



**LaBarre/Oksnee Insurance Agency**

## **ABC'S OF INSURANCE FOR PLANNED UNIT DEVELOPMENTS**

Determining the limits and coverage's needed for a homeowners association is generally based on the following:

- State Statutes (Civil Codes).
- Insurance requirements as outlined in the governing documents (CCR's).
- Lending Institutions requirements (FNMA, FHA)
- Property Valuations based on property owned and maintained by the association.
- Amenities and Number of Units within an association.

### **5 TYPES OF COVERAGE'S NEEDED**

**1) PROPERTY COVERAGE:** Covers all real property and insurable improvements owned and maintained by the homeowners association. This would include the following:

**Buildings including;** clubhouse, offices, guard houses, rest rooms, and equipment rooms.

**Structures including;** arbors, trellises, cabanas, courts, pools, play Equipment, gates, walls, fencing, fountains, roadways, statues, walks, etc.

**Other Property including;** furnishings, computers, fine arts, valuable papers, accounts receivable, signs, plants & trees, etc.

**2) PRIMARY LIABILITY COVERAGE:** Insures against third party claims arising from alleged bodily injury or property damage to members of the public. The insurance company has the duty to defend the association against any claim that alleges injury or seeks damages no matter whether the association is negligent. The Property Management

Company is generally included as an additional insured. Coverage should include the following:

**Host Liquor Liability:** Provides coverage for liability that may arise if the association sponsors events where alcoholic beverages are consumed or served.

**Non-owned or Hired Auto Liability:** Provides coverage for the association against liability when a non owned or hired vehicle is used on behalf of the associations business.

**Independent Contractors Liability:** Protects the association from loss due to liability arising from operations of subcontractors.

**Personal Injury:** Extends bodily injury to include false arrest, imprisonment, malicious prosecution, libel, slander, defamation of character, invasion or privacy, wrongful eviction and entry.

**Medical Payments:** Provides coverage for medical expenses of members of the public injured on the common property.

**Cross Liability:** Provides protection if an owner or member of the association sues the association for bodily injury damages occurring on common areas because of negligence by a unit owner or the association.

**Severability of Interest:** Precludes the insurance company from denying liability because of negligent acts of the association or a unit owner.

#### **LIABILITY LIMITS: Limits are based on ...**

**Governing Documents (CCR's) and Current Civil Code (1365)-** Associations with fewer than 100 units should carry a limit of \$2,000,000. Associations with 100 or more units should carry a limit of \$3,000,000. Other factors for choosing higher limits are the number of amenities, units, or exposures that the association has.

**Occurrence** – An occurrence means an accident that results in injury or damage neither expected nor intended from the standpoint of the insured.

**General Aggregate** – The general aggregate limit is the most the insurance company will pay for any and all liability occurrences or losses under the policy during any one policy year.

**Note:** An Umbrella or Excess policy is commonly recommended to obtain the limits needed.

**3) DIRECTORS AND OFFICERS LIABILITY:** Provides protection against claims alleging loss arising from mismanagement or wrongful acts. A wrongful act means any breach of duty, neglect, error, misstatement, misleading statement, omission or other act done or wrongfully attempted by the association. Covers expenses incurred in defending lawsuits arising from the alleged wrongful acts of the officers or directors. Persons insured under directors & officer's liability should include:

- Association
- Directors and officers, past and present.
- Employees
- Committee members
- Volunteers
- Manager or Management Company

**Common Exclusions:** Fraudulent or Illegal acts, failure to maintain earthquake insurance, pollution, construction defects, and bodily injury. \*Policies differ in coverage's and exclusions so please read the policy for specific coverage and exclusion information.

**4) EMPLOYEE DISHONESTY (FIDELITY BOND):** Coverage indemnifies the association for loss of money, securities, or any other property due to the acts of dishonesty committed by an employee acting alone or in collusion with other persons with the intent to cause the association to sustain a loss. Examples of dishonest acts include theft, larceny, embezzlement, and wrongful abstraction. Directors and officers and management company employees are deemed employees of the association.

**Limits** are determined by either FNMA or the governing document (CCR's) requirements and generally **require a limit equal to three months association fees plus reserves.**

**5) WORKERS COMPENSATION:** Insures against claims for work related injuries or diseases suffered by employees that are compensable by statute and/or are imposed by law as damages. Coverage is provided for payment of medical expenses and reimbursement of lost wages.

Coverage should also be considered even if there are no regular employees. Protection may be needed if the association employs casual labor or if the association hires an independent contractor who has no insurance coverage. In addition, coverage may be needed for contractors who have let their policy lapse, or have done work outside the scope of their current carriers listed duties.

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