



Types Of Insurance Community Associations Might Need

What kind of insurance should your community association have?

- **Liability** – In case someone is injured or an accident occurs on association property or at an association event
- **Property** – To protect against loss of or damage to association property
- **Directors & Officers** – To provide defense and payment in case of a lawsuit over association decisions
- **Fidelity** – In case an employee or officer steals association funds
- **Workers Compensation** – In case an employee – or perhaps even a contractor – is injured on the job
- **Flood** – To pay for flood damage, since flooding is not covered under standard homeowner or property policies
- **Ordinance Or Law** – To cover the cost of repairing or rebuilding up to current building codes, not older ones
- **Umbrella** – To provide coverage above the limits of many of the specific policies listed above

Check inside for descriptions and discussions of each of these types of insurance.

302.674.6227 • insurance.delaware.gov



A Guide To

Insurance Issues For Homeowner, Condo & Civic Associations



Delaware Department of Insurance

Trinidad Navarro, Insurance Commissioner

A Message From Delaware's Insurance Commissioner

Delaware's communities are served well by numerous homeowner groups. These groups provide organization and governance at the most localized level—the neighborhood. Sometimes these associations arbitrate minor community matters and sometimes they weigh in on broad public policy debates at the city, county or state level. They are always working to make Delaware a great place to live.

Whether organizing a weekend festival or providing permanent recreational areas, community associations have responsibility – and liability – in the decisions they make. We have compiled this guide based on some of the most commonly asked questions about insurance we receive regarding homeowner associations.

If your group encounters a specific situation not covered by this guide, please contact our office.

Trinidad Navarro
Insurance Commissioner

302.674.6227 • insurance.delaware.gov

Need Help?

The Delaware Insurance Commissioner's Office is here to help if you have questions about or problems with your insurance coverage or insurance company.

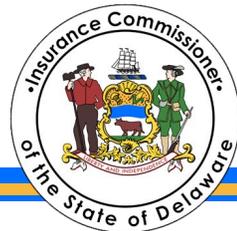
Questions about insurance or complaints about an insurance company or insurance agent can be made to the Commissioner's Consumer Services division by phone, letter, email or with an online complaint form:

Delaware Department of Insurance
841 Silver Lake Blvd.
Dover, DE 19904
(302) 674-6227
consumer@state.de.us (email)
insurance.delaware.gov

Links To More Information

A few websites with advice, articles and discussions regarding community association insurance issues:

- CAIonline.org – Website of the Community Associations Institute
- Communityassociations.net – Links to articles from around the country regarding condominium, homeowner and property owner associations
- Floodsmart.gov – Federal government info on flood insurance, including a tool showing the flood risk for any address



Other Types

Some other types of insurance that might be considered by community associations:

- **Ordinance or law insurance.** Suppose the property insurance you have on a community clubhouse or condominium will pay to rebuild or repair your property to the way it was. But then suppose that your property was built 20 or 30 years ago and building codes, land use regulations and laws have changed since then. In that case, an ordinance or law policy would pay the difference between the work your property insurance policy would pay for and the work needed to bring the property up to the new requirements.
- **Umbrella policy.** An umbrella policy can provide coverage over and above the multiple specific insurance policies your association may have, like liability, directors and officers, and fidelity. If something happens and the maximum coverage under one of those specific policies does not completely cover your loss, an umbrella policy could cover the remainder. Ask the insurance agent or company that provides your other insurance policies about the possibility of an umbrella policy.

The Basics

There are three main types of homeowner and residential associations that deal with insurance issues. It is important to know in which category you reside.

- A **maintenance organization** is a legal entity, comprised of all lot owners in a subdivision. Membership is mandatory in a maintenance organization and is included in the deed when a home is purchased. The dues owed to a maintenance organization are legally enforceable. Their primary responsibilities are maintaining the open space and common facilities located within the community.
- A **condominium council** is comprised of all the owners in a condominium building. Condominium councils are recognized by state law and are charged with the maintenance of common elements in a building and the collection of funds for common expenses. Every multi-unit building needs a master policy to cover shared risks. This will include coverage for general liability and property insurance covering the common areas. The measure of recovery will either be the Actual Cash Value or Replacement Cost Value. Ancillary coverages may also be obtained. These include fidelity insurance to cover employee theft from the council; hired/non-owned auto to cover liabilities arising out of the use of private autos for association business; demo & increased cost of construction and sewer and drain backup.
- A **civic association** is voluntary, with area residents able to choose whether or not they participate. Many civic associations serve the function of providing a collective voice to issues that affect their communities and are often the sponsors of community events like fairs, sales or festivals. Typically, civic associations are not legally responsible for any property.

Insurance issues concerning maintenance organizations often involve the organization's liability for the open space and common facilities of which it is responsible. With condo councils, issues with the requirements for each condo owner can arise. The insurance questions of civic associations often involve liability for community events. And all of groups have questions about the liability of officers.



Delaware state law **exempts maintenance organizations from liability for civil damages** resulting from creating and maintaining parkland. The law applies to any negligent act or omission of the organization, its staff and its contractors. However, the law also states that immunity is provided to the extent any civil damages “exceed existing liability insurance coverage applicable to the act or omission or the minimum liability insurance coverage required by law if no such coverage exists.” There is no clear requirement in state or county codes that groups have liability insurance.

That said, having a general liability policy would meet the implied expectation in state law that there is some liability coverage beyond which the organization is granted immunity. Also, having a liability insurance policy would create a duty for the insurance company to defend the organization if a lawsuit were filed over an injury or accident. It is recommended that organizations seriously consider a liability policy.

Volunteers for associations and other groups with IRS non-profit status do have some protection under state law from being personally sued for negligent action or lack of action while acting on the non-profits. But language in this same section of state law makes clear that the non-profit can be held liable for the actions of the volunteer.

An association that holds a special event, such as a fair or festival, is advised to consider **event liability insurance**. These policies, which are limited to the time period of the event, can provide a significant amount of liability coverage at relatively low cost. They are especially advisable for organizations that have chosen not to have a general liability insurance policy, given the increased attendance and possible increased risk for injury or accidents that an event might bring.

Liability insurance and event insurance policies are generally available from the same insurance companies that offer homeowner, auto and other types of property and casualty insurance.

Also on the subject of liability, neighborhood and civic associations should know that the state Department of Transportation requires

The Delaware Department of Insurance constantly urges homeowners to consider flood insurance because **flood damage is not covered under standard homeowner policies**. Some community associations — mainly condominium councils that insure their buildings — need to consider purchasing separate flood insurance for the same reason.

As with individual homeowners, flood insurance is available to eligible condominium councils from the federal government through the Residential Condominium Building Association Policy. Under this policy, condominium associations can purchase coverage up to an amount equal to \$250,000 multiplied by the number of units in the building or the replacement cost of the building, whichever is less. This way, coverage is provided for each unit without the burden of purchasing policies for each unit separately.

Eligible buildings include garden apartment-type construction, town houses, row houses, and single-family detached buildings owned by the association, as long as 75 percent of the units are used for residential purposes. Residents of the individual units are then advised to purchase contents coverage separately — up to \$100,000 — to ensure that their personal property will be covered.

It is possible that failure to purchase adequate flood insurance — especially for a building or property in a high flood risk area — might be considered by some property owners to be an error or omission by a community association board and could become the subject of a lawsuit.

Information about federal flood insurance is available from the National Flood Insurance Program website at www.floodsmart.gov or by calling 1-888-379-9531.

collection, management firms, landscaping or pool maintenance, are bonded and insured.

A 2007 survey of companies found the following that offer fidelity insurance: National Union Fire Insurance, Great American Insurance and

Workers Compensation

A community association that has direct employees will need to provide workers compensation insurance for them. However, even if an association does not have employees, it **may want to consider having a workers compensation policy** or may be required to by its governing documents.

The reason is that if a company that does work for your organization on a contract basis (say, snow removal or landscaping) does not have workers comp coverage and an employee is injured while working for your organization, the employee may try to collect from you. That is one reason why your organization ought to require proof of workers compensation insurance from any company you hire.

If you hire part-time or seasonal employees and treat them as independent contractors for the purpose of not providing benefits—including workers comp coverage, that relationship may be interpreted to be employment by a workers compensation commission if the worker is injured and otherwise uninsured. That is another reason to consider workers compensation insurance.

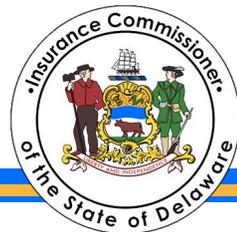
A list of companies that offer workers compensation insurance in Delaware is available from the Delaware Compensation Rating Bureau at www.dcrb.com or (302) 654-1435.

associations **indemnify DelDOT** for any damages resulting from the location of subdivision signs, landscaping or anything else the association puts in the state right-of-way. That means the association takes responsibility for injury, damage or accident involving the sign or landscaping owned by the association – regardless of whether or not an association has liability insurance.

The indemnification requirement is in the Right-of-Way Use Agreement an association must sign before placing a sign or project in the right-of-way. Call DelDOT at (302) 760-2185 with any questions.



302.674.6227 • insurance.delaware.gov



Property

Many homeowner organizations own some amount of property, whether it is simply an entrance sign at a community entrance, some open space with recreational equipment, a community clubhouse, or a condominium building with many common areas. As with a homeowner's individual property, an organization's property should be insured so it can be fixed or replaced in the event of loss or damage.

The insurance on property could be in the form of a **property insurance policy**, or it could be in the form of an amount of money the organization sets aside in the event of something happening, which would make the organization "self-insured." Obviously, the more property an organization has control of, the less viable it would be to remain self-insured. However, for some organizations with a small amount of property, simply setting money aside or agreeing to assess the property owners in the event of a loss might be less costly than paying the premiums on a property insurance policy for years. Some organization bylaws require insurance policies, so self-insurance may not be an option.

Questions often arise, especially in condominiums, about what items and areas are covered under the organization's property insurance policy and what is covered under individual unit owner's policies. Make sure your board and owners are clear on the lines if you purchase a policy.

Some condo councils have told the Department of Insurance that their property insurance company has asked the council to inspect condo units for smoke detectors. While a condo council might require smoke detectors in a building's code of regulations or post flyers in the buildings encouraging residents to obtain them, council members cannot, without the owner's permission, physically enter the individual condos to check and an insurance company should not make such a request.

Most companies that offer homeowners and auto insurance will offer property insurance to community associations.

302.674.6227 • insurance.delaware.gov

Directors & Officers

Also known as D&O, directors and officers insurance provides coverage to the organization against claims that the board and leaders made negligent or bad decisions. The reality is that not all your organization's decisions will be popular to all property owners and you may be sued over them.

A **D&O policy** can include both current board and committee members as well as past directors and officers, the organization itself and managers. It can include payment for legal defense costs as well as payment of losses in a lawsuit. The details and coverage of D&O policies can vary substantially from one company to another, so compare policies you are considering carefully. D&O insurance does not cover willful misconduct or activities occurring outside the scope of the directors' authorized activities.

A 2007 survey of the top 15 specialty liability insurance companies in Delaware found the following sell D&O policies: National Union Fire Insurance, Zurich American Insurance and Ace American Insurance.

Fidelity

One area of insurance for community associations that is often overlooked is fidelity coverage, also known as fidelity bond or employee dishonesty coverage. A fidelity policy insures against **theft from the organization by employees; available endorsements can expand coverage to include property managers or even directors and officers**. Covered assets include money, property and, stock certificates. However, because recovery turns on intent, fidelity does not cover "lost" property and, accordingly, policies may require conviction as a condition precedent to collecting.

Fidelity policies are usually written based on the amount of money being handled by your association, including operating funds, reserves and investments.

It is also important for an association to make sure that your association's service providers, such as trash

