



COMMUNITY BUILDER

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Safeguarding Your Community Association: Key Insurance Policies

The current insurance marketplace is one of the most challenging in recent memory. Major carriers are exiting or refusing to write business in certain states, others are taking months to provide quotes (often just days before policy renewal periods), and premiums are skyrocketing for many. In the realm of community management, protecting both the association and the board members is of utmost importance. Whether you oversee a condominium association, townhome community or single-family HOA, Commercial General Liability and Property insurance serve as foundational components; however, there are a number of additional insurance policies critical for safeguarding your association, especially when specific conditional or environmental factors come into play.



Directors and Officers Insurance

Directors and Officers (D&O) insurance is designed to shield board members from personal liability in cases of alleged misconduct or wrongful acts (unintentional or otherwise). Without D&O insurance, board members may face financial and legal risks. Doug Dierdorf, a Community Insurance Risk Management Specialist (CIRMS) who serves as BKS Partners' Managing Risk Advisor notes that "not all D&O policies provide the same coverage. Having D&O written specifically for community associations is crucial." If, for example, a board member is sued for making a decision that allegedly harmed a resident, D&O insurance would cover their legal defense and any potential settlements.

Workers Compensation Insurance

Even if your association has no employees, volunteer or "zero payroll," Workers Compensation insurance is necessary. This policy covers medical expenses and lost wages for individuals, Board members, committee members, or volunteers that may be injured while performing work on the association's property. Workers Compensation covers for a major exclusion in most, if not all, General Liability policies. According to Dierdorf "this coverage protects against unexpected accidents, which can happen to anyone." It also may extend to

uninsured or underinsured vendors that sustain injuries while performing work at the association.

Umbrella Insurance

Umbrella insurance acts as an additional layer of protection. It extends the coverage of your underlying liability insurance policies, such as General Liability. In the event of a significant claim that exceeds your primary policy limits, an umbrella policy kicks in, preventing your association from shouldering excessive costs. As Dierdorf notes “it is critical that an association’s General Liability, Directors & Officers, and Workers Compensation policies carry certain primary limits and be listed on the umbrella policy in order for an underlying loss to extend to the umbrella. If not, no coverage will be afforded.” An umbrella policy can also be a financial lifesaver when faced with an unexpected, high-dollar claim. It should be noted that umbrella policies do not extend the limits of commercial property insurance.

Crime/Fidelity Insurance

Crime and Fidelity Insurance addresses losses resulting from criminal activities like embezzlement, fraud, or theft. In a community association, where financial transactions are common, this policy safeguards against internal and external threats. In the unfortunate event of theft by committee members, volunteers or others that may have access to association funds, Crime and Fidelity Insurance would reimburse the stolen funds. In addition to embezzlement, such policies may also provide coverage for forgery, wire fraud, counterfeiting or theft of personal property. Some mortgage underwriting guidelines even require condominium associations and cooperatives with more than 20 units and \$5,000 in the custody of the association to purchase crime and fidelity insurance. If the community association's documents do not specify a particular coverage amount, it is advisable to follow a general guideline: calculate coverage as the sum of three months of assessments on all units in the project, plus all reserves. By applying this formula, an association can ensure that their fidelity bond offers sufficient coverage and align with the requirements of most lending institutions.

Cyber Insurance

Given the sensitive information community associations handle, cyber coverage is indispensable. Cyber insurance helps mitigate the financial fallout from data breaches and cyberattacks. It typically covers costs related to data recovery, legal fees, public relations and notifications to affected parties. A single data breach can be financially devastating. Dierdorf points out, “everything is moving digital. While a Cyber Insurance Policy can’t stop a data breach, it can make dealing with the aftermath much easier.” Associations can sometimes be targeted by wrongdoers due to the high volume of sensitive information (e.g., member contact information, access codes, payment histories, legal or insurance claim information, etc.) touched by the Board.

Environmental Impairment Liability

If your community association is responsible for common areas with potential ecological risks (e.g., storing pool chemicals, pesticides, or other chemicals), Environmental Impairment Liability insurance should be carefully considered. It provides protection in case your association is found liable for pollution or contamination cleanup costs. Potential environmental exposures may include contaminants from historical usage (i.e., past landfills, lagoons, or chemical storage) or present use of septic systems, aboveground or underground tanks or piping.

In today's challenging insurance landscape, proactive planning and preparation are key to ensuring your community association's financial stability and the protection of its board

members, residents, support teams and volunteers. Assessing your association's specific risks to determine what additional coverage is needed is vital. To navigate this, association boards should plan well in advance, solicit the advice of insurance experts, and ensure they have adequate time to secure the necessary coverage. Protecting your community association is not just about safeguarding property; it's about securing the future of your community.

Sentry Management has partnered with the nation's leading association insurance brokers and Sentry Insurance Agency to provide an innovative insurance program that streamlines the insurance bid process for its associations and boards. **"Insured-By"** is an industry-specific, insurance program intended to enhance coverage and offer discounted premiums for Sentry Management's associations. By leveraging the purchasing power of thousands of associations across the nation, associations can realize a 10%-15% premium discount when bundling the following supplemental and important insurance policies through the "Essentials" package: Directors & Officers, Umbrella Liability, Volunteer Workers' Compensation, Crime/Fidelity, and Cyber Liability. Discounts may vary based on limits, deductibles, claims history, age of community, construction type, jurisdictions, and location, among other factors. If you or your board are considering alternatives to your association's current insurance needs, please take a moment to complete the "Contact Us" webform at the following link: <https://www.insured-by.com/contact-us>

Note: *Sentry Insurance Agency matches associations to preferred Brokers who are licensed as property and casualty insurance brokers in Florida (and other states), and is compensated for its services by a licensed broker (not by the association). Sentry Insurance Agency does not market, sell, issue, or service insurance policies, and is not responsible for the insurance that an association purchases.*

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