Eight Proven Steps: Obtaining Bids for Your Association's Insurance

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Purchasing insurance for a common interest development may be the single most important buying decision your Board of Directors will make this year. Not only is this decision integral to the Association's overall risk management program, but the Board must simultaneously meet or exceed the insurance requirements contained in the California Civil Code, the Association's own governing documents, and even those insurance requirements of first trust deed holders providing loans within the project.

Step #1 - START EARLY – Begin the process at least 90 to 120 days prior to the renewal date by ordering updated loss runs from all insurance carriers who have provided coverage for the Association for the past three to five years. While requesting the loss history, don't forget to confirm with the incumbent agent/broker his opinion as to whether the current insurance carrier will be offering a renewal.

Step #2 – CHECK FOR LOSS HISTORY ACCURACY AND PREPARE AN EXPLANATION WHEN NECESSARY – Losses can be miscoded (example: mold claim, when they're really not), attributed to one insured when they actually belong to another, and continue to appear on the loss history even though the carrier has successfully subrogated against the negligent party (and failed to remove the claim from the Association's history). It's also possible your carrier's version of your loss history doesn't really reflect today's condition of the property. If your Association has taken steps to improve the property since the losses occurred, write a narrative about those steps you've taken -- and attach it to the loss history. If a particular loss points to an inherent physical problem with the project which has since been corrected (re-piping, new roof, et al) of a particularly litigious unit owner has sold his unit and moved to Utah, make sure anybody looking at the loss history knows the new (improved) situation.

Step #3 - ASSEMBLE A COMPLETE BID PACKAGE -- Preparing a complete and accurate bid specification can be time consuming but it will make the evaluation process easier. The bid package should include: (1) a brief description of the property including the number of units, year built, type of construction of improvements, overview of amenities (pools, spas, et al) and any other structural improvements the Association may have an insurable interest; (2) a complete copy of the CC&R's and By-Laws; (3) a copy of the site or plot plan; (4) Current three year loss run on the prior carrier's letterhead; (5) copies of the declarations page from the current year; (6) copies of the Association's current financial statements/budget; and (7) Current Appraisal (if available).

Steps #4 – ASSIGN THE MARKETS – IMPORTANT: An insurance carrier will only release a premium quotation to <u>one</u> agent/broker. If more than one agent/broker wants to use the same insurance carrier, you'll have to assign which person will access that market on your behalf. If submissions from multiple agents have been sent to the same carrier a signed Agent/Broker of Record letter may be necessary in order to clarify with the carrier which agent/broker you actually want to represent you.

Step #5 – EVALUATE THE INSURERS – While there are five well-known insurance rating organizations, most common interest developments will rely on A. M. Best to evaluate the financial stability of the carrier offering quotes. The letter grade ratings (A through F) and financial size categories (Roman numeral "I" through "XV") can give you a quick "barometer" of a carrier's health. If you really want more detailed information about the carrier, ask your agent/broker to submit a recent A. M. Best "Company Report" for each carrier they quote. These documents (usually 12-15 pages in length) will provide you with very detailed information about the type of risks they insure, the experience of company's management, types and diversity of their investment portfolio, loss ratios, etc.. In addition to the financial ratings, the Board will want to consider the carrier's experience and commitment to common interest developments. A carrier who is new to condominiums or PUD's or one that is "in and out" of the insurance marketplace probably wouldn't be conducive to building a long-term relationship.

STEP #6 – ARE AGENTS/BROKERS QUALIFIED TO QUOTE? – The suitability of an insurance agent/broker can involve a number of criteria including their years of experience, years of experience insuring common interest developments and their professional background. Of course their involvement in CACM and CAI is a good barometer of their commitment to the industry. Professional designations include C.P.C.U. (Chartered Property and Casualty Underwriter), ARM (Associate in Risk Management), C.I.C. (Certified Insurance Counselor), and CIRMS (Community Insurance and Risk Management Specialist).

STEP #7 – DON'T BE AFRAID TO USE A SPREADSHEET – Even the most experience risk manager will create a "line by line" comparison of the coverages and benefits being offered by the various companies offering a proposal. A visual representation of this type will easily illustrate the merits (or deficiencies) provided by one proposal over another – and will immediately tell you if a certain proposal is competitively priced – only because the agent/broker has inadvertently omitted an important coverage.

STEP #8 – RESIST THE URGE -- LET PRICE BE THE LAST CONSIDERATION

Price is important – particularly during this topsy-turvy insurance crisis, but don't let the Board of Directors fall into the trap of going to the "bottom line" first. If you do, you may forget the number one goal of buying insurance: protecting the Association's assets. Not to say that good insurance can't be competitively priced, but be certain that the Association is getting exactly what they expected before they prepare to sign the check.

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