

Insuring for Disasters: Budgeting & Planning

The recent hurricanes in Texas and Florida have many of us thinking about what we would do in a catastrophe. For association boards, insurance is the front line of disaster preparedness. But it's also expensive, and boards planning their budgets have to make tough choices. As insurance is usually one of the largest line items, boards should review this annual item for changes, accuracy and cost.

Most boards want “three comparison quotes” to be sure they aren't paying too much for insurance. Having comparison quotes and knowing what's available in the market is responsible fiduciary activity. However, good coverage does not always come with the cheapest quote. The board should consider what coverages the association has and what they might add for disasters such as floods and earthquakes. In many cases earthquake and flood coverage premiums seem exorbitant. But at the time of loss, paying a 10% deductible for a \$10 million association loss (\$1 million) will seem much better than paying the \$10 million!

Let's take a look at what the association can plan for and how to review the coverage. Basic steps and a review can impact the budget positively.

Building Valuations

When it comes property insurance, the building insurance limits (“valuation”) are based on the cost to rebuild the structure(s). Building valuations should be updated every three years at a minimum, and ideally every year. The association should have current replacement cost coverage on their policy at the time of loss. If they do not have an updated valuation, they may not have enough coverage for the damage, and will have to pay out of pocket to make up the difference. This cost can be easily avoided with an updated valuation at the insurance renewal.

Most brokers can update the valuation through a program like Marshall Swift. It is never a good idea to guess at the cost or to estimate the annual increase. Ask your association's broker to provide an updated building valuation each year.

Earthquake and Flood Insurance – It Doesn't Hurt to Ask!

Has the association had these coverages in the past? Does it have any of these coverages now? It doesn't cost anything to get a quote for an umbrella policy, an earthquake policy, or flood coverage. Why say no to coverage if you're not sure

what it costs? Do your members know what the building valuation is and how much they will be assessed WITH AND WITHOUT coverage?

If your association does have these coverages, review the deductibles. Ask your broker what he or she suggests. Higher deductibles usually mean lower premiums. Have you had the same deductible for 20 years? Are your members going to pay a 25% earthquake deductible instead of a 5% deductible because nobody asked the broker for options? It costs \$0 to ask. As earthquake insurance deductibles are based on the *valuation*, not a flat fee choice, changing the deductible based on millions of dollars of coverage can make a big difference to the individual owners. A 10% deductible on a \$10 million association limit means the owners will be assessed for a \$1 million deductible. If there are 10 units, that's \$100,000 *per owner*. A 5% deductible would cut that in half.

What Can You Do? Basic Maintenance

Associations should do all they can to help prevent a disaster. Have a professional assess your association's property and follow up the assessment with a regular maintenance plan. Stay current with the following steps and you will make your insurance carriers happy:

- Cut all brush back to several feet from the property line.
- Keep gutters and drains cleaned out.
- Have the roof and retaining walls inspected.
- Have chimneys professionally swept and inspected.
- Put screens on chimney openings to keep animals and debris out.

Disaster Planning & Insurance

Board members can collaborate on a disaster plan for the association. A good plan will outline for members the processes during and after an event. The association's insurance policies, vendor information, building plans and specifications should be kept safe in a separate location. The board along with the Community Manager can create a statement for the members that includes information regarding emergency supplies, responders and vendors.

Once the event has passed the board should compile information as soon as possible on the damage to common areas and buildings and submit the insurance claim(s). The board and membership should also review security policies ahead of

time to help manage the property situation after an event. The board has a duty to take care of the association's assets. Having a plan in place to follow at the time of an event will help everyone know what to do and in what order. Quick action can help to reduce your loss!

Insurance - Member Education Invite your members to a discussion with your insurance broker to explain what coverages are included in the association's policies. Members should understand that even with earthquake coverage in place, they will be responsible for a deductible assessment. Having this discussion on a regular basis helps manage expectations at the time of a catastrophic event and special assessment.

All of these items - valuations, maintenance & inspections, disaster planning and deductible choices - can impact insurance costs both in the budget and after a disaster. When the association discusses and reviews coverage regularly, you can keep the board informed, and avoid the backlash against unexpected emergency costs.

Wendy Weber

Insurance Services of the West Lic 0M42330
Office: 310-259-3366
Fax: 310-300-1817
2633 Lincoln Boulevard, Santa Monica CA 90405
Wendy@HOASpecialist.com



Bio:

Wendy Weber is a commercial property insurance broker and a specialist in home owner association insurance. She has HOA clients throughout California and regularly speaks at ECHO & CAI educational events.

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