



## INSURANCE FOCUS

### RISK MANAGEMENT

Preventing injuries and losses to property are major concerns for community associations. From major accidents that affect many residents—like fire—to smaller incidents that affect a single person—like a sidewalk fall—accidents cause needless suffering and expense and are often preventable.

More than just another insurance term, risk management can reduce operating costs and premiums and help you make the most of the current insurance marketplace. By identifying potential exposures or chances of injury, damage, or loss *before* they occur, a professional risk management and insurance agent can help reduce these risks and make your property safer.

#### What is risk?

Risk is a part of our everyday personal and business life and is defined as any uncertainty about a future event that threatens one's ability to accomplish a mission, protect physical well being, or protect property or assets.

#### What is risk management?

Risk management is a process for planning and dealing with the possibility that a future event will cause harm or financial loss. Risk management helps a community association define strategies, techniques, and approaches to recognizing and confronting exposures to risk.

It is a continuing process that begins with identifying the exposures that could have a negative impact on the community association, developing solutions for dealing with these risks, and monitoring the effectiveness of the solutions.

#### How do we identify risks?

Your insurance agent should take the time to help you establish a program of inspections and reports that will identify problem areas and possible accident sites. Completing the Self Inspection Checklist in this newsletter will help you see where problems might exist. You will then be able to structure a more comprehensive insurance program for your properties that will eliminate some risks and manage others more efficiently.



Just as community association managers and board members partner with their attorneys and accountants to effectively manage their community associations, so too should they partner with their insurance agent to effectively manage the unique risks they face.

#### What is a risk assessment plan?

A risk assessment plan identifies and analyzes a community association's exposures created by contracts, employees, and third parties. Community association managers and board members must review and document all general and specific risks of the association.

By working with an insurance professional who is knowledgeable in the field of risk management, you can reduce premiums by reducing claims.

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What actions or activities could result in a loss: operating a motor vehicle? providing a security service? maintaining a parking lot? These activities are further quantified by evaluating what could go wrong, the likelihood that this will happen, and the impact (usually measured in financial terms) if the loss does happen.

Community associations have many property exposures. The largest consideration for associations is its real property, such as buildings, signs, pools, lakes, golf courses, piers, and docks. Services, such as valet parking, an in-unit maintenance service, or a shuttle bus, require attention, as do programs such as swim teams, exercise classes, book clubs, day care, and bridge clubs. Common area facilities, including lobbies, hallways, walkways, and parking areas, should be included in the risk assessment plan.

Although property considerations are our primary emphasis here, liability exposures also need to be considered in a risk assessment plan. An example of a liability situation would be a third party legal action against the association alleging negligence resulting in bodily injury or property damage.

The risk assessment plan must take the following into account:

- state and local laws and regulations;
- association declarations and bylaws;
- federal government requirements (such as OSHA regulations); and
- lender requirements.

Failure to meet the requirements listed in these documents could be seen as a breach of fiduciary duty.

### How do we deal with risk?

Once all of the risks are compiled, the next step in the risk management plan is to consider techniques to deal with the risk. Community associations can employ all or some of the following four techniques:

**Exposure avoidance:** Examples of avoidance include eliminating diving boards, armed guards, swim teams, and alcohol at community functions.

## ELEMENTS OF RISK MANAGEMENT

- 1) Identifying and analyzing exposures
  - property
  - liability
- 2) Examining alternative techniques
  - avoidance
  - transfer
  - prevention
  - segregation
- 3) Selecting a risk management program
- 4) Implementing the techniques
- 5) Monitoring and adjusting program

Avoidance could mean not undertaking a risk, such as not constructing a children’s playground or not serving alcohol in the clubhouse.

**Risk transfer:** The main method for transferring risk is through purchasing insurance. Another method of risk transfer is hiring a company to perform services such as pool management, landscaping, and janitorial services instead of having community association employees perform these tasks.

**Loss prevention/reduction:** Activities that reduce the frequency or severity

of loss are another way to handle risk exposures. Examples include having “service days” to check washing machine hoses, water heaters, and smoke detectors; checking emergency and exit lights on a regular schedule; and having fire alarm drills. Monetary loss prevention activities include reviewing and reconciling bank statements monthly, having a written policy on signatures, and segregating financial duties.

**Segregation of exposures:** This entails establishing some type of backup to prevent a loss, such as by making backup files and establishing emergency plans.

### What should we know about selecting and implementing a risk management program?

A good risk management program—

- requires a commitment to risk management as a business practice;
- involves both the board of directors and management;
- has a designated person responsible for implementing the program; and
- requires the dedication of financial resources to carry out the plan.

Community leaders and board members must use good business judgment, treat all residents equally, communicate, and document all activities.

### What about monitoring and adjusting the risk management program?

Board members and managers must determine whether the risk management techniques have been implemented correctly or whether they



SELF INSPECTION CHECKLIST (PAGE 1)

The following checklist is intended as a guide to assist community association personnel in looking over various areas in and around buildings for dangerous or unsafe situations. This list is not intended to be all inclusive.

- OK Action Needed
Are gutters and downspouts in good condition and not clogged or obstructed?
Is exterior housekeeping satisfactory?
Is caulking around windows and doors able to prevent rain penetration?
Is roof condition good and free of serious leaks?
Is there a detailed master schedule indicating frequency (date) and type of service for all building components requiring regular maintenance?
Are sewers cleaned out on a regular basis?
Are convector filters changed at least twice a year?
Are all plumbing fixtures and piping in good condition?
Are boilers, including burners, in good condition and properly maintained?
Is air conditioning equipment in good condition and properly maintained?
Do boilers have low water and other necessary alarms?
Is laundry equipment, including hoses, in good condition?
Are all interior and exterior drains open and unobstructed?
Are owners/tenants who are going to be away extended periods in winter asked to notify management so that freezing can be controlled?
Are smoke detectors both battery-powered and hard-wired so as to operate in the event of either battery failure or central panel power failure?
Are all fire extinguishers properly serviced, in good condition, and properly hung?
Are standpipe hoses, if any, properly hung and provided with nozzles?
Are all sprinkler control valves chained and locked in the open position or provided with tamper alarms?

A. PREMISES (Interior)

- Are floors in all public areas, including floor coverings, in good condition and free of tripping and falling hazards?
Are swinging, self-closing doors at entrances properly adjusted so as not to close too rapidly and strike anyone?
Do all floor-to-ceiling plate glass windows or doors located where there is a walk-through or run-through hazard have bars, etchings, or decals at child and adult eye levels?
Do any pedestrian ramps have non-skid surfacing or strips?
Do any flights of three steps or more have standard handrails on the right side descending, or both sides if open?
Are stair treads in good condition and free of tripping hazards?
Are steps of uniform height and tread width?
Are "Step Up" or "Step Down" hazards properly marked?
Are all swinging doors that could be pushed out into traffic areas equipped with see-through windows?
Are there any overhead obstructions below seven feet that could cause head injury?
Are signs and wall or ceiling hangings securely fastened or suspended?
If there are automatic doors, are they properly adjusted?
Are dust mats, if any, at entrances in good condition and without any turned-up edges?
Is interior lighting in all areas adequate, and are all fixtures working?
Is there proper and adequate emergency lighting in closed corridors and in stairways?
a. Are emergency lights tested monthly for working order?
b. Records kept?
Are "Wet Floor" signs posted when mopping?
Is an Underwriters Laboratory listed wax of the non-skid type used?
Is housekeeping adequate in all areas?
Are proper instructions posted in trash chute rooms?
Are any fire doors blocked open?



### SELF INSPECTION CHECKLIST (PAGE 2)

OK      Action  
          Needed

#### B. EXITS

- \_\_\_\_\_    \_\_\_\_\_ Are all exits visible and unobstructed?
- \_\_\_\_\_    \_\_\_\_\_ Are all exits marked with a readily visible sign that is properly illuminated?
- \_\_\_\_\_    \_\_\_\_\_ Do all exit doors swing out in the direction of exit traffic?
- \_\_\_\_\_    \_\_\_\_\_ Are there sufficient exits to permit prompt evacuation?
- \_\_\_\_\_    \_\_\_\_\_ Are exit paths on the exterior of the building free of obstructions and properly lighted?

#### C. PREMISES (Exterior)

- \_\_\_\_\_    \_\_\_\_\_ Are sidewalks and stoops in good condition and free of tripping or falling hazards?
- \_\_\_\_\_    \_\_\_\_\_ Are raised sidewalks marked with yellow borders to call attention to the difference in levels?
- \_\_\_\_\_    \_\_\_\_\_ Are exterior steps, if any, in good condition and equipped with handrails?
- \_\_\_\_\_    \_\_\_\_\_ Do exterior ramps, if any, have non-skid surfacing or strips?
- \_\_\_\_\_    \_\_\_\_\_ Are walkways adjacent to the building free of obstructions on the side of the building or overhead?
- \_\_\_\_\_    \_\_\_\_\_ Is parking lot surfacing in good condition and free of tripping, falling, and vehicle damage hazards?
- \_\_\_\_\_    \_\_\_\_\_ Is the parking lot properly striped with stripes in good condition?
- \_\_\_\_\_    \_\_\_\_\_ Are traffic patterns and signs, if necessary, displayed?
- \_\_\_\_\_    \_\_\_\_\_ Are oil or grease spills from parked autos regularly treated with absorbent compound and cleaned up?
- \_\_\_\_\_    \_\_\_\_\_ Are raised parking stops, if any, properly anchored and placed so as to minimize pedestrian hazards?  
(Their use should be avoided, if possible.)
- \_\_\_\_\_    \_\_\_\_\_ Is the entire parking area well-illuminated?
- \_\_\_\_\_    \_\_\_\_\_ Are all public exterior areas plainly visible?
- \_\_\_\_\_    \_\_\_\_\_ Is there an adequate ice and snow treatment and removal plan?
- \_\_\_\_\_    \_\_\_\_\_ Do downspouts directly empty on traffic paths where they can lead to slippery or icing conditions?
- \_\_\_\_\_    \_\_\_\_\_ Are automatic garage gates in good condition and free of defects?
- \_\_\_\_\_    \_\_\_\_\_ Are safe overhead clearance signs posted at garage entrances?

#### D. MECHANICAL

- \_\_\_\_\_    \_\_\_\_\_ Is there any asbestos exposure, and if so, what is its condition?

#### E. SAFETY MEASURES

- \_\_\_\_\_    \_\_\_\_\_ Are exterior doors and entrances kept locked?
- \_\_\_\_\_    \_\_\_\_\_ Are video monitors needed in key locations?
- \_\_\_\_\_    \_\_\_\_\_ Are unit doors of metal or substantial construction with proper locks and peepholes (including low-level peepholes where needed)?
- \_\_\_\_\_    \_\_\_\_\_ Is there proper master key control?
- \_\_\_\_\_    \_\_\_\_\_ Are employees carefully screened?
- \_\_\_\_\_    \_\_\_\_\_ Do patrol guards, if any, have proper training?
- \_\_\_\_\_    \_\_\_\_\_ Are there any brochures or literature that have "advertised" a level of security protection that is no longer maintained?



need to be adjusted. A regular review of emergency management plans is necessary. Also, management must communicate any changes or adjustments to those who will be affected, especially residents.

### What should I know about controlling insurance claims?

Community associations can control claims with proper reporting, mitigation techniques, and regular claims reports.

All accidents and incidents should be recorded. Losses should be called in immediately to a claims coordinator, an individual designated by your insurance agency to handle specific claims that arise on your property.

A claim can be settled inexpensively and defended successfully if the injured party feels he has been treated with concern and fairness. Often, an injured person will pursue a claim because of the poor manner in which he was initially treated, or because the claim was reported late and no effort was made to provide proper attention. Courteous treatment throughout can result in much smaller claims.

Regularly-scheduled claims reports foster awareness of exposures and an opportunity for an insurance agent to offer suggestions for prevention of future losses. These reports summarize the association's claims and provide the current status of outstanding cases.

### What about contractors and employees?

If an independent contractor provides your association with services such as landscaping, trash removal, or snow removal, it is essential that the associ-

ation have a Certificate of Insurance on file confirming that the contractor has appropriate insurance including general liability, workers compensation, and automobile liability coverage.

Although recommendations differ depending upon the type of contractor and the nature of work to be performed, we generally suggest a minimum \$5,000,000 combined single general liability insurance limit for bodily injury and property damage with a \$5,000,000 annual aggregate

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limit. A single general liability policy or combination of a primary underlying and umbrella policies to achieve the suggested limits is acceptable.

Policy limits should be provided to the full extent for the benefit of the association, or the contractor should be asked for a loss run for the current policy term to confirm that aggregate limits are not in jeopardy of being exhausted.

Workers Compensation insurance should always be confirmed with coverage and amounts as required by law, including employer's liability coverage with a policy limit of at least \$500,000 and a provision for extending the policy in accordance with the law of other jurisdictions.

Automobile insurance should include owned, non-owned, and hired car liability coverage with bodily injury and property damage limits of at least \$1,000,000 each occurrence and annual aggregate.

The contract should include an indemnity clause with a "hold harmless agreement" in the association's favor including both indemnification and defense provisions, which requires the contractor to protect the association's interests against claims, suits, or other causes of action caused by or arising out of the contractor's work.

Unless an independent act of negligence (such as negligent hiring) can be established against the insured, most associations would probably not be liable for damages caused by an independent contractor. Safety rules and regulations are a commonsense necessity.

### What's the bottom line?

Community associations face risks each day. It is possible, with a thoughtful and methodical approach, to avoid many of these risks and to provide a safer, more comfortable environment. By working with an insurance professional who is knowledgeable in the field of risk management, you can reduce premiums by reducing claims.

### Where should I go for further information?

If you have any questions or need further information, please contact Steve Dickerson (703-205-8788 or Steve.Dickerson@usi.biz) or Theresa Melson (703-205-8753 or Theresa.Melson@usi.biz).



ASK THE EXPERT

“Ask the Expert” is a regular column in *Insurance Focus*, featuring an interview with an expert about an important insurance issue facing community associations. This month our expert is Michael C. Cosca, the USI Mid-Atlantic Regional Risk Management Consultant. Michael is responsible for all major lines of commercial insurance coverage risk control for USI clients in the public and private sectors. Michael has more than ten years of experience in all aspects of safety management and risk control. He can be reached at 757-640-5450 or michael.cosca@usi.biz.

**Q:** How can we prevent slips, trips, and falls in our community association common areas?

**A:** One of the major exposures facing your community association from a liability standpoint is how to prevent slips, trips, and falls. Typically these types of incidents occur on same level surfaces and are a leading cause of premises liability injuries and accidental deaths.

There are five major causes of slip, trip, and fall type accidents:

1. Lack of slip resistance on walking surfaces
2. Poor walking surface conditions
3. Lack or poor condition of handrails and guardrails
4. Poor visibility
5. Poor accessibility

Slips and falls happen when there is too little traction between the footwear and the walking surface. When trying to prevent slips, trips, and falls, focus should be put into eliminating common causes such as:

- Wet or oily surfaces
- Occasional spills
- Weather-related hazards
- Loose, unanchored rugs or mats
- Walking surfaces that do not have the same degree of traction in all areas
- Obstructed views
- Poor lighting
- Cluttered walkways
- Wrinkled carpeting

- Uncovered cables
- Uneven walking surfaces
- Loose or damaged floor mats

One of the first and most important steps to preventing slips, trips, and falls is to maintain good housekeeping. Also, remember to address the following items:

- Clean up spills immediately
- Mark wet floors and spills
- Remove obstacles from walkways
- Keep walkways free of clutter
- Secure rugs, mats, and carpets
- Keep areas well lit

Besides maintaining good housekeeping, you can implement a slip and fall prevention program, which should look at all walking surfaces and not just focus on single remedy solutions. Train staff to inspect for hazards through a documented inspection process. If a hazard is found, make sure you document any repairs. Always properly maintain walking surfaces and evaluate whether the current cleaning procedures are effective.

If a slip, trip, and fall type accident has occurred, complete a formal accident investigation to determine the root cause of the incident. This information may be useful in preventing similar occurrences. Slip, trip, and fall type accidents are preventable at your community association if the right approach is taken to address how the exposures are identified and controlled.