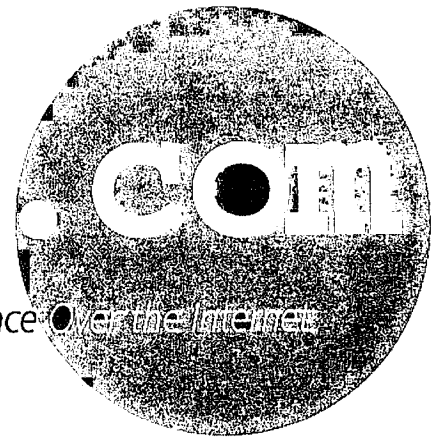


insurance



The Pitfalls of Purchasing Community Association Insurance *Over the Internet*

by Robin Manougian

You've undoubtedly heard the ads on radio and television for those dot-com companies that promise, "absolutely the lowest insurance rates available, because we cut out the middle man," or "fast insurance quotes in 15 minutes, right over the Internet." In this fast-paced, dot-com age we live in, it might seem as though buying insurance over the Internet is an economical alternative—both in terms of time and money—to having to pick up the phone and actually speak to someone with a pulse about your insurance needs. Most people would reason that we buy clothes, airline tickets, jewelry, and even toiletries over the Internet, and in doing so, we often save ourselves time and money, so why not do it with insurance?

While getting a premium quote for automobile insurance may be a safe enough venture in the ultra-competitive automobile insurance market, there's still no substitute for the knowledge and expertise of your insurance agent when it comes to purchasing condominium, cooperative, and homeowner association Master Policy programs. And while anything is possible in a future full of possibilities, the likelihood of being able to purchase Master Insurance Policy coverage over an Internet web site probably won't be available in the near future, and if it is, buyer beware.

An Internet site can ask a driver standard form questions such as age, current coverage, and a driver's license number to access a driving history when quoting auto insurance. But there's nothing standard or form about writing Master Policy insurance for a community association, primarily because community association insurance is among the most specialized forms of insurance on the market today. For one, no web site can peruse an association's bylaws, which often specifically dictate the kinds and limits of coverage required by a given community, as well as the required financial rating of the policy provider. In addition, how would it be possible for a web site to compare a community's bylaws to its state's statutes?

How about employee dishonesty limits? Most association members don't understand the secondary lending institutions' (Fannie Mae and Freddie Mac) requirements for the proper amount of Fidelity coverage to carry, and since an application is only as good as the well-meaning individual completing it, a community could be perilously under-insured without even knowing it.

Most carriers would probably do away with nice add-on touches that association members have come to expect, such as "Guaranteed Replacement Cost Coverage" on the property form. Carriers would eventually argue that the risk they take on is increased because communities would come to be under-insured in growing numbers due to inadequate reporting of property values. Currently, the agent, along with the community manager, a developer if the community is incomplete, and the carrier, determine property values using a variety of different factors.

Agents also assist managers and boards to determine proper deductibles and premiums based on claims experience. Communities with histories of ongoing water problems are advised (and sometimes coverage quotations restricted) to include separate deductibles to control claims and encourage maintenance and upkeep within a community. Carriers, again, would undoubtedly argue that this system would run amuck in the hands of communities that don't fully understand the process or who inadvertently neglect to report important historical information about the community.

Directors and Officers Liability policies probably would be the most difficult to purchase, because of the non-standard form in which each carrier's program is written. Most are written on a claims-made basis, but a few carriers provide coverage on an occurrence basis. Without the knowledge to discern the difference between the two, associations can leave themselves with gaps in insurance, especially when switching from one carrier's program to another. Also,

some programs do not offer coverage such as Employment Practices Liability or coverage extensions including the community management company as an additional insured, both of which are important coverage features in a well-written Directors and Officers Liability program. Again, though without the knowledge to even ask for these features, let alone understand why they're important in the first place, boards of directors can leave themselves and the communities they govern uninsured at time of loss if complete coverage is not in place.

And you think that cutting out the middle man might save your community a buck or two? Because boards aren't privy to the behind-the-scenes efforts of agents, few are aware of the conversations and lobbying efforts involved by agents to carrier underwriters to encourage a lower premium or higher credit when the carrier's initial quote comes in higher than expected.

Remember that one size does *not* fit all. Your agent works hard for you on a personal level to offer insurance programs designed to meet the needs of your specific community. He or she understands what questions to ask a community about the coverage needed, even if you hadn't considered the need. More importantly, your agent can provide knowledgeable advice and responsive claims service that no web site can possibly give. Additionally, your agent can compare for you different competitor's programs versus the one he or she will be offering, including coverage highlights that are available in one program, and dangerously missing in another. All of this serves to educate the buyer to understand just what is being purchased in an inarguably confusing process, the result of which usually yields a more completely insured community.

Robin Manougian is an agent with John Manougian Insurance Agency in Silver Spring, MD. Robin is a frequent contributor to Quorum™ magazine, and serves on the Publications Committee.