

SURVIVING

a Loss Control Inspection

By: Michael McLaughlin, CSP, ARM, CIRMS
Community Association Underwriters of America

Understanding why insurance carriers request loss control inspections and how to prepare for them should make the inspection go smooth with minimal impact on your busy schedule.

If you are a manager or board member and have never been through a loss control inspection, relax, it is not as bad as you might imagine. Inspections are part of the underwriting process and help to validate the insurance application information you provided. The inspection report also helps the underwriter identify physical conditions, operations or practices not apparent on the application that could make the association more susceptible to loss.

The underwriter may require an inspection for other reasons such as an increased loss frequency, a large loss, or an emerging loss trend such as water damage from frozen sprinkler pipes or failing water heaters. They may also request an inspection to verify compliance with recommendations.

There is a policy condition in all insurance policies, *Inspections and Surveys* that gives the insurer the right to inspect and survey a property for insurance values and related exposures. A loss control professional employed by the insurance carrier or a contracted inspection company will complete the inspection.

The Inspection

Every inspector will conduct the inspection a little differently but you can anticipate that it will involve an interview with the manager or board representative and a physical inspection of the common elements.

During the interview, the inspector will likely ask questions about the community such as the number of buildings and units, rental and vacancy rates, property management,

the financial condition of the community, planned or completed capitol improvements and contracted operations such as snow removal. They will also want to know what the association is responsible for maintaining within the community and any updates completed or planned for the roofs, electric, plumbing, streets and other elements.

The inspector will likely ask questions about the association's loss experience. The inspector will have basic information on the number of losses and amount paid but will usually request additional information on the causes of loss and what actions the association has taken to prevent similar losses in the future.

At this point, you are probably thinking hey wait a minute, I just provided all that information to my agent when I completed the insurance application. Well you are correct but remember the insurer is looking for an independent verification of this information so they probably did not give the inspector a copy of the application.

The physical inspection will involve measuring buildings insured by the policy and walking around the property to determine the condition of buildings, amenities and the grounds. The inspector is also looking for physical hazards such as raised sidewalks that can result in a loss under the policy.

Some insurance companies may require the inspector to gain access to a representative unit when they provide coverage for the units. Any policy written on an original specifications or all-in basis would fall into this category. A unit interior inspection should be limited to unit mechanical features such as:

- Plumbing and electrical systems
- Water heaters, washers and driers
- Fire protection systems

- Heating, ventilation and air conditioning systems
- Fireplaces
- Accessible attics to determine the nature of any fire separation between units, as well as any roofing related exposures

Because most common fire and water damage losses originate with a unit, carriers that require this level of inspection are trying to get a handle on the type, age and condition of the typical mechanical systems and fire protection.

Regardless of age, conditions such as lack of up-keep, roofs in need of repair, damaged fencing and similar maintenance issues are red flags to most inspectors and can give a poor first impression of the community. These are generally not quick fix items and should be part of an association's ongoing maintenance plan.

Recommendations

After the inspection is completed, the inspector will submit a written report to the insurance carrier. The report will document the inspector's findings and may contain recommendations the association should implement to prevent or minimize the effects of losses.

If the underwriter releases recommendations, they are usually in the form of a letter addressed to the association, the management company or the insurance agent. The letter will also contain a due date for completing the recommendations or submitting an action plan or time line for addressing them.

Many recommendations are easy and inexpensive to implement while others may be difficult and require a significant outlay of capitol. Like income taxes, recommendations are something that you cannot ignore without consequences. Failure to comply or submit an acceptable action plan will usually require the underwriter to take an underwriting action that could result in higher premiums, higher deductibles or loss of coverage. When the insurance carrier sends recommendations after a loss control

inspection, it is best to act on them as quickly as possible and inform the insurance carrier of the actions the association has taken or plans to take. Opening up a dialogue early with the insurance carrier is particularly important when compliance with the recommendation will require the carrier to agree to the association's action plan. Action plans are common when compliance will take an extended timeframe or when a significant capital investment by an association or owners is required.

Preparing for an Inspection

Many of the questions the inspector will ask, such as how you manage the property, contracted services and the number of buildings and units you will be able to answer off the top of your head. Other information, such as the following, may require some research before hand.

- Amenities available to residents and non-residents, rental agreements, waivers, etc
- Composition of the board and any developer involvement

- # of commercial, medical or restaurant tenants, how leases are handled
- # of vacant and rental units, how leases are handled (association or owner)
- Association employees and their duties, any work inside units, waivers
- Association owned autos, use, radius of operation & driver selection
- Management company relationship with the board and scope of duties
- Handling of contracted services (particularly snow removal)
- Procedures for review of hold harmless clauses, certificates of insurance and contracts
- How contractor insurance coverage and appropriate limits are validated and tracked
- Association responsibilities regarding roads, parking lots, sidewalks, interior common areas, etc
- Resolutions to reduce the loss potential such as; water heater replacement, washer hoses or dryer vent cleaning and chimney inspections
- Potential environmental exposures such as tanks, wells, septic systems, water/sewage treatment, hazardous substances, prior land use, etc
- Prior loss history and actions taken to

address any adverse trends

While this list is not all-inclusive, having answers to these and similar association information will help expedite the loss control survey.

The inspector may ask if you have any site plans, building diagrams or breakdowns of unit styles by buildings. This information is often located in the appendices of the public offering statement. If you have access to this information and can provide copies to the inspector, it will really help them a lot.

Understanding what is involved with a loss control inspection should make them a lot easier to deal with.

Michael McLaughlin, CSP, ARM, CIRMS is the Vice President for Loss Control with CAI Business Partner member and Platinum Plus Partner Community Association Underwriters of America, Inc.