

**Sample Home Owners Association, Inc.
Property Insurance Policy Audit
Major Insurance Coverage Issues**

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Package Policy: Property, Commercial General Liability, Inland Marine & Crime
Shifting Sands Mutual Insurance Company

Policy #: AAA1

Policy Term: July 1, 2019-20

Property Coverage

This policy provides coverage for direct physical damage to those buildings and contents listed on the policy as a covered location subject to policy exclusions and limitations. Coverage is on a replacement cost basis. Coverage only applies while your property is located in the United States or Canada. The policy also provides coverage for the loss of income and/or the extra expense incurred to keep your operations going after an insured loss. The policy has a blanket single limit for property damage to buildings and contents of \$_____. The loss of income and extra expense limit is a blanket limit of \$_____. The policy is subject to a deductible of \$_____ for physical property damage and \$_____ deductible for loss of business income and extra expense. The annual premium is \$_____.

The policy provides various coverages subject to sub limits. Some of the major sub limited coverages include:

1. \$_____ for loss caused by the operation of building codes or ordinances including demolition costs and increased cost of construction to meet current building codes.
2. \$_____ per loss for property in transit (property in the process of being moved from one location to another).
3. \$_____ for damage to property at unnamed locations (locations not listed as insured locations on your policy).
4. \$_____ for the research and reconstruction cost for damage to valuable papers.
5. \$_____ for loss caused by damage to accounts receivable records.
6. \$_____ for the research, reconstruction and re-entry costs for damage to information stored on computer media (disks, tapes, files, etc.) at insured locations. However, only \$_____ coverage is available for loss caused by a computer virus or a widespread computer hacking event.
7. \$_____ aggregate for all claims during the policy year for losses caused by flood or other water damage at scheduled locations. There is no coverage for property located in Federal Flood Zones _____. This coverage is subject to a deductible of \$_____ per loss.
8. \$_____ aggregate for all claims during the policy year for losses caused by earth movement at scheduled locations. There is no coverage for any property located in _____. This coverage is subject to a deductible of \$_____ per loss.

Sample Home Owners Association, Inc.

Property Insurance Policy Audit

Major Insurance Coverage Issues

9. \$_____ for damage to fine arts subject to a maximum of \$_____ per item.
10. \$_____ for property damage to equipment caused by the loss of debris removal from an insured peril.
11. \$_____ for loss of income or extra expense caused by a loss of debris removal from an insured peril. This coverage is subject to a ____ hour deductible.
12. Coverage for newly acquired premises for a period of 90 days from the date of acquisition: \$_____ for buildings; \$_____ for personal property; \$_____ for business income and extra expense; \$_____ for electronic data processing equipment; \$_____ for electronic data processing media; \$_____ for telephone equipment.

Analysis and Recommendations

1. COVERAGE MISSING ON NUMEROUS SEPARATE BUILDINGS & STRUCTURES ON XXX INSURED PROPERTY LOCATIONS & POLICY MISSING LOCATIONS WHERE XXX HAS PROPERTY. There is no property coverage on several separate structures at the Owners' Club such as the 2 water slides, handicapped lift chair, pool railings set in concrete, flag pole and other separate structures. This should be corrected immediately. The same issue applies to the other insured locations.

There are only 2 insured buildings/structures scheduled on the policy at the Owners' Club, the main building and the pool building. There is only 1 insured building/structure scheduled on the policy at each of the Maintenance, Marina, Riding Center, School House Museum, Refuse Center and Refuse Station locations.

The Maintenance location has the main building, 2 above ground storage tanks, at least 3 other buildings.

The Marina location has the main building, the picnic pavilion, 2 pedestrian bridges, an above ground fuel storage tank, fish cleaning shed, salt storage shed, a flag pole.

The Riding Center has the main building, a second building, a stand-alone feed bin, a wood horse shelter, 5 bleacher stands, a metal water tank, a flag pole, steel hand railings for concrete steps.

The policy is missing locations where the XXX has property, such as the information kiosk, North Cove picnic shelter, Stony Point antenna tower, Miner Road Quarry fence, Brodrecht Quarry fence, free standing signs.

The policy only provides coverage for those buildings and separate structures scheduled for each insured location. Separate structures such as flag poles, unattached sheds, unattached garages, out buildings, above ground tanks, satellite dishes, freestanding antennas and other standalone structures must be specifically listed on the policy as a covered item at each insured location.

Sample Home Owners Association, Inc.

Property Insurance Policy Audit

Major Insurance Coverage Issues

The XXX needs to review the its Property Statement of Values to make sure all separate structures that need to be insured are properly scheduled on the policy and all locations where it has property are specifically identified by street address.

The policy should be amended to provide automatic coverage for all buildings and structures at an insured location.

Policy Reference: Section A.1. on page 1 of the Property Coverage Form, # XX 00 07.

2. BUSINESS INCOME AND EXTRA EXPENSE COVERAGE MISSING ON POOL BUILDING AT THE OWNERS' CLUB, MARINA, RIDING CENTER, SCHOOL HOUSE MUSEUM, REFUSE CENTER, REFUSE STATION LOCATIONS. The Business Income and Extra Expense 12 month Loss Sustained Coverage only applies to Building 1 at the Owners' Club and Building 1 at the Maintenance locations. This coverage does not apply to the Pool Building at the Owners' Club or any of the buildings at the Marina, Riding Center, School House Museum, Refuse Center and Refuse Station locations. This should be corrected immediately.

Policy Reference: Business Income Coverage Declaration page, Form # XX-7026 (10/11).

3. OUTDOOR PROPERTY POLICY LIMIT INADEQUATE. The Outdoor Property coverage includes outdoor fences, paved surfaces (parking lots, driveways, pool concrete patios), outdoor lights, outdoor signs, playground equipment, outdoor canopies or awnings and other types of outdoor property. The policy limit for all outdoor property is only \$250,000. This is woefully inadequate. It is my understanding that the insurance value of the fences at the Riding Center by itself is over \$290,000. This limit needs to be substantially increased.

Policy Reference: Outdoor Property Section of the Coverage Extensions on page 7 of the Property Extension Endorsement, Form #XX 16. Outdoor Property Limit Section on page 3 of the Schedule – Golf Facilities Form, #XX 76 45 01 16.

4. BUSINESS INCOME ACTUAL LOSS SUSTAINED - 12 MONTH LIMITATION ENDORSEMENT ISSUE. This endorsement restricts the Business Income Coverage to a maximum of 12 consecutive months after the date of the direct physical damage or loss. This is a major restriction in coverage. In a serious loss situation, it may take several years to repair or replace an insured building. This endorsement should be deleted.

If Business Income Coverage is limited to 12 months, this creates a potential serious gap in coverage. In a total loss situation, this 12 month limitation is inadequate. If a Force 5 tornado hit the XXX's buildings/facilities, it is very doubtful they will repair or rebuild their facilities within 12 months. If the monthly limitation can be amended, a limitation of 2 or 3 years instead of 12 months is suggested. The XXX should develop a Disaster Recovery Plan for all their locations that would include developing an estimate of the time it would take to rebuild their facilities in a total loss situation after a wide spread disaster.

Sample Home Owners Association, Inc.

Property Insurance Policy Audit

Major Insurance Coverage Issues

Policy Reference: Item B. on the Business Income Actual Loss Sustained - 12 Month Limitation Endorsement, Form #XX 01 16.

5. RENTAL VALUE COVERAGE MISSING ISSUE. The Business Income coverage does not include Rental Value. The policy states the Business Income including Rental Value coverage option will be shown in the Declarations. The policy's Declaration page does not show this option applies. Rental Value means the fair rental value of any portion of the insured premises which is occupied by you. If your building(s) where you conduct your operations becomes untenable because of a serious property damage loss, you may need to relocate your operations and rent appropriate building space from a third party. If your Business Income coverage does not include Rental Value, you will have no coverage for this additional real estate rental cost. The Business Income coverage should be amended to include Rental Value.

Policy Reference: Paragraphs 5 and 9 in Section F.1. on page 1 and Section P.5. on page 9 of the Business Income Coverage Form, # XX 00 07. Business Income Section on the Commercial Property Coverage Declaration page, Form # XX-26 (10/11).

6. COVERAGE FOR BUSINESS PERSONAL PROPERTY/CONTENTS SUBJECT TO COINSURANCE REQUIREMENT ISSUE. The Business Personal Property coverage is written subject to a coinsurance requirement. The policy limit for business personal property must be at least 100% of the replacement cost value of this property. If the policy limit for this coverage is not adequate to meet the coinsurance requirement, you will be penalized for any loss that may occur.

The policy should be amended to waive the coinsurance requirement on this coverage.

Policy Reference: Coverage – Blanket Locations Section of the Property Insurance Coverage Declaration page, Form XX-(10/11). Coverage – Blanket Locations Section on Commercial Property Schedule, Form # XX 7 (10/11).

7. OUTDOOR TREES, SHRUBS AND PLANTS COVERAGE POLICY LIMIT MAYBE INADEQUATE. The policy limit for damage to trees, shrubs and plants is only \$25,000. This is probably inadequate. The proper policy limit for this coverage needs to be analyzed.

Policy Reference: Outdoor Trees, Shrubs and Plants Section of the Coverage Extensions on page 7 of the ElitePac Property Extension Endorsement, Form #XX 7. Outdoor Trees, Shrubs and Plants Limit Section on page 3 of the ElitePac Schedule – Golf Facilities and Country Club Form, #XX 16.

8. MOLD, FUNGUS OR BACTERIA COVERAGE LIMIT INADEQUATE. The policy excludes coverage for any loss caused by fungus, including mold or bacteria. The policy does cover resulting fungus, mold or bacteria coverage if the loss is caused by fire or lightning. The policy does provide \$15,000 of coverage if mold damage is the result of a specified cause of loss as defined in the policy. Specified causes of loss include windstorm, vandalism, For example, a windstorm damages the roof and rain gets into the building. Mold starts to grow on the wet building materials within 36 hours.

Sample Home Owners Association, Inc.

Property Insurance Policy Audit

Major Insurance Coverage Issues

This can be corrected by increasing the \$15,000 limit to at least \$1,000,000 using the ISO Endorsement, Changes – Fungus, Wet Rot, Dry Rot and Bacteria, Form # XX 04 31 04 02.

However, mold, fungus and bacteria damage can be caused by other types of perils, such as bursting or leaking pipes, sewer or drain backup, inadequate vapor/moisture barriers used in construction of a building and other causes of loss. Separate Mold, Fungus and Bacteria Environmental Impairment Insurance needs to be purchased to provide coverage for these types of losses.

Policy Reference: Section P.2.d.(2) on page 2, Section W.1. on page 8 and Section Z.2. on page 10 of the Causes of Loss – Special Form, Form #XX 6 07.

9. POLLUTANT CLEAN UP COSTS OF LAND OR WATER COVERAGE LIMIT INADEQUATE. The policy provides Pollutant Clean-Up and Removal Coverage with a limit of \$50,000 aggregate for all claims that may occur during the policy period. This provides coverage for the cost to remove pollutants from land or water on insured premises. XXX needs to evaluate this potential pollution exposure within its operations and consider increasing this limit. I suggest obtaining quotations to increase this limit. In a serious loss situation, hazardous materials can be released into the environment. The clean-up costs regarding such pollution can be substantial.

This can be accomplished by using the ISO Endorsement, Pollutant Cleanup and Removal Additional Aggregate Limit of Insurance, # XX 10 91.

One of my clients had a fire in an electrical transformer that released PCBs into the ground. The clean-up costs exceeded \$300,000.

The policy provides \$25,000 for loss of Business Income resulting from Pollution Clean-Up and Removal of income or extra expense associated with the delay in re-opening a property because of the extra time required to clean up the pollution. The Pollutant Clean-Up and Removal – Business Income Coverage should be amended to apply both to the clean-up costs and the associated loss of business income and/or extra expense. The \$25,000 policy limit for this coverage needs to be evaluated for its adequacy.

Policy Reference: Pollutant Clean-up and Removal Limit Section on page 1 and Pollutant Clean-up and Removal – Business Income Section on page 15 of the Property Extension Endorsement, Form #XX 01 16. Pollutant Clean-up and Removal Limit Section on page 3 and the Pollutant Clean-up and Removal – Business Income Limit on page 1 of the ElitePac Schedule – Golf Facilities Form, #XX 01 16. Section A.4.d. on page p. 5 of the Building Property Coverage Form, #XX 06 07.

10. LIMITATION OF COVERAGE FOR OUTDOOR SIGNS ISSUE. Outdoor signs whether or not attached to a building are limited to a maximum recovery of \$2,500 per sign in any one occurrence. The XXX has several outdoor signs that are valued at more than \$2,500 per sign. This includes the following signs described in the XXX's Statement of Property Values:

- a. Entrance sign in the open: \$11,605
- b. SRC sign at entry: \$4,975
- c. Wood directional sign: \$25,935

Sample Home Owners Association, Inc.

Property Insurance Policy Audit

Major Insurance Coverage Issues

d. Entry sign: \$8,340

The policy should be amended to delete the \$2,500 per sign limitation.

Policy Reference: Section C. on page 9 of the Personal Property Coverage Form, # XX 06 07.

11. BACK UP OF SEWER, DRAIN OR SUMP COVERAGE AND FUNGI & BACTERIA EXCLUSION ISSUE. The policy provides \$100,000 for property damage and \$100,000 for loss of business income caused by sewer, drain or sump back up. Water that back up through sewers, drains and sumps is full of bacteria and subject to mold/fungi damage. The policy excludes any loss caused directly or indirectly by fungi (including mold) and bacteria. Such loss or damage is excluded regardless of any other cause or event that contributes concurrently or in any sequence to the loss.

The Back Up of Sewer, Drain or Sump – Direct Damage and Business Income coverages do not change this exclusion. Therefore, these coverages are subject to the Fungi and Bacteria exclusions which renders these coverages useless. The Back Up of Sewer, Drain or Sump – Direct Damage and Business Income coverages should be amended to state the Fungi, Dry Rot, Wet Rot and Bacteria exclusions do not apply to these coverages.

Policy Reference: Section W.2.d.(2) on page 2, Section P.1. on page 8 and Section S.2. on page 19 of the Causes of Loss – Special Form, Form #XX 6 07. The Back Up of Sewer, Drain or Sump – Direct Damage Coverage on page 2 and Back Up of Sewer, Drain or Sump – Business Income Coverage on page 12 of the Property Extension Endorsement, Form #XX 01 16.

12. FIRE DEPARTMENT SERVICE CHARGES COVERAGE LIMIT MAYBE INADEQUATE. The policy provides a limit of \$25,000 for fire department service charges. This may be inadequate.

Some cash-strapped governments are imposing outrageous fire department service charges to respond to fires and other emergencies. A small business owner was charged \$96,000 for firefighting services for a building fire. For more information, go to the following computer link:

Commercial building owner billed \$96,000 - <http://www.ktvb.com/news/City-charges-building-owner-96000-after-massive-fire-208599981.html>

Should there be a serious fire that involves stored chemicals or other hazardous materials, specialized fire-fighting equipment may need to be utilized in this equipment and its supplies are extremely expensive. Research should be done on whether the municipalities Galena, Scales Mound or Elizabeth, IL imposes fire department service charges and if they do, what are the possible maximum charges for the services.

If the fire department service charges limit needs to be increased, this can be done using the ISO Endorsement, Higher Limits, # XX 08 07.

Sample Home Owners Association, Inc.

Property Insurance Policy Audit

Major Insurance Coverage Issues

Policy Reference: Fire Department Service Charge Section on page 1 of the Property Extension Endorsement, Form #XX 1 16. Fire Department Service Charge Limit Section on page 2 of the Schedule – Golf Facilities Form, #XX 01 16.

13. CLAIM EXPENSES COVERAGE IS RESTRICTIVE AND THE LIMIT INADEQUATE. The policy provides a limit of \$25,000 for Claim Expenses. This coverage is restrictive and in a serious loss situation, this limit will be inadequate. The policy states that this coverage does not apply to any expenses incurred to prove the loss or damages covered. In a serious loss, such as a roof collapse, you could incur expenses for consulting engineers to prove in that the loss was caused by an insured peril.

We recommend the policy be amended to provide coverage for the Loss Preparation Expenses worded as follows:

This Policy covers the actual costs incurred by the Insured:

1) for the reasonable fees payable to the Insured's: accountants, architects, auditors, engineers or other professionals; and

2) for the cost of using the Insured's employees,

For producing and certifying any particulars or details contained in the Insured's books or documents, or such other proofs, information or evidence required by the Company (insurance company) resulting from the insured loss payable under this Policy for which the Company has accepted liability.

This Additional Coverage will not cover the fees and costs of attorneys, public adjusters or loss appraisers including any of their subsidiaries, related or associated entities either partially or wholly owned by them or retained by them for the purpose of assisting them.

This Additional Coverage is subject to the deductible that applies to the loss.

Lastly, Claim Expenses could easily exceed the \$25,000 Limit. In a serious loss situation, besides incurring substantial professional fees, your management and staff could spend substantial amounts of time inventorying damaged property and providing other evidence of the extent and amount of the property damage.

A minimum limit of \$200,000 for Claim Expenses Coverage is suggested.

Policy Reference: Claim Expenses Section on page 3 of the Property Extension Endorsement, Form #XX 01 16. Claim Expenses Limit Section on page 2 of the Schedule – Golf Facilities Form, #XX 01 16.

Difference in Conditions (Flood & Earthquake) Coverage

1. LOSS OF BUSINESS INCOME & EXTRA EXPENSE COVERAGE MISSING. The policy provides no coverage for Business Income & Extra Expense. This should be corrected immediately.

Sample Home Owners Association, Inc.

Property Insurance Policy Audit

Major Insurance Coverage Issues

Policy Reference: Income Coverage Part Section on page 3 of the Schedule of Coverages Difference in Conditions, Form #M 07 07.

2. VIRUS OR BACTERIA EXCLUSION ENDORSEMENT ISSUE. The Virus or Bacteria Exclusion Endorsement excludes coverage for any claim arising out of any virus, bacterium or other microorganisms that causes disease, illness or physical distress or that is capable of causing disease, illness or physical distress. Floodwaters can contain extensive bacteria and other microorganisms. This exclusion should be deleted.

Policy Reference: Virus or Bacteria Exclusion Endorsement, Form #XX 10 06.

3. FUNGUS OR MOLD COVERAGE LIMIT INADEQUATE. The policy provides only \$15,000 aggregate of coverage for fungus/ mold damage. This is inadequate. Mold starts to grow on the wet building materials within 36 hours of being exposed to water. The policy should provide a minimum of \$1,000,000 aggregate for fungus/mold damage.

Policy reference: Limited Fungus Coverage under the Coverage Extensions Section on page 3 of the Difference in Conditions Form Property Coverage Part, Form #XX 04 07.

4. COVERAGE FOR FOUNDATIONS, PIPES, FLUES, DRAINS, RETAINING WALLS INADEQUATE. Policy only provides \$100,000 for any damage to foundations, underground pipes, flues or drains and retaining walls. Such property can be extensively damaged in a flood or earthquake. The policy should be amended to remove the \$100,000 restriction.

Policy reference: Section 1.a. and b. of the Supplemental Coverages Section on page 4 of the Difference in Conditions Form Property Coverage Part, Form #XX 04 07.

5. POLLUTANT CLEAN UP COSTS FOR LAND OR WATER COVERAGE LIMIT INADEQUATE. The policy provides Pollutant Clean-Up and Removal Coverage with a limit of \$25,000 aggregate for all claims that may occur during the policy period. This provides coverage for the cost to remove pollutants from land or water on insured premises. XXX needs to evaluate this potential pollution exposure within its operations and consider increasing this limit. I suggest obtaining quotations to increase this limit. In a serious loss situation, hazardous materials can be released into the environment. The clean-up costs regarding such pollution can be substantial.

Policy reference: Section 6. of the Supplemental Coverages Section on page 7 of the Difference in Conditions Form Property Coverage Part, Form #XX 04 07.

Contractors' Equipment Coverage

1. BUSINESS INCOME & EXTRA EXPENSE COVERAGE MISSING. The policy provides no coverage for any loss of income or extra expenses incurred to keep your operations going should the insured equipment be damaged or destroyed. You may suffer a loss of income or have to rent equipment temporarily until damaged equipment can be repaired or replaced. This issue needs to be evaluated.

Sample Home Owners Association, Inc.

Property Insurance Policy Audit

Major Insurance Coverage Issues

2. REPLACEMENT COST COVERAGE ISSUE. The policy provides coverage for the depreciated cost of the equipment insured under this section of the policy for any equipment more than 5 years old. The policy should be amended to provide replacement cost coverage on all equipment no matter what the age. If this is done, the policy limits for each piece of insured equipment more than 5 years old needs to be adjusted accordingly.

Policy Reference: Section E.1.a. on page 5 of the Equipment Coverage Form, # XX 03 12.

3. COVERAGE SUBJECT TO COINSURANCE REQUIREMENT ISSUE. Coverage is written subject to a coinsurance requirement. The policy limit for each insured piece of equipment must be at least 80% of the value of this property. If the policy limit for this coverage is not adequate to meet the coinsurance requirement, you will be penalized for any loss that may occur.

The policy should be amended to waive the coinsurance requirement on this coverage.

Policy Reference: Section E.3. on page 6 of the Equipment Coverage Form, #XX 03 12.

4. CONTRACTORS' EQUIPMENT POLICY FORM MAY NOT BE NEEDED. This separate Contractors' Equipment Form with a premium rate of \$0.36 per \$100 of insurance and an annual premium of \$2,279 may not be needed. The regular Property Coverage section of this package policy already provides coverage for Mobile Equipment that is broader in several areas and less expensive than this Contractors' Equipment Coverage. The Mobile Equipment coverage in the regular Property coverage section of the policy is subject to a \$5,000 per loss deductible. The deductible for the Contractors Equipment section of this Package policy is \$500 per loss.

This issue needs to be evaluated.

Policy Reference: Equipment Coverage Endorsement, Form # XX 01 16.

REPORT SUBMITTED BY: Randy C. DeLopst, XXCU

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