



## Underwriting Guidelines

In an increasing 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.

In this environment, it is more important than ever for community association board members and managers to provide positive, pro-active maintenance and repair information to the underwriter in order to present the association in the best possible light and to make the association more attractive to them from an exposure standpoint.

### Risk Assessment Plan First Step

Making sure that a community association will present a solid insurance case and continue to serve its resident well requires planning and perseverance, both by boards of directors and community association managers. A risk assessment plan will identify and analyze a community association's exposures. The risk assessment plan must take the following into account:

- state and local laws and regulations
- association declarations and bylaws
- federal government requirements (such as OSHA regulations) and
- lender requirements.

## Consider Property and Liability Exposures

Community associations have many property exposures. The largest consideration for associations is its real property, such as buildings, signs, pools, lakes, golf courses, piers, and docks. Services, such as valet parking, an in-unit maintenance service, or a shuttle bus, require attention, as do programs such as swim teams, exercise classes, book clubs, day care, and bridge clubs. Common area facilities including lobbies, hallways, walkways, and parking areas should be included in the risk assessment plan.

Liability exposures also need to be considered in a risk assessment plan. An example of a liability situation would be a third-party legal action against the association alleging negligence resulting in bodily injury or property damage.

## Develop a Maintenance Plan

Once the community association's risks have been assessed, the next step is to develop a maintenance plan for the physical aspects of the community. Insurance companies are looking for a comprehensive plan to deal with the exposures established in the risk assessment.

The goals of a maintenance plan are to avoid unscheduled service interruptions and to maximize the lifetime of the association's equipment. Just as people have their cars serviced at regular intervals, community buildings and components must be serviced on a regular basis.

## Reserve Study Important

Insurance carriers will want to see a written maintenance plan that covers all aspects of the community common elements and adequate reserves to keep up with the required maintenance and replacement of the building's major components. Emergencies do happen, though, so establishing a line of credit will allow an association to borrow on short notice, if necessary.

## Managing Risks and Controlling Losses Important

Risk management and loss control are serious considerations for any insurance company. Loss history is of great concern to an insurer, especially with large numbers of small losses. The community association that can show an insurer a serious effort at pinpointing potential risks and controlling exposures, such as by eliminating or transferring them or by increasing deductibles, makes a better insurance impression.

Now is an ideal time to voluntarily consider higher deductibles, not only to mitigate premium increases, but as an affirmative action to reduce claim activity and maintain continued insurability in the standard insurance marketplace.

## Aging Buildings Present Specific Issues

Aging buildings affect the ability of the community to obtain and retain quality insurance coverage at a competitive price. If a community association is more than 20 years old, insurance carriers will ask for proof of all major upgrades, such as roof replacements, HVAC and plumbing upgrades, and fire and safety improvements.

Older buildings that are not well-maintained and that lack current safety features, such as sprinkler systems, are especially an insurance challenge. Insurance companies look for community associations that are well maintained, well managed, and financially sound. Boards and managers of older buildings, then, must make sure that their buildings are maintained with the greatest possible care.

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## Professional Help Available

Many firms and individuals are available to help an association conduct a risk assessment plan, develop a comprehensive maintenance plan, and perform a reserve study. A professional consultant will know all local, state, and federal guidelines.

## Where Do I Go for More Information?

In times of uncertainty, community association board members and managers should carefully consider the advice of the insurance agent and/or company with which they work. The professional insurance agent can provide risk management advice to help plan for premium and/or deductible changes and suggest the best way to deal with current events. If you have any questions or need further information, please contact one of the following:



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