

Risk Management in a Changing

By John Manougjan and Robin Manougjan

Part I of this article was published in April 2001 issue of Quorum™, "Why Are My Premiums Going Up?" It described a changing insurance marketplace for community association insurance programs. This follow-up article is a review of what community associations must do in order to obtain the most favorable pricing available, as well as maintain the continuation of the broad coverages found in "soft market" insurance contracts.

As insurance carriers begin to either leave the marketplace altogether or increase premiums for the products and services they continue to offer, community associations are still able to negotiate competitive contracts by understanding at least one principle of the risk management process: risk control and loss mitigation.

The categories of risk for community associations include property, liability, personnel, and revenue loss. Most of what we discuss here will concentrate on the reduction of property-related claims. These are the source of more than 43 percent of all claims experienced by community associations. Additionally, property-related claims, including fire losses, are controllable and within the ability of management and the board of directors to reduce substantially.

To some extent, community associations are limited in their ability to retain exposure or self-insure certain kinds of risk due to their own governing documents, statutory provisions, and lender requirements. However, even within these requirements, risk control is still possible.

Property Controls

Washing machine hoses that break and hot water heaters that wear out and fail cause substantial water damage claims not only to the source individual's unit, but to other units as well. A regular maintenance program of replacing just these two sources of water damage will yield a significant reduction in these types of losses.

Polybutylene pipes (plastic pipes that eventually weaken and disintegrate) that are not replaced throughout an entire community are a disaster waiting to happen, and sprinkler pipes that are not insulated properly are certain to

burst in very cold weather. In addition, owners who leave their units for extended periods of time during the winter months should maintain heat within their unit to prevent pipes from bursting and causing substantial damage before the loss is discovered. Insurance carriers are beginning to include endorsements denying coverage to units where minimum levels of heat have not been maintained. The minimum is usually about 55 degrees, but consult your agent/carrier.

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Many communities still have not been fitted with hard-wired smoke detectors both in the common areas as well as within the units. These are inexpensive to purchase and install, and are one of the best warning devices available of potential danger from smoke and fire.

Fire losses, with few exceptions, are the result of human carelessness, including misuse of candles, smoking in bed, overload of electrical systems, poor or frayed wiring, misuse of outdoor grills in areas not designed for such use, unattended kerosene heaters, the placement of groceries or other articles on hot stoves, and the improper maintenance of heating and cooling systems. The toll on both life and property only needs to be experienced one time before the full impact of these losses is understood.

Budget pressures and constraints are often used as an excuse not to maintain and fund needed repairs within a community. In our view, when the budget is more important than

the preservation of people and property, a disaster will occur often and regularly.

Boards of directors are responsible for their community's safety and well being, and in our experience, it is no accident that boards that do not truly understand this concept have the highest claims ratios and premiums. Communities that have a high incidence of claims risk much more than higher premiums in today's marketplace.

Insurance carriers are also increasing deductibles and removing coverage from master policies when the claims-to-premium ratio exceeds 50 percent. When this happens, owners who want to sell and buyers who want to purchase may find obtaining a loan much more difficult because of the insurance issues affecting the community. Buying and selling decisions impact property values for everyone, not just those involved in the immediate sale process, and when the budget process reveals excessive premium payments for insurance protection (in comparison to those paid by comparable communities), potential buyers may look elsewhere.

Liability Controls

Liability claims and the awards resulting from them are alive and well in today's litigious climate, but again, liability losses are yet another controllable-type claim. Risk control can include (but is not limited to) proper maintenance of playground equipment, ensuring smoothly paved and well-lit parking areas and walkways, efficient snow removal, proper lighting in and around the community, properly installed handrails, and other areas that with inattention are the sources of potential liability claims.

A wonderful tool to assist boards of directors in determining where emphasis should be placed in reducing claims can come directly from your insurance carriers' claims history. Use these reports to your advantage regularly before the claims history becomes the instrument that directs your insurance carrier(s) to take steps that may not be reversible.

Directors and Officers Liability Controls

Agents, brokers, and attorneys continue to witness claims against boards of directors for

Insurance Marketplace

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discrimination and employment issues on a fairly regular basis. Association attorneys must continue their role of advisor and educator in order to reduce the number of these kinds of incidents. While some Directors and Officers Liability insurance policies provide protection from these types of claims, many do not, and as a result individuals who serve their communities may be at risk.

The Bid Process

Community associations need to look at the value they are receiving from their agent and insurance provider, and not just the price of the policy when evaluating different insurance programs. Should a board of directors decide to seek competitive bids, they need to:

- Bid early, at least 90 days in advance of the expiration date of the current program(s).
- Consider higher deductibles.
- Set realistic budgets to fund increased premiums.
- Document within the bid process improvements to the community and projected completion dates of future improvement projects.
- When possible, and only with the advice of your agent or broker, self-insure certain risks.
- Reduce claims and claims expenses that are a direct result of failure to maintain the property.

Community associations will find a very different insurance marketplace for perhaps the next several years. This change does not necessarily have to have a negative impact on coverages, premiums, or the services provided, however, and it is up to each community to accommodate the changes of an ever-changing marketplace. Those that do will experience a soft landing, and those that do not will experience much worse.

Robin Manougian and John Manougian are agents with John Manougian Insurance Agency in Silver Spring, MD. John is a past president of the Chapter, and Robin is a member of the Publications Committee.



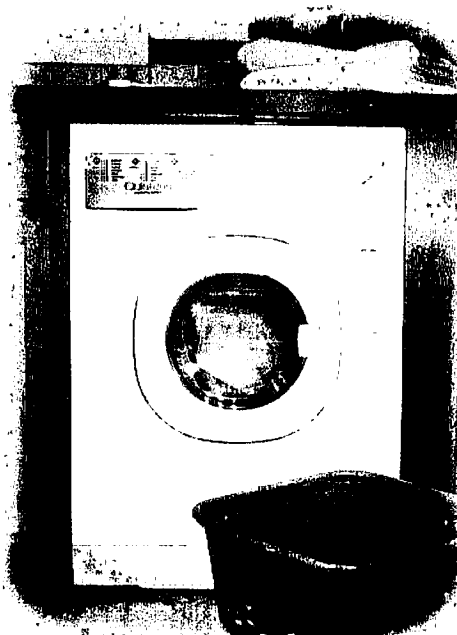
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