

Risk Management

A community association's risk-management program protects association assets from the adverse effects of accidental loss. Developing a program requires five steps: identifying exposures to loss, examining alternatives to insurance (such as reserves) for covering losses, selecting the best techniques, implementing them and monitoring and improving the risk-management program.

A structured, logical risk-management program that is tailored to specific association needs is based on a written risk-management policy. This provides a framework for assessing responsibility, emphasizes the importance of risk management and shows how risk management fits in the association's operational structure. A written policy should establish goals and objectives, define duties and reporting relationships, coordinate treatment of exposures to loss, establish communication channels and provide for program continuity during personnel and board changes.

The risk-management process spots exposures to loss in four areas: property, liability, net income and personnel. Property loss results from natural perils (windstorm, hail, flood, disease); human perils (thefts, homicides, negligence, pollution); economic perils (strikes, new technology, market fluctuations), and technological perils (increased construction costs, Internet viruses, hackers).

Liability loss results when association reps breach a legally recognized duty or harm another. Income loss results either from a decrease in revenues and/or an increase in expenses. Personnel loss typically results from the death, disability, retirement, resignation or unemployment of association employees and key volunteers. These exposures often are regarded as employee benefit is-

suces that fall under workers' compensation and fidelity or crime exposures.

Purchasing commercial insurance, although very important, is only one part of that process. A risk-management program should always be integrated with a comprehensive insurance program.

Associations must understand insurance claims and develop a claims administration program not only to get timely, correct indemnity from their insurers, but also to understand the risks posed by their own associations, its members or employees.

Every insurance contract has its own claims filing requirements. Associations need to adhere to these requirements or the insurer may void coverage. If a property loss occurs, the association must take specific steps to report the claim, such as compiling inventory of damaged and undamaged property for the insurer. Liability claims are handled differently and present special difficulties. Each insurance contract varies, making it essential for boards to be familiar with their coverage.

A monitoring program is essential to determine whether or not the risk-management program is being implemented correctly. Risk management is a process, like financial or physical asset management. Change and adjustment are inevitable.

Risk management is a complicated process. Associations must submit claims and incident reports, check laws and statutes and hire trustworthy staff. Risk-management decisions can involve thousands of dollars, since the welfare of association personnel, property and assets often are at stake. Associations that take time to understand what risk management means and how to implement an appropriate program can ensure the well-being of their associations for years to come.