Introduction

Insurance is a necessary evil in our lives. We can't live with it and we can't live without it. When we move into a condominium, or any other community association, where our investment in our home and our lifestyle is intertwined with other unit owners, our insurance needs become more complex. Truth be told, all homeowners are fully insured, regardless of whether or not they buy insurance. How so? If an individual homeowner or association chooses not to buy insurance, that homeowner or association becomes their own insurer because they will be paying for the uninsured repairs out of their own pocket if any damage occurs. They are, in other words, self-insured.

Homeowner's Policy

Each and every homeowner should have his or her own policy. But there are specific issues that must be viewed in conjunction with the coverage carried by the association. Does the homeowner's policy pick up where the association left off, especially for improvements and betterments? Has the homeowner been told about loss assessment coverage, and how it works, and if he or she has purchased enough under the homeowner policy? The loss assessment coverage picks up when the associations assesses the homeowner for something that would have been covered under the association's policy, but for insufficient limits. What about extra living expenses after a loss?

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COMMUNITY ASSOCIATIONS

An Insurance Primer

WHAT YOU NEED TO KNOW:

Community Associations

Directors & Officers

The articles of incorporation are what transform a community of random homeowners into an association. Once an association is formed, it is a legal entity that, like a corporation, cannot run on its own. Accordingly, the association will have directors and officers to manage the association. These boards are made up of well-intentioned homeowners volunteering their time. But these are human beings, and human beings make mistakes. Even if they do not make mistakes, they are often challenged for the decisions they make. Virtually all associations have provisions to indemnify the directors and officers for their mistakes and in the event that they are challenged. But the association must decide whether they want to carry this insurance or whether they prefer to be self-insured. The D&O coverage is probably the most complicated, because the differences in coverage that are available between carriers can be substantial.

Other Insurance

Associations may need worker compensation coverage, earthquake, flood or windstorm, and automobile liability insurance depending on its particular exposures.

Property Coverage

Each association has common physical property that is owned by the members of the association. This property can be as simple as a fence around a single family homeowner association with some landscaping, or it can be as complex as a 40-story building with 200 or so individual condo units, an elevator, a basement recreational facility or pool, and a boiler with a large number of mechanical issues. Many issues arise from considerations of what limits are necessary, where the association's responsibility ends and unit owner's beings, determining replacement cost, and determining new ordinance coverage. If damaged, any item that is not covered in the master insurance policy will be self-insured by the association. Remember that self-insured means that the community will be paying for repairs through special assessments. But decisions about which coverage to purchase become very complex when associations contemplate very expensive coverage, such as earthquake coverage, windstorm coverage, or other coverage that is not standard in the policy.

Fidelity/Crime Coverage

Community associations are businesses, and maintain checking accounts, collect assessments, have reserve funds, and capital improvement funds. What happens if someone walks off with the money? Associations need Fidelity coverage, also known as Employment Dishonesty coverage. If the community association policy is prepared properly , its insurance coverage will include a crime component . The crime coverage comes into play when a non-employee steals from the association.

Liability Coverage

Associations have common liability exposure. Common areas are owned by the members, and they are managed at the direction of the association's own form of government (normally the board of directors, which in turn directs employees or a community manager). If someone is injured, the association will be responsible. How much coverage an association should carry is generally decided by the board of directors, with the guidance from property and insurance professionals. Liability coverage, in basic terms, defends and indemnifies as association in any action that seeks damages for bodily injury or property damage as a result of the association's negligence. One coverage that may not allegedly be standard and must be purchased is personal injury coverage, which protects the association against various claims for the standard listed offenses, such as defamation, invasion of right of privacy, wrongful eviction, malicious prosecution, or false imprisonment.

Umbrella Liability

Normally, the general liability policy provides $1,000,000 or $2,000,000 in coverage. Is this enough for the association? What if a child drowns in the community's swimming pool? What if the superintendent is fixing something on the roof of the complex and drops a piece of equipment, which falls off the roof and lands on 10 pedestrians below, killing three and rendering four quadriplegic? Moreover, does the umbrella policy being considered cover excess D&O employment liability?