a way for the carrier to restrict coverage.

MASTER GLOSSARY OF INSURANCE TERMS

Advertising Injury (AI)	Liability for injury to reputation. Due to libel, defamation, invasion of privacy, or similar injuries, in written or published form.
Aggregate Limit	The maximum amount that the carrier will pay out during the term of the policy. Common in liability policies.
Agreed Amount	An endorsement which waives the coinsurance clause (see) in property insurance.
Auditable Policies	Carrier sets a provisional premium based on the insured's expected exposure. When the coverage year is over the carrier audits the insured's accounts to determine the actual exposure. Less than expected, insured receives refund. More than expected, insured pays the difference. <i>example:</i> workers' compensation
Bailee Coverage	Also known as receiving room coverage. Insurance coverage for a party who has temporary custody of the property of another. <i>example:</i> Staff holds deliveries in the office or at the lobby desk for residents until they pick them up
Basic Form	In commercial property insurance, the insuring agreement that covers fire, lightning, riot, explosion, vehicles, smoke, hail, aircraft, wind, vandalism, and malicious mischief.

The exposures covered may vary slightly by carrier.

Not as inclusive as special form.

Binding Proposal

A proposal where the carrier has given the agent authority to commit the carrier to insuring the stated risk for the stated premium—if the association accepts the proposal.

Blanket Coverage

In property insurance, one limit and one deductible apply to all the buildings or units as a whole—rather than each building or unit having its own limit and its own deductible.

In fidelity insurance, all employees are covered as a category—rather than specifically named individuals or positions.

Bodily Injury (BI)

Liability for physical injury sickness, or disease.

Broad Form

In commercial property insurance, the insuring agreement that covers the exposures in basic form plus some damage from water escape from plumbing systems and certain damage from collapse.

The exposures covered may vary slightly by carrier

Not as inclusive as special form.

Carrier's Financial Size

An insurance carrier's financial size is an indicator of its relative capacity to absorb losses. This capacity is affected by the geographic regions and types of exposure it insures.

example: A carrier's capacity to absorb losses will be affected if it insures for hurricane damage in the Southeast.

Carrier's Rating

An insurance carrier's rating is an indicator of its ability to pay claims.

Its rating is also an indicator of how aggressively the carrier will respond to its coverage exposures and claim exposures with your association.

A rating is also a predictor of the carrier's future rate stability and coverage availability.

Claims-Made Basis for Coverage

A liability policy will cover a loss that is discovered and reported during the period the policy is in effect. The event need not occur during that period.

This is preferred coverage for directors' and officers' insurance and fidelity insurance for community associations.

Coinsurance

A provision in some property policies that penalizes an insured for not maintaining a high limit of property coverage— often 80% to 100% of the total value.

Commercial General Liability (CGL)

A part of the commercial package policy (see) that provides insurance coverage for legal claims arising from bodily injury, property damage, personal injury, and advertising injury

Commercial Package Policy (CPP)

A policy that contains property and liability coverages and possibly other coverages— hence the name "package policy."

Modifications to the "package' are made by means of endorsements or options (see).

Common Policy Conditions

The basic provisions that apply to all insurance coverages in the policy.

examples: conditions for premium payment, renewal, cancellation

May appear in a longer form or a separate endorsement.

Condominium Endorsement

Special policy conditions that have become standard for condominium insurance.

Meet the needs of other types of community associations with similar property insurance requirements.

Special policy conditions include:

- Waiver of rights of recovery
 - Recognition of an insurance trustee
 - "No control" provision
 - "Other insurance" provision
- Standard mortgage clause
"Cross liability" clause

Contingent Liability

See loss of value.

Cost of Loss Adjustment

A coverage which reimburses for costs associated with presenting a claim.

If included in coverage at all, often limited to a nominal amount.

Coverage Trigger

In liability insurance, the trigger is either the occurrence of an event or the making of a claim.

"Cross Liability" Clause

Permits one party insured under the policy to bring a claim against another party insured under the policy.

Declarations Page

This page describes the insurance contract. It usually lists the—

- issuing company
- named insured and address
- policy number
- policy period
- policy premium
- type of policy
- amounts and limits
- optional coverages
- forms and endorsements.

NOTE: The declarations page can be more than one page long.

On the declarations page for any property package policy:

- The limit under Section 1 applies to the coverage for sudden accidental loss of the insured party's own property.
- The limit under Section 2 applies to liability coverages.

Deductible

The amount that the insured must pay on each loss before the carrier will make payment.

Defense Outside Limits

Provision that the limit of liability coverage will not be reduced by the attorney's fees related to defense of a claim.

Directors' & Officers' Liability (D&O)

Liability and insurance coverage for wrongful acts (see) by the association, the board, officers, and certain other volunteers.

Discrimination

Applying special treatment, (generally unfavorable) to an individual solely on the basis of a personal characteristic—such as ethnicity; age, religion, or gender.

Duty to Defend

Under this provision, the carrier has a duty to defend against a legal claim, even if it is groundless, false, or fraudulent.

In turn, the carrier retains the right to settle the claim.

Employment Practices Liability

Liability and insurance coverage for employee claims against an employer for such things as wrongful discharge or discrimination.

Relatively new form of coverage that is available.

Different from employer's liability for employee injuries—included with workers' compensation.

Endorsement

Short insurance forms that can be included in a policy in order to add to the coverage—

or subtract from it.

Environmental Coverage

Insurance coverage for damage caused by pollutants.

Typically obtained only from carriers specializing in the coverage.

Exclusion

Provision in an insurance policy that indicates what kinds of loss are not covered.

NOTE: A loss can also be excluded from coverage by means of a restrictive definition, limit, or condition.

Experience-Modified Policies

Applies to large associations.

Used frequently with workers' compensation.

When a premium is of a certain size, the carrier applies a modifier which increases (surcharge) or decreases (discount) the premium.

The modifier is based on the history of the association's claims under that particular policy.

The same basic concept is known as Individual Risk Premium Modification (IRPM) when it is used in other types of policies.

Fidelity Coverage

Insurance coverage for the theft of money, securities, or property by one's own personnel.

Coverage often called employee dishonesty

For the community association, this coverage must insure all persons who handle funds—whether or not they are compensated by the association.

Firm Proposal

A proposal whose numbers won't be changed by the agent—unless the specifications change.

Flood Coverage

Insurance coverage for flood damage to buildings and contents when a body of water rises. Water that escapes from plumbing system or enters a building from above the surface of the ground is not considered a flood.

Typically obtained through the National Flood Insurance Program (NFIP), a Federal insurance program.

Forms

Insurance forms define—

- who or what is covered
- covered causes of loss
- qualifications to coverage.

There will always be some forms in a policy that are unique to the state involved because the insurance industry is state-regulated.

Glossaries

Section of a form that defines key terms and concepts used.

Glossaries are important because the policy may define a word more narrowly than its common usage.

A narrow definition is a way for the carrier to restrict coverage.

Guaranteed Replacement Cost

A relatively new provision whereby the carrier agrees to replace damaged buildings after a covered loss even if the cost of doing so exceeds the limit of building coverage in the policy.

Increased Cost of Construction (ICOC)

A form of ordinance or building law coverage that pays for bringing a building up to current codes after a covered loss—if the law requires.

Increased Cost of Demolition

A form of ordinance or building law coverage that pays for demolishing an undamaged portion of a building when the rest was damaged by a covered loss.

	<p>The action must be required by law for coverage to apply.</p> <p>Often purchased with loss of value (see).</p>
Infrastructure	<p>The fundamental facilities and systems serving an area.</p> <p><i>examples:</i> sidewalks, streets, storm water systems, underground lawn sprinklers</p>
Inland Marine Coverage	<p>Insurance coverage for means of transportation, merchandise in transit, property in the custody of bailees, and a variety of movable property</p> <p><i>examples of movable property:</i> walkie-talkies, tractors</p>
Insurable Value Appraisal	<p>An independent service estimates the insurable replacement costs of property.</p>
Insurance Policy	<p>A contract between the insured party and an insurance carrier that consists of the following items:</p> <ul style="list-style-type: none">• Declarations Page• Forms• Endorsements• Optional Coverages• Common Policy Conditions• Glossaries
Insurance Services Office (ISO)	<p>An independent organization supported by insurance carriers.</p> <p>Services include developing and disseminating standard insurance forms.</p>
Liability Exposure	<p>Possibility of losses due to a person or entity bringing or threatening to bring a legal claim against the association because of a legal wrong it is alleged to have committed or for which it is supposedly responsible.</p> <p>Liability claims include:</p> <ul style="list-style-type: none">• Advertising Injury• Bodily Injury• Directors & Officers Wrongful Acts

- Employment Practices
- Personal Injury
- Property Damage

**Loss Control
Recommendations**

Deficiencies that insurance carriers identify when they inspect an association's property and operations prior to issuing coverage.

Mandatory recommendation—Failure to comply may mean loss of coverage.

Voluntary recommendation—Noncompliance will not imperil coverage at the current time.

Loss of Value

Also known as contingent liability

A form of ordinance or building law coverage that pays for the value of any undamaged portion of a building when codes require a building damaged by a covered loss to be demolished.

Often purchased with increased cost of demolition (see).

Master Policy

A name given to the association's primary policy which provides coverage for property and liability

Now also used to refer to a single policy insuring several associations.

**Mechanical Breakdown
Coverage**

Also known as boiler and machinery coverage.

Insurance coverage for physical damage caused by certain sudden, accidental events that originate inside machinery or electrical equipment.

Also pays for building damage caused by steam boiler explosions.

Net Income Exposure

Possibility of losses that involve a decrease in association revenues or an increase in expenses.

“No Control” Provision	Preserves coverage for loss caused by an insured party (such as an owner) acting outside the control of the association.
Occurrence Basis for Coverage	A liability policy will cover an event that occurs during the period the policy is in effect—even if the event is reported after the policy has expired.
Occurrence Limit	The limit to the amount that the carrier will pay out under a policy for one incident or occurrence.
Optional Coverages	<p>Provisions within a form or endorsement that only apply if noted on the declarations page.</p> <p>Multiple options usually appear in the longer forms.</p>
Ordinance or Building Law Coverage	<p>Following an insured loss to property coverage that pays for construction expenses incurred because of building laws.</p> <p>The three coverages included are increased cost of construction (see), increased cost of demolition (see), and loss of value (see).</p>
“Other Insurance” Provision	The associations master policy is treated as the primary coverage in the event that a unit owner and the association carry insurance for the same property.
Pay on Behalf of Insured Parties	<p>The carrier will pay when the claim is adjudicated</p> <p>In this situation, the carrier is likely to take the lead in settlement negotiations.</p>
Personnel Exposure	<p>Possibility of losses that result from the death, disability, retirement, resignation, or unemployment of association employees.</p> <p>Under certain circumstances, may apply to association board members, owners, or volunteers.</p>

Personal Injury (PI)

Liability for injury to reputation because of something said or done. It does not involve written or published statements.

Injury may be due to slander, defamation of character, false arrest, wrongful entry or eviction, invasion of the right of private occupancy, malicious prosecution, or willful detention.

Personal Property

Things that are movable—as distinguished from real property

examples: inventory; furniture, equipment, supplies, electronic data processing, and valuable papers and records

Policy Limits

The amount of dollar coverage provided for each identified area of coverage.

Premium

The rate charged for an insurance coverage.

Property Damage (PD)

Liability for damage to someone else's property—or for the loss of use of that property

Property Exposure

Possibility of losses that involve damage to the insured party's property—or the loss of use of that property.

Protective Safeguards Endorsement

An endorsement that provides a premium credit for having a protective system.

example: a building sprinkler system

CAUTION: If a system is deactivated without meeting certain reporting conditions, coverage may be voided.

example: building sprinkler system deactivated and fire occurs. Damage would not be covered.

Ratable Limit

The limit used to determine the premium for a guaranteed replacement cost for buildings.

Real Property	<p>Land and whatever is erected or growing on it, or affixed to it.</p> <p><i>examples:</i> trees and buildings</p>
Replacement Cost	<p>The amount of money it would cost to replace the property at today's prices.</p>
Retroactive Date	<p>A date set in the past by a claims-made policy to limit the policy's coverage of past events.</p>
Self-Retained Limit	<p>In an umbrella liability policy, the self-retained limit operates like a deductible if no underlying insurance applies.</p>
Special Form	<p>In commercial property insurance, the insuring agreement that covers every accidental cause of loss except those explicitly excluded.</p> <p>Special form is more inclusive than basic form and broad form.</p>
Standard Mortgage Clause	<p>A standard clause which applies if a mortgage is attached to a unit.</p> <p>Enables the carrier to make payments to the mortgage holder and to send notices to the lender (such as a termination of coverage notice).</p>
Sublimit	<p>Usually a fixed lower limit for a certain type of property no matter how high the limit of property coverage is.</p> <p><i>example:</i> Coverage for exterior signs is no more than \$500.</p>
Superseded Suretyship	<p>A provision that a newly-issued policy covering employee dishonesty will respond to a loss committed during a previous policy term—even though the current policy may not be a renewal.</p>

	Often applies to theft that occurs over a period of time.
Umbrella Liability Coverage	Insurance that provides both additional and broader coverages beyond the limits of the association's commercial general liability and other liability coverages.
Underlying Limits or Requirements	The minimum amounts which so-called primary or underlying liability policies must provide as specified by the umbrella policy in order for it to pick up where the underlying policies end.
Unit Owner Certificate	Statement provided to a unit owner indicating that the unit is covered by a master policy. Proof of insurance coverage for unit mortgage lenders.
Valuation	The estimated worth or price of something.
Vehicle Coverage	Insurance coverage for association-owned vehicles that must be licensed for highway use is called commercial automobile coverage. Insurance coverage for legal claims arising out of the use of vehicles that are not owned by the CA, but are used while acting on its behalf, is called hired and nonowned automobile liability insurance.
Waiver of Rights of Recovery	Formerly known as waiver of subrogation. Carrier waives its contractual right to recover a claim payment from certain parties that may be responsible for a loss. The special condominium endorsement routinely extends this waiver to unit owners.
Workers' Compensation, including Employer's Liability	Insurance coverage which pays for the medical bills, lost wages, and certain other benefits due injured employees.

State laws usually mandate this type of coverage.

Employer's liability coverage protects employers from suits brought on behalf of injured employees to recover damages separate and distinct from claims for workers' compensation benefits.

Wrongful Acts

Includes negligent acts, omissions or breaches of duty or errors relating to the operation of the community association.

Reading #2: Insurance Basics for Community Associations

By Nancy K. Cannan, CIRMS, Community Association Underwriters of America, Inc.

ASSESSING THE RISK

The analysis of a community insurance program will include a review of both the general and specific risks of the association.

- 1. It is necessary to review the association's activities, services, programs, and premises.**
 - a. Amenities — swimming pools, lakes, golf courses, piers and docks, and other amenities will need specific consideration.
 - b. Services — valet parking, an in unit maintenance service, a shuttle bus and other services require attention.
 - c. Programs — swim teams, exercise classes, book clubs, daycare, and bridge clubs are examples.
 - d. Premises — common area facilities including such items s as lobbies, hallways, walkways, and parking areas.

- 2. Integration of effective loss control techniques with the association's insurance program are essential.**
 - a. Goal is to minimize the property, liability, and personnel related losses.
 - b. Engineering and physical approaches are effective in protecting property.
 - (1) Property inspections can identify hazards which can be remedied, minimized, or prevented.
 - (2) Regularly scheduled maintenance inspections including smoke detectors, fire extinguishers, fire alarm systems, fireplaces and chimneys, sprinkler systems, generators and boilers can prevent losses.
 - (3) Additional periodic maintenance inspections could include washing machine hoses and hot water heaters, checking fireplaces and cleaning chimneys, routine maintenance of sewer lines, dryer vents, and roofs.

- c. Human behavior and motivational approaches are best in protecting people.
 - (1) Techniques include:
 - (a) Review of drivers' motor vehicle records.
 - (b) Employee training.
 - (c) Initiation of a safety committee.
 - (2) Involvement of staff and residents on an ongoing basis are necessary.
- d. To establish a successful loss control program the association should:
 - (1) Identify the potential losses and hazards of the association.
 - (2) Select best available loss control techniques.
 - (3) Implement the techniques.
 - (4) Monitor the techniques which have been implemented and make necessary modifications.

3. A disaster management plan is an important part of an association's loss control and risk management program.

4. Management of insurance claims can result in significant savings for the association. The claims dollars paid out which will effect an association's insurance coverage program and premium levels can be controlled through an effective claims management program. A claims management program would include:

- a. Established procedures for claims handling.
- b. Careful documentation of any event or incident.
- c. Remember there is a higher degree of care required and a need for timely reporting for third party claims.

LEGAL AND LENDER REQUIREMENTS

1. Know what state statutes require.

- a. Some states, such as Maryland, require that property coverage for buildings be in accordance with the developer's original specifications.

2. Review your association document requirements.

- a. Check to see if there are specific requirements for items like liability limits, equipment and machinery coverage, and fidelity bonds.
- b. Failure to meet with document requirements could be seen as a breach of fiduciary responsibility by the board of directors which is not covered by directors and officers liability coverage.

3. Be familiar with guidelines of lenders such as FNMA.

- a. Specific guidelines include those for property, fidelity bond, or employee dishonesty and flood coverages.

4. Use good business judgment.

- a. A good business decision is not based upon cost alone.
- b. The process of choosing the association's insurance program should include selection of qualified insurance agents that understand the intricacies of insuring community associations.
- c. All insurance policies are not equal and one cannot assume that coverage provided by one insurance company is the same as that provided by another.
- d. Spend the time necessary to make a careful evaluation of coverage versus premium expense.

MASTER PACKAGE POLICY

A master package policy will include at least two lines of coverage, most common of which are the property and liability coverage. The master package policy may also include other lines of coverage such as employee dishonesty, directors and officers liability, and equipment and machinery.

PROPERTY COVERAGE

The property coverage on a master package policy provides primary coverage which responds before any other policy. The coverage afforded by a unit owner policy is in excess of the association's policy.

1. Three Basic Property Coverage Forms

a. *Bare walls*

- (1) Coverage for common elements.
- (2) Coverage for limited common elements.
- (3) Excludes property within the unit such as interior walls and partitions, permanently installed appliances and fixtures, and finishes or covering of walls, floors and ceilings.

b. *Single Entity*

- (1) Coverage for common elements.
- (2) Coverage for limited common elements.
- (3) Property included in units which were initially installed in accordance with the association's original plans and specifications or a replacement of like kind and quality.

c. *All In*

- (1) Coverage for common elements.
- (2) Coverage for limited common elements.
- (3) Property included in units which were initially installed in accordance with the association's original plans and specifications or a replacement of like kind and quality.
- (4) Improvements and betterments made at the expense of the unit owner.

(a) Coverage may be provided with a specific limit per unit, i.e. \$5,000, \$15,000, \$25,000.

(b) Coverage may be provided on a blanket basis for all units.

2. Property Covered

- a. Association should survey and identify property which is to be covered by insurance.
- b. *Buildings* could include: residences, club houses, meeting centers, boat houses, carports, garages, sewage treatment facilities, or heating and air-conditioning plants.
- c. The *building definition* could also include: foundations, pipes, wires, conduits, utilities, heating, ventilating and cooling systems, sprinkler, fire protection and security systems, permanently installed building machinery and equipment, balconies, porches, decks and patios.
- d. *Structures* could include: arbors, awnings or canopies, bridges, bulkheads, cabanas, courts for racquet sports, flagpoles, fences, walkways, roadways, fountains, gatehouses, gazebos, piers, docks and wharves, pump houses, recreation fixtures, retaining walls, swimming pools and statues.
- e. *Other property* could include: antennas and satellite dishes, electronic data processing equipment and software, fine arts, indoor and outdoor furnishings, glass, valuable papers and records, accounts receivable, money and securities, personal effects, property of others, property off premises, signs, and trees, plants and shrubs.

3. Property Not Covered

- a. Some property which may not be covered includes: bridges, roadways, walks, patios or other paved surfaces, bulkheads, pilings, piers, wharves, docks, underground flues, pipes or drains, retaining walls that are not part of a building, and the cost of excavations, grading, backfilling or filling.
- b. Property covered on a limited basis may include: debris removal, newly acquired or constructed property, fire department service charges, pollutant clean up and removal, outdoor property, personal effects and property of others and property off-premises.

4. Causes of Loss Covered (Perils)

- a. **Special Form** — This coverage form was previously known as an “all risk” form and provides protection for all perils except those specifically excluded.
- (1) Standard perils excluded: flood, earthquake, building ordinance, war and military action, nuclear reaction and material factors such as wear and tear, rust, corrosion, deterioration, hidden or latent defects, settling, cracking, bulging, shrinking or expanding, sewer backup, artificially generated electrical current and mysterious disappearance for property of others.
- (2) The building ordinance, flood, earthquake and some other exclusions may be removed for an additional premium or coverage for these perils may be available from specialty insurance carriers.
- b. **Broad Form** — This named peril form provides coverage for: fire, lightning, wind, civil commotion, smoke, hail, vehicle, explosion, riot, vandalism, sprinkler leakage, sinkhole collapse and volcanic action, falling objects, weight of ice, sleet, snow, accidental discharge of water, collapse of a building and glass breakage of \$100 per plate / \$500 per occurrence.
- c. **Basic Form** — Name peril form is the most limited of the three coverage forms and provides coverage for: fire, lightning, wind, civil commotion, smoke, hail, vehicle, explosion, riot, vandalism, sprinkler leakage, sinkhole collapse and volcanic action.

5. What is paid in the event of a loss?

- a. Buildings, community personal property signs, fences and other association property may be valued on a Guaranteed Replacement Cost, Replacement Cost, or Actual Cash Value basis.
- (1) **Guaranteed Replacement Cost** — Allows for replacement cost with no limit. The coverage form will not state a specific property limit and will allow recovery of a loss to be whatever the replacement cost is at that time. Be sure to learn whether there are limitations for certain types of property such as appliances, floor coverings, fences and swimming pools.
- (2) **Replacement Cost** — Allows for recovery of a loss on the basis of actual replacement without regard for depreciation. Property values are based on new materials for old.
- (a) The policy will not pay more than the limited stated.

(b) Some policy forms may depreciate items including appliances and carpeting in the loss adjustment process.

(3) *Actual Cash Value* — Allows for the cost of new materials at the time of the loss less depreciation for wear and tear, use, and obsolescence.

- b. *Coinsurance* — Traditionally property coverage is written with a coinsurance clause in which the association participates in the event of a loss. When a coinsurance clause applies, the property value may be reviewed at the time of the loss to determine if coverage is written to value. If the property is underinsured, the insurance company will activate the coinsurance clause and the loss will be paid in the same proportion that the association carried insurance to value.
- c. *Agreed Amount or Agreed Value Coverage* waives any coinsurance clause in the insurance contract and eliminates the possibility of a coinsurance penalty if property is not insured to value at the time of loss. Note that some policies have no coinsurance clause and are automatically written on an agreed value basis.
- d. *Waiver of Subrogation or Transfer of Rights of Recovery* — The association's insurance carrier gives up the right to recover the money paid for a loss caused by a negligent unit owner. A waiver of subrogation clause is normally required by the association's declaration or bylaws.

6. **Property Coverage** on a Specific *Limit* or *Blanket Coverage* basis.

Coverage for buildings, structures, and contents may be written with a specific limit per building or on a blanket coverage basis.

- a. Coverage with a specific limit per building may be more limiting and less advantageous to the association than blanket coverage.
- b. *Blanket Coverage* — Enables a number of objects of insurance (buildings and/or contents) to be grouped together and insured for a single amount. Blanket coverage is better than specific coverage which requires specific limits for each building or location.

7. **Property Limitations**

- a. Any unique property owned by the association and the structures and other property items listed below will probably require specific coverage limits. Property such as fine arts, tools, and equipment are examples of property which may require special attention. A survey of the association's property to learn the scope of coverage needed is essential.

- b. Some insurance company forms exclude coverage for items like underground flues, pipes, drains, foundations, retaining walls, paved surfaces, bridges, and piers.
- c. The coverage provided for glass and signs may be limited to a certain dollar limit.
- d. Some property may be limited to certain perils such as coverage for trees, plants, and shrubs.

8. Building Ordinance Coverage is a standard exclusion in Special Form and Named Peril policies. The coverage should be included in an association's program and is usually added to the package policy by endorsement. Three coverage components comprise building ordinance:

- a. *Contingent Liability from Operation of Building Laws* — To understand this coverage, one must recall that the special form, replacement cost policy will repair or replace those items damaged by the peril of fire, wind, etc. However, if a regulatory authority condemns a whole building rather than allowing the repair or replacement of the damaged portion of the building, the total building is lost. Contingent liability coverage is needed to rebuild the undamaged portion of the building while the standard policy form will rebuild the damaged portion of the building.
- b. *Demolition Costs* — When the Contingent Liability clause becomes operative, the undamaged portion of the building must be razed before it can be rebuilt. Demolition cost coverage affords this protection.
- c. *Increased Cost of Construction* — As a property ages, it will become subject to updated building codes. In the event of a loss, reconstruction may be required to meet current codes. For example, a sprinkler system in a building or disabled facilities in a restroom may be required for rebuilding. Other building code changes could include fire doors, upgraded wiring, different windows or changes in ductwork.

9. Deductibles — A deductible will apply to the property insured under the association's policy. The deductible enjoins the association's participation in a loss. It may encourage the association to practice preventative maintenance and discourages small claims which can be handled as maintenance issues.

- a. The deductible could be on an occurrence basis and apply to buildings, structures, and other property on a combined basis.
- b. The deductible could apply separately to each building or unit.
- c. The deductible could apply separately to buildings and community

- personal property.
- d. Some covered property, like signs or glass, may have a deductible which is different than the standard policy deductible for property.
 - e. A split deductible may be used to separate perils like water damage from other covered perils.
 - f. Unless the association's declaration or bylaws specify how the insurance policy deductible should be handled, the association must adopt a policy which decides how the deductible will be handled. Whether the association or homeowner will be responsible for the deductible and what circumstances must be established and consistently followed.

CONSEQUENTIAL PROPERTY COVERAGE

Associations often do not recognize their exposure to a potential loss of income in the event of a covered cause of loss. An association's loss of income exposure could take several forms which are outlined below.

- 1. Loss of Income** — Provides coverage to replace the lost income during the period when damage to the premises or other property prevent this income from being earned. For example, the association has a loss of maintenance fees when a unit is damaged by fire. A homeowner experiences financial difficulty while he is unable to live in the unit and fails to pay his monthly maintenance fees. Subsequently, the association incurs a loss of income.

Additional examples:

- a. Loss of rental income during the period of restoration from a unit owned by an association which suffers a substantial fire loss.
 - b. Loss of income when an association's clubhouse is damaged by a windstorm which rips off the roof the day prior to an annual event in which the association earns rental income.
 - c. Loss of income from garage spaces or laundry facilities.
- 2. Extra Expense** — Provides coverage for the additional expenses needed to continue the operation of the association following an insured loss. The expenses of a temporary office, phone lines, and equipment rental would be extra expenses that might be incurred by an association.

PRIMARY LIABILITY COVERAGE

Liability coverage insures against third party claims arising from alleged bodily injury or property damage to members of the public. The insurance company has the duty to defend the association against any claim that alleges injury or seeks damages no matter whether the association is negligent.

1. A **comprehensive general liability** form is preferred as it covers all operations of the association and is not restricted to the association's premises.
2. **Coverage on the comprehensive general liability policy should include:**
 - a. *Host Liquor Liability* — Provides coverage for liability that may arise if the association sponsors events where alcoholic beverages are consumed or served. If the association operates a restaurant or snack bar with a liquor license or is otherwise in the business of selling alcoholic beverages, host liquor liability is not adequate. In those situations, liquor liability is needed.
 - b. *Independent Contractors Liability* — *Protects the association from loss due to liability arising from operations of subcontractors.*
 - c. *Medical Payments* — Provides coverage for medical expenses of members of the public injured on the common property whether or not the association is liable. Coverage should also include unit owners injured on common property.
 - d. *Personal Injury* — Extends bodily injury to include false arrest, detention or imprisonment, malicious prosecution, libel, slander, defamation of character, invasion or privacy, wrongful eviction and wrongful entry. Some forms may also include coverage for humiliation and discrimination.
 - e. *Property Damage Legal Liability* — Provides coverage for the association for property of others in the association's care, custody, or control at the time of the loss. Some forms limit coverage to the peril of fire and/or water only.
 - f. *Additional coverages* which could be included are: advertising liability, additional insureds, contractual liability, garagekeepers legal liability, products and completed operations, extended bodily injury, and incidental medical malpractice.

3. **Policy conditions** to be included on the primary liability coverage are:
- a. *Cross Liability* — Provides protection if an owner or member of the association sues the association for bodily injury damages occurring on common areas because of negligence by either a unit owner or the association.
 - b. *No Control Clause* — Actions of a unit owner or resident over which the association has no control will not prejudice the insurance coverage provided to the association.
 - c. *Severability of Interest* — Precludes the insurance company from denying liability because of negligent acts of the association or a unit owner.
4. **Liability Limits**
- a. *Occurrence* — An occurrence means an accident that results in injury or damage neither expected nor intended from the standpoint of the insured.
 - b. *General Aggregate* — The general aggregate limit is the most the insurance company will pay for any and all liability occurrences or losses under the policy during any one policy year. It is important to remember that the general aggregate limits the coverage provided.

UMBRELLA POLICY

The umbrella liability policy provides coverage in *excess of general or primary liability and other coverage that could include*: automobile liability, employers' liability which is a component of workers' compensation coverage, and directors and officers liability. An umbrella policy becomes effective when a catastrophic claim occurs and the primary or underlying limits have been exhausted, or when a claim develops that is not covered by primary insurance but is covered by the umbrella policy.

1. Determine the breadth of the umbrella coverage form.

- a. The coverage may be a following form type and provide the same coverage as the primary liability policy once the underlying limits are exhausted.
- b. Or, the policy form may provide broader coverage than the primary policy. For example, the definitions of bodily injury and personal injury in some umbrella forms are broader than many general liability forms.

2. **Determine whether defense costs are provided in addition to policy limits** or if they are included in the policy limits.
3. **Establish whether there is a self insured retention** that applies to coverage not included on the underlying or primary policy. Many policies have a self insured retention of \$10,000 or \$25,000.

DIRECTORS AND OFFICERS LIABILITY

Directors and officers liability provides protection against claims alleging loss arising from mismanagement or wrongful acts. A wrongful act means any breach of duty, neglect, error, misstatement, misleading statement, omission, or other act done or wrongfully attempted by the association.

1. There are two basic types of directors and officers liability claims:

- a. *Money damage claims* — Coverage is provided for money damages and defense costs incurred due to a claim caused by a wrongful act made by the directors and officers or association.
- b. *Nonmoney damage claims* — Affords the cost of defense for an occurrence in which claimant wants to prevent or change a board action or decision, i.e., a special assessment of owners to fund a capital improvement. Examples of other nonmoney damage claims include enforcement of rules and regulations such as pets and parking, collections, and wrongful foreclosures.

2. Directors and officers liability can be written on a claims made or occurrence coverage form. Most insurers use a claims made coverage form. It should be noted that switching between claims made and occurrence forms can result in coverage gaps.

- a. *Claims Made Form* — Provides protection for claims made or presented to the insurance company while the policy is in force, without regard to when the event occurred. The coverage provided by a claims made form may be limited by a policy retroactive date. Some policies do not have a retroactive date so that coverage is provided for full prior acts.

(1) *Retroactive Date* — Date from which coverage will be available under the policy form. Any loss occurring prior to the retroactive date will not be covered.

(2) *Full Prior Acts* — Protection for losses that occurred before the policy inception on a claims made coverage form. Full prior acts coverage eliminates a retroactive date.

- b. *Occurrence Form* — Provides protection for claims which occur while the policy is in force.

3. Persons Insured — Should include:

- a. Association;
- b. Directors and officers, past and present, whether elected or appointed;
- c. Employees;
- d. Committee chairs and members; and
- e. Other association members acting at board direction.
- f. Protection for the association's property manager and real estate management company may be available, as well.

4. How does the policy pay?

- a. *Indemnity Contract* — Insurance company will indemnify the association for any costs for which the association becomes legally liable. The association is responsible for and paying legal counsel until indemnified by the insurance company. Indemnification may not occur until the claim is concluded.
- b. *Pay on Behalf of Contract* — Insurance company will handle the claim and pay any costs for which the association becomes legally liable including costs of the defense.
- c. *Defense Costs* — Determine whether defense costs are included in the policy limit or are paid in addition to the policy limit.
- d. *Retention* — Amount of claim payment for which the association is responsible. A retention is often a percentage, for example, 5% of the claim amount. The retention may be in addition to a policy deductible.

5. What is not covered?

The coverage provided by directors and officers liability forms varies greatly. The extent of coverage provided or not provided can be learned by reviewing policy exclusions and definitions. Those exclusions may include:

- a. Failure to procure or maintain adequate insurance.
- b. Nonmoney damages (the most common type of D&O claim today).

- c. Discrimination (some policy forms pay for cost of defense).
- d. Prior written notice arising from any circumstances for which coverage is afforded on another policy.
- e. Damages arising from personal profit or advantages gained by persons insured.
- f. Claims for bodily injury, property damage, personal injury, and advertising injury.
- g. Illegal acts are excluded.

EMPLOYEE DISHONESTY (FIDELITY BOND)

Employee dishonesty coverage indemnifies the association for loss of money, securities, or any other property due to acts of dishonesty committed by an employee acting alone or in collusion with other persons with the intent to cause the association to sustain a loss. Examples of dishonest acts include theft, larceny, embezzlement, and wrongful abstraction.

1. Who should be covered?

- a. The association's *employees*, only, unless the form is specifically broadened.
- b. *Directors and officers* of the association.
- c. *Employees of the property management firm* that handle association funds. Coverage may be added by including a Managing Agent endorsement on the policy.

(1) Note that some management agent endorsements name a specific management firm. If the association changes management companies, the insurance company must be advised in order to maintain coverage. A definition that includes employees of the associations management company without naming a specific firm is preferred.

(2) *The association should not rely upon the management agent's employee dishonesty coverage or fidelity bond to provide this coverage.*

- (a) The management company's bond usually covers only the money and property of the management company and excludes coverage for the funds of any association in its management portfolio.

- (b) The limit of the management company's coverage or bond will probably not cover the amount of all the funds handled for the associations managed.
- (c) The principals of the management company will be excluded from coverage. Often, the principals of the firm sign the checks and have the most access to association funds.
- (d) Association documents and/or FNMA guidelines may specifically require that coverage be broadened to include property management company employees.

2. How to determine the coverage limit.

- a. The association's declaration or bylaws may have a specific requirement for the employee dishonesty limit.
- b. FNMA requirements may need to be met so that loans can be made on units in the community. Current FNMA requirements include a limit of at least three months association fees plus reserves.

ADDITIONAL COVERAGE

Additional policies or coverage which the association's exposures may require or desire include workers' compensation, employee practices liability, equipment and machinery, automobile liability, employee benefits liability, and crime coverages including depositors forgery and computer fraud. The basics of some of these coverages are outlined below.

NOTE: *The need for specific additional coverages may vary from one association to another and from one area of the U.S. to another.*

WORKERS' COMPENSATION

Workers' compensation insures against claims for work related injuries or diseases suffered by employees that are compensable by statute and/or are imposed by law as damages. Coverage is provided for payment of medical expenses and reimbursement of lost wages.

Coverage should be considered even if there are no regular employees. Protection may be needed if the association employs casual labor or if the association hires an independent contractor who has no insurance coverage. In addition, coverage may be needed for board members and volunteers. Coverage should include a voluntary compensation endorsement for these exposures.

EQUIPMENT AND MACHINERY

Equipment and machinery coverage provides coverage for exposures that are normally excluded in the property coverage form.

1. **Boilers, pressure vessels, mechanical equipment including compressors, pumps, fans, blowers, engines, turbines and wheels, elevators, and electrical equipment can be covered for mechanical breakdown perils.**

- a. Most equipment and machinery forms will provide coverage for individual heating and air-conditioning units, as well.
- b. Loss of income and extra expenses incurred because of a mechanical breakdown can also be covered.

2. **Common terminology necessary to understand equipment and machinery coverage include:**

- a. **Accident** — A sudden accidental breakdown of the object or part that manifests itself by physical damage and requires repair or replacement of the object or part.
- b. **Repair or Replacement** — Reimburses the association for the amount actually expended to repair or replace damaged property. Payment is normally made for the lowest of the cost either to repair or replace the object or part.
- c. **Extra Expenses** — Expenses incurred to continue operations after an insured accident; i.e., rental equipment.
- d. **Expediting Expenses** — Expenses incurred to get the association back in operation in the shortest time possible; i.e., air freight fees.

- e. **Joint Loss Agreement** — Provides prompt payment of a claim for the association when the master package and machinery and equipment policies must both respond to the loss.

AUTOMOBILE

This coverage is needed for the operation of motor vehicles. A policy includes liability coverage for protection against third party claims arising from alleged bodily injury or property damage to members of the public. Coverage may also be provided for medical payments, collision, comprehensive perils, and non-owned and hired autos.

1. If the association has no owned automobiles, non-owned and hired automobile coverage should still be secured. The coverages are described below:

- a. *Non-owned Automobile* — Provides protection against the exposure of the association from liability for operation of autos that it does not own. For example, a claim could be made against the association when an employee is involved in an auto accident while on association business.
- b. *Hired Automobile* — Protects the association from liability for operation of automobiles that it hires, rents, leases, or borrows.

EMPLOYEE BENEFITS LIABILITY

Provides protection for errors and omissions which may occur in the administration of the association's employee benefits program. The coverage will respond, for example, when in the event of an administrative error any employee is not added to the group health policy and the employee or covered family member suffers a serious illness or accident.

1. Employee benefit programs could include life insurance, medical, or dental insurance plans.
2. Coverage is usually written on a Claims Made coverage form and is subject to a retroactive date.
3. Coverage limits will normally include an Occurrence Limit and an Aggregate Limit.
4. Coverage may be subject to a deductible.
5. Coverage may be provided on a separate policy or as an endorsement to the association master policy.

EMPLOYEE PRACTICES LIABILITY

Provides protection for the association for claims resulting from wrongful employment practices.

1. Wrongful employment practices include three basic sources of employment related events:

- (a) Wrongful termination, refusal to hire, failure to promote, constructive discharge.
- (b) Discrimination including race, color, religion, ethnic origin, disability / handicap, sex, gender, age, sexual preference, and physical appearance.
- (c) Sexual harassment including hostile environment and insensitivity or over sensitivity issues.

2. Employment Practices Liability (EPL) policy forms may include:

- (a) Claims made coverage form.
- (b) Retroactive date and a deductible.
- (c) Coverage for the entity or organization as well as directors, officers, trustees, volunteers, employees, and committee members.
- (d) Defense costs — check to see if defense costs are outside the limit of liability.

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Reading #3: Shopping for Insurance: How to get the best out of the insurance marketplace

By Guy L. Labelle

Today's marketplace offers community associations a wide array of insurance alternatives. However, the very abundance of available options can easily turn the selection process into an overwhelming and complex task.

The bid process is a means of sorting through the alternatives and determining where to get the most appropriate coverage and service at the lowest cost. However, some understanding of the process is essential if the most qualified representative and best program are to be selected. The following general guidelines may help make the best choice.

In order to get the best of the available market, associations need to continue their involvement in the bid process long after the selection of who is going to bid has been made.

All agents are not created equal even when representing the same companies. The extent to which a particular agent will receive the best coverages at the lowest price from a specific company depends on underwriter confidence, credibility, experience, specialization, profitability, personality, rapport, honesty, thoroughness, and integrity.

One or two specific underwriters are responsible for the approval of coverages and pricing that your agent has requested. The quality of your agent's relationship with a company underwriter often determines the success in getting you the best program from that particular company.

Underwriters will often provide the most favorable bids to those agents that have submitted to them a large premium volume of profitable business. This is especially true if they know the agent and/or agency specializes in a particular area. Ask your bidders if they are a "preferred" agent with the companies they are submitting your quotations to. How many associations have they put with this particular company? Does this insurance carrier consider them a profitable agency? How long have they represented this particular company?

Another prime indicator of expertise is how well the prospective agents have prepared your application to the company. It is appropriate for you to ask to see it and sign your approval. (Some companies require this.)

Basic components of most effective applications include complete application, premium rating, narrative summary, accurate loss history (three to five

years), copy of association documents, plat maps, and photos of the premises.

Naturally, your agent depends on your cooperation to gather this necessary information. Providing each bidding agent with a specification sheet can help assure you of getting an “apples-to-apples” comparison. Any deviation from these “spec sheets” should accompany the bid and be explained in writing.

Pitfalls of Indiscriminate Multi-Brokering

Directors and officers often assume that the more agents they have vying for their business the better. They believe open competition will assure them of getting the best of the available market. However, asking too many agents to bid an account merely complicates the process without contributing to it. Each insurance company will issue one bid on a first come, first-serve basis. If company underwriters see additional submissions by several agents they may well decline to bid or not give it the best consideration. Underwriters feel that the business is “on the street” with no particular agent having a controlling relationship with your association. Company personnel normally do not like to bid when they suspect price is the only issue and numerous companies are bidding. They view this as a waste of their time and would rather work on more promising accounts.

Indiscriminate brokering becomes increasingly disadvantageous if done on each renewal. In time both local agents and company personnel know which associations are engaging in this practice and will refuse to seriously pursue these accounts. This is especially true in a hard market of high prices and lower coverage availability. This is a time when associations will need the very best agents and companies to assist them. Agents and companies appreciate loyalty, stability, and sincerity in the bidding process. Again, careful selection of your bidding agents is your best security for taking advantage of the marketplace.

The Presentation-Selection of Insurance Agent and Company

The presentation of each bid should be conducted at a board meeting or a special insurance presentation meeting. A specific session will allow an appropriate amount of time and enable the board to concentrate on the presentations without concern for other items on a lengthy agenda.

Set a specific time limit for each presentation—normally 30 to 40 minutes, including questions and answers. It is professional courtesy to have only one agent in the room at a time.

At the conclusion of the bidding, the board should discuss the merits of each proposal and make a selection at that time. This decision will be most effective and appropriate while all concerned members are present and the proposals are fresh in their minds.

Finally, notify all the agents in writing of the decision as soon as possible. This is appreciated even by agents who are not selected. You may want to do business with one of them in the future and this action leaves a favorable impression.

By using the above method of bidding your association's insurance, you will be in a better position to assure a quality insurance program, save time, and get the best of the available insurance marketplace.

Guy L. Labelle, CPCU, CIC, ARM, CLU is president of The Alliance Insurance Group in Phoenix, Arizona, and is a member of CAI.

Dos and Don'ts in Selecting an Insurance Agent

DO ask other associations, managers, attorneys, and local CAI members to refer potential candidates. Inquire among several sources to help eliminate the bias of any one of the above interest groups. If the same agent is referred by several different sources, that is a good sign you are on the right track.

DO ask questions about experience. How long has he or she been an agent in your area? Which agencies or insurance firms have they worked for?

Specialization. How much of the agent's experience has been in servicing the insurance needs of community associations (condos, townhouses, and PUDs)? How many and over what period of time?

Reputation and References. Contact some of the associations the agent has currently insured and ask about their experience with this particular agent, not just the agency or company he or she represents.

Company Representation. Which companies is the agent appointed to represent? Have you heard of them? Do they specialize in homeowners association insurance programs? For how long? Do they have an "A" rating or better with Best's financial survey? This last question is important since this rating is a prime industry indicator of a company's financial stability and management expertise. If at all possible, avoid companies with a "B" rating or lower.

Education. Does the agent have a CPCU, GIG, ARM, or other significant designation? Is the agent working towards one of these? This can be viewed as a general indication of the agent's commitment to ongoing education and professionalism.

Community Involvement. Is the agent active in CAI or other organizations specifically concerned with the needs of associations?

Honesty. Has the agent made an inspection of your association premises and provided both positive and negative points on the chances of you receiving the best bid? An objective survey of the premises, preferably with a board member, can give you an indication of how insurance companies will view your application. Some correction or enhancements may be made prior to bidding to improve your chances for lower prices and better coverage.

DO choose a limited (two or three) number of agents to represent you to the companies for bids and have the agent identify which company(s) he or she plans to approach with your bid. Do not have more than one agent approach the same company.

DO sign an "Authorization to Quote" letter to a specific company for the designated agent. Do not sign blank authorization letters that are not specific as to agent or company. "Open" authorization letters are often used by agents to "flood" the market with your application even to companies you did not authorize.

DO begin selection of an agent or broker 90 to 120 days prior to renewal. This is very important especially if you have had difficulty securing proper coverage in the past or are a large and complex association. State what date you want bids completed and submitted to the board.

DO review written bids prior to a formal presentation. This provides you with the opportunity to formulate questions before feeling pressured to buy in a formal presentation setting.

DO notify board members, committee members, and the insurance agent well in advance of the date, time, and place for the presentation and invite your manager and attorney to attend them.

Most managers are not licensed insurance agents and should not be asked specific insurance advice. Often, in an effort to comply with their clients' requests, managers will provide or attempt to provide such information. This can lead to errors and omissions suits against the manager, especially if the advice is incorrect.

It is appropriate to enlist your manager's help in providing a list of recommended agents he or she found to be knowledgeable and professional as well as setting up appointments, collecting the bids, and keeping copies of your insurance records. Your manager is most helpful acting as a general liaison between the association and prospective agents in the bidding process.

Reading #4: Selecting an Insurance Agent for Your Association

By *Barbara D. Wick*

For a community association board, deciding which insurance coverages to carry is a critical and often difficult responsibility.

For this reason the wise association also puts consideration and care into selecting the agent who will design and handle that insurance program. Establishing a successful, long-term relationship with a good insurance agency can contribute materially to the stability and security of the association and to the success of its asset protection plan.

Like doctors, lawyers and other professionals, insurance agents are available with a broad range of specialties, interests and areas of expertise. As a board reviews its insurance situation, it should also examine an agent's ability to serve the association's immediate and future needs, looking closely at the person as well as the product.

Fortunately, agents who can best serve community associations often share a set of qualifications which demonstrate their knowledge, resources and enthusiasm for solving the specific problems which such associations are likely to encounter. This makes it possible to devise a test which, when completed, will give the board a comprehensive idea of how well a particular agent can serve an association.

A well-qualified agent will receive a "yes" answer to a majority of these questions.

Agent Evaluation Test

1. Has the agent worked with a number of community associations in the past? Are the associations with which the agent has dealt similar in type, character and location to yours? Over what period of time did or do the relationships exist?

You may be tempted to try out a "generalist" agency which is eager to enter the association field. Indeed, sometimes such experiments inspire energy and fresh thinking which can be of real value to the relationship. Practically speaking, however, an agent's inexperience in the association field could lead to costly mistakes. Select an agent with experience serving associations similar to yours.

2. Does the agent demonstrate an understanding of your needs through an in- depth review of:

- a) the association documents
- b) the association layout
- c) the value of the property
- d) the full-replacement cost issue
- e) the association's operation and organization
- f) the construction, size and special characteristics of your building(s)
- g) previous insurance history and problems?

In your role as a fiduciary, you must have the assistance of an expert who properly understands your situation and needs and who can respond to them.

3. Is the agent completely aware of the state community association laws as well as their ramifications? Is he familiar with local ordinances and building codes? Is he able to apply these legal mandates to this particular association?

Failure to have and to use such information may lead to uninsured losses, particularly in such areas as: liquor laws, rebuilding to code, demolition requirements, and suits for wrongful actions by the board. Preparing a test in this area for prospective agents, incidentally, is an excellent opportunity for board members to update their own knowledge of this important information.

4. Is the agent familiar with the many coverages available to the community association? Can the agent offer useful advice rather than simply selling whatever the board will buy? Does the agent make complete recommendations for new coverages needed and for areas in which premiums can be saved?

Your agent must be able to highlight the major areas of the association's responsibility and the key pitfalls in each. The agent should be able to guide the board in defining the kinds of coverage the association needs and should be able to justify all recommendations.

5. Has the agent demonstrated the ability to explain, in plain English, the coverages being offered as well as the exclusions and limitations of each? Can the agent explain the reason for each coverage?

This demonstrates both the agent's understanding of his materials and his ability to communicate effectively with the board. It also enables the board to understand what is being provided and to feel confident that it is meeting its responsibility to the association.

6. Is the agent able, when applicable, to compare and advise the board on the appropriateness and cost effectiveness of master (or blanket) versus separate contracts, and apply these choices to your particular association?

Again, the agent should be expected to understand the diverse products and formats available and to assist the board in selecting the program which will protect the association's assets as cost effectively as possible. The wisest course of action in any situation will depend on a number of factors, including the document language, the requirements of the lenders involved, and psychology of the particular board and association.

7. Can the agent guide or assist the board in verifying the property values for replacement and/or reproduction costs?

Such a verification can be made through an appraisal service or company survey or, alternatively, through the technique of "justified trending from previous information deemed accurate." The agent should be familiar with accepted verification techniques and help you avoid fallacious ones, such as relying on market value or developer cost. The agent should help you understand such concepts as "insurance to value" and "full replacement cost coverage."

8. Has the agent complied in every way with the specifications provided, including noting any deviations, suggestions, or comments in separate section? Has the compliance occurred in a timely fashion?

The agent's ability to address the particular requests made and to critique them, when necessary, reflects the agent's ability to address each association as an individual entity. Responding in a timely fashion may give you some idea of the agent's work habits and predict how promptly he will address the association's needs during times of loss, changes in coverage, and so forth.

9. Does the agent offer specimen contracts as well as a detailed comparison of the various policies available?

Anyone can, unfortunately, say or represent almost anything about a particular offering. A reputable agent will be most willing to have his statements checked and verified.

Specific comparisons of policies available will help the board select a program and will further demonstrate the agent's ability to work with the policies.

10. Is the relationship between the board and the agent completely objective and professional? Is the agent unbiased and willing to compare and evaluate programs fairly?

A board may often be tempted to use the services of a "friendly face"—a resident, perhaps, or an employee of the developer's bank, or a manager who is licensed as a broker. This practice can lead to an apparent and perhaps a real conflict of interest. This, in turn, can create a lack of confidence in the agent's judgment; and may impair the board's ability to

meet its fiduciary responsibilities.

11. Does the agent have a good record in handling claims and in providing service? Has the board checked this issue thoroughly?

Any association expects timely and thorough handling of its claims. Verification of the agency's abilities in this area is essential. Further, it can be critical to the board's satisfaction with its in-place program to have certificates of insurance issued to mortgage holders in a timely fashion, to have questions answered promptly, and to know that a responsive expert is only a telephone call away.

12. When a significant loss occurs, will this agent have the knowledge and rapport with the carrier and with the various factions of the association to administrate a fair and equitable settlement?

The agent's relationship with the carrier may significantly impact his ability to negotiate a proper settlement on behalf of the association. His ability to communicate with the unit owners as well as the board may be key to assisting the board in resolving the issues raised and to relieving the complex stresses generated by the fears which accompany a major loss.

13. Is the agent able to provide, in a timely manner, certificates of insurance to all unit owners, or other evidence of coverage as a lender may require? Failure to do so can only generate dissatisfaction for the residents. A good agent will respond to—and even anticipate—owners' needs.

14. Does the agent offer assistance with the board's responsibilities to the unit owner? For example, does he:

- a) provide a means (written, personal presentation, etc.) of making unit owners aware of where the association coverage stops and their responsibilities begin?
- b) offer an integrated unit-owner program which facilitates maximum coverage for the individual as well as the common elements?
- c) indicate a willingness to meet with the unit—owners?
- d) assist the board in clarifying policy issues, such as what property should be covered and how to value the building and units and who should be responsible for paying the deductible?

Such services are essential to a complete, well-rounded insurance program and should be sought by the board. The board should also recognize that the availability of such services can significantly improve the residents' perception of the board's performance and similarly, reduce the hassles when losses do occur.

15. Is the agent involved with organizations which are dedicated to the furthering and educating of community associations. Is he an

active as well as a dues-paying member? Does he contribute professional knowledge and skills to the industry? Such activities are evidence of the agent's involvement and commitment to the community association field.

16. Do the references of the agent and the agency check out? Have other associations and boards had successful experiences with the agent?

The value of positive answers to these questions is obvious.

17. Is there enough depth or back-up within the agency to assure continuity in case your representative leaves? If there is a catastrophic loss involving many properties is the agency equipped to handle many claims from many clients at one time?

Regrettably, a very small organization may be unable to assist you at your time of greatest need for insurance services. Some support personnel with comparable skills are essential, as are sufficient staff to handle on-going business demands while responding to a short-term crisis.

Summary

If an agent can give satisfactory responses to the questions outlined here, the board can be fairly confident of two things: that the agent is knowledgeable about insurance for community associations and that he or she appreciates the specific needs of your own association.

From your interviews, the board should also have been able to determine that the agent will indeed act in the best interests of the association, rather than simply be an order taker for the insurance company. The agent's willingness to advise the board—and to be held accountable to the board's reasonable expectations—is a key element in a successful long-term relationship.

Once an agent has been selected, the board should vest in the agent the same confidence which you place in all of your other professional counselors, such as your attorney and your accountant.

Naturally, in the course of its fiduciary duty, the board will from time to time want to review the performance of the agent. An annual review is a good idea, especially when it includes a constructive look at the association's insurance program as a whole. If you find that your agent has done a good job, by all means continue the relationship. If you uncover problems, an annual review should give you ample opportunity to correct them.

In any case, the board should consider undertaking a comprehensive review of the whole insurance issue every three or four years. Such an effort not only promotes good performance, it also serves to educate new board members and update incumbents.

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