



## Confused Over Insurance? Five Common Questions

November 18, 2010



Insurance can be confusing for just about anyone who doesn't deal with it on a daily basis. Between coverage options, multiple deductibles/limits, and insurance terminology in general, this subject causes a lot of anxiety for many people. To provide you with a little bit of relief, here are answers to five of the most common questions I've encountered. I hope you find this information helpful:

### **WORKERS COMPENSATION WITH NO EMPLOYEES?**

#### **Why do associations with NO employees need Workers Compensation (WC) coverage?**

Unfortunately, many contractors live job to job whether or not the economy is tough. In addition, many boards knowingly hire uninsured contractors because their prices are lower with no WC premium. Whether it is financial distress or office oversight, there's always a potential for a contractor's WC (or even their liability) insurance to lapse. Yes, they've given you a certificate of insurance, but that doesn't always mean they are paying their bills. In most cases, a carrier will inform all certificate holders that the contractor's coverage has lapsed, but many times that notification could come weeks after the policy was canceled. The certificate confirms coverage for the day you receive it, but not for a month or so down the road. The contractor's carrier could cancel him for nonpayment, yet he's still doing work for your association. In the event that a contractor's employee is injured, that employee would be able to bring a lawsuit against all parties involved in that project, including the association and the management company, if applicable. However, if the association has its own WC policy in place, it will cover both its own employee and any uninsured contractor's employee, preventing most tort suits against the association. In fact, one of the major reasons WC coverage was created was to protect employers from an injured employee's lawsuit.

Properly drafted "hold harmless" or "indemnification" agreements can work, although they won't help you if the contractor is insolvent or in financial stress. In addition, there's always the possibility that an intelligent lawyer could poke holes in your agreement.

Another common scenario to consider is when a committee member, volunteer, or board member pays a neighborhood kid, a friend, or a resident to perform small jobs around the community. What happens if that paid person slips and falls off a ladder, or develops tennis elbow or carpal tunnel while working on behalf of the association? Even the smallest jobs can cause long lasting injuries. There are millions of injury scenarios that could plague any association. There is no reason to put your association at risk when WC premiums (for NO employees) are so affordable (\$250 - \$700 annually, depending on your state).

### **VOLUNTEER COVERAGE?**

**Are volunteers covered by a community's Workers Compensation policy or Liability policy?** According to the Texas Department of Insurance, WC coverage and policies in Texas are intended to cover persons who operate under an oral or written appointment or contract for hire or apprenticeship, and who are injured or contract an illness while in the course of their duties/work. Your board of directors may decide to include volunteers in workers' compensation, but that can be expensive and is typically not an option that most WC carriers provide. WC was intended to cover actual employees or paid workers who somehow fall through the cracks of standard employment. Volunteers aren't being paid for their services, and thus aren't considered employees. However, there are policies in the marketplace that are specifically written for volunteers. They tend to be extremely affordable (a few hundred dollars annually), and provide coverage for hundreds of volunteers within a given year. The premiums are typically driven by the total number of potential volunteers and the type of work the volunteers would be performing. This type of policy is great for associations that host volunteer spring cleaning events for their common area landscaping or similar projects.

As for liability coverage, the answer is "no", unless the volunteer can prove his or her injuries were somehow due to the association's negligence. If the association was indeed negligent in some way, then the General Liability policy would respond with coverage for that injured volunteer. If no negligence exists on behalf of the association, then a volunteer policy would respond. If there's no negligence on behalf of the association and no volunteer policy in place, then no coverage exists to protect volunteers.

#### **CRIME COVERAGE?**

**Should an association carry crime coverage?** Yes they should. Even though most management companies today handle all of the accounting for their associations and therefore carry their own crime insurance, many things could happen to a community's money or investments that may have nothing to do with your management company's accounting department. In this case, if the loss wasn't due to the management company's accounting error or negligence, then the association could be responsible for the loss. Additionally, many crime policies for management companies cover only a loss of the management company's funds, not of the associations' money entrusted to safe keeping by the management company.

Even more importantly, recent changes in Fannie Mae and FHA guidelines state that, in order to be eligible for their loan underwriting/insurance program, any condo or townhome association with 20+ units or \$50,000+ in annual assessment income must purchase a crime limit that is equal to or greater than 3 months of total assessments, plus any reserves. If the association has less than this, then the lender will most likely reject the new loan or refinance request until the association's crime limit is increased. The good news is that crime coverage is fairly inexpensive and your request to increase the crime limit shouldn't take more than a day or so to process.

#### **SPORTING EVENTS?**

**Does the association's GL policy cover it for sporting and other public events?** Under most liability policies, hosted or sponsored sporting events are not covered. This has nothing to do with members using their association's pool, tennis courts, soccer fields, etc. This exclusion is meant to exclude hosted or sponsored sporting events such as swim meets, tennis tournaments, soccer tournaments, etc. where the association is allowing non-member teams and visitors to enter the premises to take part in a sporting activity or event. Again, if a member invites their family out to the community pool, that's fine. Due to this exclusion, there are special events policies available that typically cost anywhere from \$300 to \$1,500 a year depending on the type of events, the number of events hosted, and the number of participants. It's also important to remember that special events coverage only protects the association from claims that arise from the use of its facilities. The association's swim team or tennis team needs its own separate insurance for their liability as a traveling team, as well as coverage in the event that one of the team members is injured while attending events at other locations.

#### **TOTAL REPLACEMENT COST?**

**How do we know if our association's Total Replacement Cost value is correct or not?**

Many agents will use what's called a "Cost Estimator System". They will typically request a certain level of information from the association and provide that information to their carrier's underwriter. That underwriter then plugs all the data into their Cost Estimator System which calculates an estimated Replacement Cost Value. Although it's not the most accurate, it's much more accurate than a guess, an outdated contractor's estimate, or some insurance agent's rough estimate (which should never be accepted unless that agent is actually licensed as an insurance-related appraiser).

It's extremely important to note that real estate appraisals, reserve studies, and unit values should never be used to come up with the Replacement Cost Value for a community. These figures were not intended to, nor do they, take into account all of the replacement cost values that a true insurance appraisal does. Boards should secure an independent third party appraisal on behalf of their association. This eliminates any potential questions or conflicts with regard to the Replacement Cost Value that an agent or carrier comes up with.

Many appraisal firms are guaranteeing their appraisals for 3-5 years, and all the board has to do is call them up once a year (prior to renewal) and update them on any changes or additions. The initial cost for the appraisal can be expensive (depending on the number of buildings, various types of floor plans and complexity of amenities), but stretched out over 3-5 years, it tends to be only a few hundred dollars a year. Also, in situations where the community's buildings have common floor plans, you have the potential to save a substantial amount. In this case, an appraisal company can simply value the two or three different building floor plans, and then the board can extrapolate those values among the other common buildings. This allows the community to only incur appraisal costs based on two or three buildings instead of thirty. After 3-5 years (depending on the company), another in-person appraisal will need to be performed in order for the appraisal company to guarantee their valuation.

**Bo Bond**  
**Senior Sales Executive**  
**Associations Insurance Agency, Inc.**  
**Dallas, TX**

PREVIOUS ARTICLE  [\(https://hub.associaonline.com/a-board-member/how-to-stretch-your-reserve-dollars-a-case-study\)](https://hub.associaonline.com/a-board-member/how-to-stretch-your-reserve-dollars-a-case-study)

NEXT ARTICLE  [\(https://hub.associaonline.com/a-board-member/designing-a-community-newsletter\)](https://hub.associaonline.com/a-board-member/designing-a-community-newsletter)


**OTHER CONTENT IN THIS STREAM**

Understanding The Zoning Ordinances That May Impact Your Community

DISASTER PREPAREDNESS: CREATING A PLAN FOR YOUR COMMUNITY

Understanding The Rights Of Service Dogs & Emotional Support Animals In HOAs & Beyond

How To [A BOARD M RESIGN]

<b>OUR COMPANY</b>	<b>COMMUNITY TYPES</b>	<b>ASSOCIA NETWORK</b>	<b>BETTER BUSINESS BUREAU</b>
About Associa ( <a href="https://associaonline.com/about">https://associaonline.com/about</a> )	Single-Family & Master-Planned ( <a href="https://associaonline.com/communities/single-family-master-planned">https://associaonline.com/communities/single-family-master-planned</a> )	Associa Advantage ( <a href="http://www.associaadvantage.com">http://www.associaadvantage.com</a> )	We're proud to be an accredited business. ( <a href="http://www.bbb.org/dallas/business-reviews/property-management/associa-in-dallas-tx-90062985#bbblogo">http://www.bbb.org/dallas/business-reviews/property-management/associa-in-dallas-tx-90062985#bbblogo</a> )
History ( <a href="https://associaonline.com/about/history">https://associaonline.com/about/history</a> )	Mixed Use Leadership ( <a href="https://associaonline.com/communities/mixed-use">https://associaonline.com/communities/mixed-use</a> )	Associa OnCall ( <a href="https://www.associaonline.com/maintenance-services">https://www.associaonline.com/maintenance-services</a> )	
Leadership ( <a href="https://associaonline.com/about/leadership">https://associaonline.com/about/leadership</a> )	Advocacy ( <a href="https://associaonline.com/about/advocacy">https://associaonline.com/about/advocacy</a> )	Associations Insurance Agency, Inc. (AIAI) ( <a href="http://www.associationsinsuranceagency.com/">http://www.associationsinsuranceagency.com/</a> )	
Corporate Responsibility ( <a href="https://associaonline.com/about/corporate-responsibility">https://associaonline.com/about/corporate-responsibility</a> )	Luxury High-Rises & Condos ( <a href="https://associaonline.com/communities/luxury-high-rises-condos">https://associaonline.com/communities/luxury-high-rises-condos</a> )	Community Archives ( <a href="http://www.communityarchives.com/">http://www.communityarchives.com/</a> )	
Careers ( <a href="https://associaonline.com/about/careers">https://associaonline.com/about/careers</a> )	Active Adult ( <a href="https://associaonline.com/communities/active-adult">https://associaonline.com/communities/active-adult</a> )	First National Bank of Kemp ( <a href="https://www.fnbkemp.com/">https://www.fnbkemp.com/</a> )	<b>SOCIAL MEDIA</b>
News ( <a href="https://associaonline.com/about/news">https://associaonline.com/about/news</a> )	Golf Club ( <a href="https://associaonline.com/communities/golf-club">https://associaonline.com/communities/golf-club</a> )	HOA Collection Services (HCS) ( <a href="http://hoacollectionsservices.com/">http://hoacollectionsservices.com/</a> )	 ( <a href="https://www.linkedin.com/company/33264">https://www.linkedin.com/company/33264</a> )
Contact ( <a href="https://associaonline.com/locations/contact">https://associaonline.com/locations/contact</a> )	Municipal Utility Districts ( <a href="https://associaonline.com/communities/municipal-utility-districts">https://associaonline.com/communities/municipal-utility-districts</a> )	LHR Construction & Restoration ( <a href="http://www.lhrco-hancock.com/">http://www.lhrco-hancock.com/</a> )	 ( <a href="https://twitter.com/associa">https://twitter.com/associa</a> )
	Condos, Lofts & Townhomes ( <a href="https://associaonline.com/communities/condos-lofts-townhomes">https://associaonline.com/communities/condos-lofts-townhomes</a> )	Platinum Title Services ( <a href="http://www.platinumtitlepartners.com/">http://www.platinumtitlepartners.com/</a> )	 ( <a href="https://www.youtube.com/user/associamarketing">https://www.youtube.com/user/associamarketing</a> )
	Investment Properties ( <a href="https://associaonline.com/communities/investment-properties">https://associaonline.com/communities/investment-properties</a> )	<b>SOLUTIONS FOR Management Firm Sellers</b> ( <a href="https://www.associaonline.com/solutions-for-management-firm-sellers">https://www.associaonline.com/solutions-for-management-firm-sellers</a> )	 ( <a href="https://www.facebook.com/associa">https://www.facebook.com/associa</a> )
			 ( <a href="https://www.pinterest.com/associa">https://www.pinterest.com/associa</a> )

© 2017 Associa. All rights reserved.

Site Map (<https://associaonline.com/sitemap>)  
 Privacy (<https://associaonline.com/privacy>)  
 Terms of Use (<https://associaonline.com/terms-of-use>)  
 Glossary (<https://associaonline.com/glossary>)