

Board Member Foundations: Part 5

# Understanding community insurance coverage



Life, simplified.<sup>SM</sup>

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Understanding your association's insurance coverage is crucial to fulfilling your fiduciary duty. These coverages protect against various risks and liabilities that may arise within the community. Best practice dictates that you review your policies annually to align with your community's needs. Since the process of procuring new coverage can take up to 120 days, it's always best to start early. The specialized nature of the process and industry means you should involve the right insurance professionals to assist, such as our in-house licensed team at FirstService Financial.

Below you can read more about some of the essential insurance policies your association needs, how they function, and claims examples that the respective policy would cover. In many cases, coverage is also required by statutory law, your association's governing documents, or federal lending guidelines.

## General Liability insurance

General Liability insurance is a fundamental coverage for community associations. It usually protects against third-party claims related to bodily injury, property damage, or personal injury caused by the association's operations, premises, or activities. This coverage typically provides financial safeguards against lawsuits and legal expenses, protecting the association in the face of potential liability claims.

**Claim:** A visitor slips and falls in a common area due to a wet floor, resulting in injuries. The injured party files a lawsuit against the association, seeking compensation for medical expenses, pain, and suffering.

**Coverage:** General Liability insurance usually covers the legal defense costs and any awarded damages in such a scenario, protecting the association's finances.

## Property insurance

Property insurance plays a pivotal role in safeguarding the physical assets owned by the association. This

coverage typically protects buildings, common areas, amenities, and equipment from perils such as fire, theft, vandalism, and natural disasters. Property insurance usually provides financial reimbursement for repair or replacement costs, enabling the association to recover from unexpected damages swiftly.

**Claim:** A fire occurs in one of the buildings owned by the community association, causing significant damage to the structure and common areas. The association files a property insurance claim covering repair and restoration costs.

**Coverage:** Property insurance normally provides financial reimbursement for repairing or rebuilding the damaged property, helping the association recover from the fire incident.

## Directors and Officers (D&O) Liability insurance

D&O Liability insurance protects community association board members, directors, and officers from personal liability arising from their management decisions or actions. Depending on the policy, it generally covers legal defense costs and financial damages resulting from allegations of mismanagement, breach of fiduciary duty, or other wrongful acts. D&O Liability insurance is designed to encourage qualified individuals to serve in leadership roles without fear of personal financial repercussions.

**Claim:** A community association board member is accused of mismanagement and breach of fiduciary duty by a group of residents who believe their assessments were mishandled. The board member faces a lawsuit seeking financial compensation for alleged losses.

**Coverage:** D&O Liability insurance usually covers the legal defense expenses and potential settlement costs, protecting the board member's personal assets and maintaining the association's financial stability.

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## Umbrella insurance

Umbrella insurance serves as an extra layer of liability protection for community associations. It typically supplements the coverage limits of underlying General Liability and D&O insurance policies. In a catastrophic incident resulting in substantial financial damages, Umbrella insurance generally covers the excess costs, offering broader protection and greater peace of mind.

**Claim:** An owner slips and falls, causing severe injury, and sues the association. Claim expenses including defense costs, medical payments, and other damages exceed the limit of the primary policy (GL), so the umbrella policy would step in for additional costs.

**Coverage:** In such a case, the Umbrella insurance policy would usually provide additional coverage, bridging the gap and helping cover excess costs.

## Workers' Compensation insurance

Community associations often employ workers such as maintenance staff or administrative personnel. Workers' Compensation insurance is essential to cover medical expenses, rehabilitation costs, and lost wages in the event of an employee's work-related injury or illness. This coverage complies with legal requirements while providing financial support to affected employees. Even if an association does not have direct employees, a claim arising from an under-insured contractor or volunteers who are injured performing work for the association could apply.

**Claim:** A maintenance worker suffers a back injury while lifting heavy equipment within the community association. The worker requires medical treatment and rehabilitation and cannot work during recovery.

**Coverage:** Workers' Compensation insurance would typically cover the employee's medical and rehabilitation expenses and provide temporary disability benefits during their absence.

## Fidelity insurance

Fidelity insurance (otherwise known as Crime insurance) protects community associations against financial losses caused by fraudulent acts committed by employees or volunteers. This coverage typically includes theft of association funds, embezzlement, forgery, or fraudulent transfer of funds. Fidelity insurance aims to mitigate the financial impact of such activities, safeguarding the community association's assets and maintaining trust among residents.

**Claim:** An employee responsible for managing the community association's finances embezzles a significant amount of funds over an extended period. The association discovers the fraudulent activity and files a Fidelity insurance claim to recover the stolen funds.

**Coverage:** Fidelity insurance generally covers losses resulting from employee theft or fraudulent activities, helping the association recoup its financial losses.

It is important to note that insurance needs may vary based on each association's specific characteristics and activities. Consulting with an experienced insurance professional is strongly advised to assess the association's unique risk exposures and tailor coverage accordingly. By comprehensively addressing these insurance needs, associations can foster resilience, protect their stakeholders, and enjoy the continued prosperity of their communities.