Common Mistakes When Purchasing Insurance

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In my last column, I discussed some things to consider before buying insurance. These included starting early in the renewal process, evaluating your insurance broker or advisor, carefully considering whether to be in a consolidated program with coverage shared among numerous properties and having the policy shopped every few years to make certain you have the best product.

I also discussed working with a third party to check your program every three years or so, reviewing the submission the broker is making to the marketplace to ensure accuracy and having the property put in the most positive light and developing a relationship with the broker where you meet periodically to review the exposures you have and how your policy would or would not respond.

One other recommendation is to have an attorney with experience and knowledge of insurance review the policy before final acceptance. Someone needs to make sure that you have the right coverages and that they are written correctly from a technical standpoint. This is especially important now as we have entered a hard insurance market with premiums rising due to the cyclical nature of insurance as well as severe weather conditions nationally, and of course, Hurricane Sandy. Non-coastal risk properties, though less affected by Sandy, can still expect premium increases from 5% to 10%, while coastal locations can see increases ranging from 10% to as high as 50%.

Regardless of the care and attention to detail, mistakes do occur. Even using several professionals, some items can slip through the cracks. It is wise to have the property manager, or board member or corporate counsel, who have insurance or legal experience, review the program for accuracy.

Here are some common insurance purchasing mistakes:

- Failure to put in the correct name of the co-op or condominium association. It seems obvious, but this failure does occur often.
- Listing the correct address of the property.
- The limits are too low for the building. Most owners just renew the limits year after year, but replacement costs go up over the years. We see replacement costs for most buildings now exceeding $200 per square foot. Looking at limits should be part of the annual review.
- The policy does not contain flood or earthquake insurance, or utility service interruption coverage. Let Hurricane Sandy be a warning to all properties. I don't want to be overly pessimistic, but weather conditions have severely worsened in the past decade and properties once thought safe from flooding and earthquakes are at risk.
- Insufficient loss of rents and extra expense coverage. As a rule of thumb, the limit should be a year's worth of rent. However, Freddie Mac and Fannie Mae require 18 months' worth of coverage for certain properties. This coverage that will help pay the mortgage should the building be damaged and unusable and the owners or renters stop paying the rents/maintenance until the building is habitable.
- No hired/non-owned liability coverage. If for any reason an employee uses their own vehicle on co-op or condo business and gets into an accident, the association needs to be covered. For example, if a maintenance person goes to a hardware store to quickly get a replacement part, takes their own vehicle and gets into an accident. We have seen a case where this occurred and the association did not have proper coverage and the funds to pay for the loss came out of the co-ops balance sheet.
- The crime policy only covers employee theft and does not provide coverage for computer funds transfer fraud, which is a significant error we see all the time.
- The Directors and Officers coverage is too narrow. There are a number of great D&O programs for associations that provide all the available bells and whistles at great pricing, but all too often we still see antiquated coverage forms being utilized.
- The excess policy, or umbrella policy, does not follow from the primary or underlying policies and renders the policy useless for the unscheduled coverage.

It is also helpful to meet your underwriter, so invite them to a board meeting. If there is a claim, you want to know the underwriter personally. Unfortunately, underwriters generally do not want to meet with clients unless they pay a significant amount in insurance. If they can't meet with you, at least speak to them on the phone. A personal relationship goes a long way, especially when there is a claim with coverage that is not clear.

Remember, insurance comes into play at a time of loss. Don't be shortsighted and ignore possible consequences until it is too late. Careful insurance planning can avert significant dollar losses and hours of additional work.

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