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NEWS OF VALUE

INSURANCE PREMIUMS V. COST: WHEN LESS IS LESS

Community associations, like other businesses, want to get the most for their money. This is especially so with regard to insurance programs. It is not unusual for a board of directors to decide, based on price, that one program looks better than another.

What frequently happens is that an association will decide to go with a lower, more attractive premium, not realizing that many factors go into the bottom line of an insurance program. What might look like a “real deal” could seriously shortchange an association. Specific coverage areas beyond price should be considered for community associations.

Price v. Product

Price is certainly a factor to think about during the insurance selection process; however, the product offered by various insurance companies and agents can differ significantly. Coverages and services should be very carefully analyzed and compared. While omitting various coverages will save premium dollars, it might also result in substantially increased costs to the association for out-of-pocket expenses related to uncovered claims.

Areas of Confusion

Caution should be used in comparing policy limits when purchasing insurance for a community association. For example, sometimes a community association will interpret a larger Comprehensive General Liability limit as being preferable to a higher Umbrella Liability limit. This is a mistake because a true Umbrella Liability policy affords broader coverage than the underlying policies, making it more advantageous to increase the Umbrella limits, not the underlying limits. For this reason, it is essential to carefully review and evaluate coverage limits and special provisions with your insurance representative.

The financial integrity of the association could be jeopardized by inappropriate (or non-existent) property insurance coverage, to cite but one example. Coverage that protects against loss of condominium fees or rental income, wind-driven rain, back-up of sewers and drains, and building ordinance laws is frequently excluded from many policies. Such exclusions can be expensive lessons for the community association.

Intangible Factors

In an increasingly competitive and global economy, it is ironic that one of the biggest challenges for community associations remains the lack of market alternatives for insurance. A limited number of companies are writing community association insurance, and those that do are requiring a significant amount of information to underwrite multi-family residential exposures, especially for older buildings.

During a soft market (or buyer’s market—when insurance rates are low and coverage limits are high and readily available), associations are tempted to shop around for a better insurance rate, sometimes abandoning a company that has stood by them during hard market conditions. Falling prey to “low-ball” premiums during a soft market may not be in the best interest of the association. Lower premium dollars may not be enough to offset claim payments and reserves. This, in turn, could adversely impact future pricing stability, coverage availability, and insurability.

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Claims handling and loss control are important elements in any insurance program, and the support services offered by the insurance company should be fully investigated. An insurer's Best rating (www.ambest.com) should be considered an indicator of financial strength and stability. Associations should be familiar with such guides. Only by looking at the overall picture can an association prudently determine what its insurance program encompasses.

Common Coverage Omissions

Some typical omissions in less expensive policies include the following:

Property Coverage—Coverage for wind-driven rain, landscaping, earthquakes, floods, and back-up of sewers and drains, increased cost of construction, demolition, and contingent liability can present the association with a significant potential for out-of-pocket expense if not included.

General Liability Coverage—In this category, medical payments coverage and employee benefits liability are frequent omissions.

Comprehensive Equipment Coverage—Important coverage omissions to look for are water damage and extra expenses.

Directors and Officers Liability—Sometimes omitted from D&O coverage are non-money damages; discrimination, including employment situations; and coverage for appointed board and committee members.

Umbrella Liability Coverage—Umbrella liability insurance closes the gap between underlying limits of coverage and possible claims in excess of that coverage. The policy should extend over the underlying comprehensive general, automobile, employers, and D&O policies.

Workers' Compensation—Rate deviations and dividend programs offered by some insurance companies can save premium dollars.

Special Provisions—Any omission in this category is cause for concern because these provisions are frequently required by association recorded documents.

In Conclusion

Just because a company's proposal looks attractive from a premium standpoint does not necessarily indicate that all the coverages and special provisions you need are included. It is important to educate yourself and your association on the types of protection critical to maintaining a safe, financially sound association.

Should you have questions concerning these special provisions and omissions, be sure to check with your insurance representative. If you have any questions or need further information, please contact Steve Dickerson (703–205–8788 or Steve.Dickerson@usi.biz) or Theresa Melson (703–205–8753 or Theresa.Melson@usi.biz).

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