UNDERSTANDING INSURANCE FOR COMMUNITY ASSOCIATIONS

Michael Rome, JD ***Joe Dreher, Agent***
www.hoa-attorneys.com **www.dreherinsurance.org**

Insurance coverage can be one of the largest operating costs for an association. Although this type of expense does not result in tangible assets, it is indispensable to running an association. The primary purpose for insurance coverage is to protect homeowners from experiencing large special assessments related to catastrophic damage.

The governing documents will often require the association to purchase various types of insurance. In the case of condominiums, the Georgia Condominium Act requires that the association maintain coverage for all structures, excluding the unit owner's personal property and any improvements added to the unit by the owner. Further, the condominium association is not required to purchase flood insurance.

Five typical types of insurance are described below, but the association may also want to inquire about 'umbrella' coverage in order to combine some or all of them in one policy.

General Liability Coverage

The first is called liability coverage. Associations typically carry a minimum of one million dollars in protection, but there is no reason not to consider much higher limits of coverage. This is the typical 'slip & fall' protection. It would include such situations as someone injured at the pool; or even a car running into the entrance sign at night because the lighting was out. In addition, the association should always require proof of liability insurance coverage by their vendors (landscaping, pool, etc…), and if possible, have the association added as a named insured.

If the association allows non-members to use the amenities, such as in the case of swim or tennis teams, it is crucial that the insurance coverage includes the non-members. In this case, the board must contact their carrier to see if non-members are covered. Some policies automatically include this type of coverage, while others would require a special rider; or maybe a whole separate policy.

Casualty/ Property Damage

The second type of insurance is called casualty, but is commonly known as property damage. Examples include coverage for tornado, hail and fire damage. It is important to note that water damage not related to wind or hail would not be covered unless the association purchased flood insurance. Any of the policies for casualty or liability should include all of the common areas; even detention ponds, lakes, dams, and green areas. Also, any special conditions in the common areas should be brought to the attention of the insurance carrier. One example is a pool that includes a water slide. It is important that these types of conditions are specifically listed and covered.

Directors & Officers

Another commonly purchased policy is directors & officers coverage (*D&O*). This is used to defend and/or settle claims of negligence made against the board of directors and officers while acting in their official capacity. Without this type of protection very few homeowners would volunteer to serve on a board of directors. Unfortunately, many polices don't contain some of the most important areas of coverage. Here are some examples of what should be included: coverage for committee members, volunteers, and spouses of directors; claims by homeowners for slander and discrimination; and claims for non-monetary claims…such as challenges to elections, governing document provisions, or architectural review decisions. Another common area of dispute not included in some policies is breach of contract claims against the board by third-parties like landscapers, pool companies, management companies, etc…

The minimum limits carried by associations are generally mandated by the covenants and bylaws, but the board should consider purchasing even higher limits and an umbrella policy. but with the rise of suits, it would be best to maintain coverage of at least two million. It is also important for the board to make sure the association itself is a named insured within the D&O coverage. Very often a suit against the board will include the association as a defendant.

Fidelity

In today's economic climate, more associations are self-managed. This increases the chances that an unscrupulous board member could steal or embezzle association funds. To cover this type of loss, it will be necessary to purchase a Fidelity policy, or special rider, sometimes called "employee dishonesty". Even associations that are not self-managed should attempt to extend the coverage to the property management company.

Workers Compensation

As associations struggle with the recession, they often turn to utilizing volunteers for such things as landscaping and pool maintenance. If a board member or other volunteer is injured during an association 'work day', they will probably not be covered by the liability policy. This means the association should consider purchasing workers compensation insurance. Although this variety of workers compensation would not include any types of wages, it would help with covering personal injury to board members, committee members, and any other volunteers.