



Gold Coast
Professional Schools, Inc.

A CAM'S GUIDE TO UNDERSTANDING INSURANCE

This course is approved by the DBPR Council of Community Association Managers for 4 hours of continuing education credit in the areas of:

Insurance Finance and Additional Instruction (ELE)

Online Course Approval # 9629207

Course Reference Material

[Exhibit 1 - Citizens Declaration Page and Invoice Sample](#)

[Exhibit 2 - Uniform Mitigation Verification Inspection Form Sample](#)

[Exhibit 3 - Insurance Chart Summary Sample](#)

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INTRODUCTION AND OVERVIEW

This course is intended to provide students with a basic understanding of the following:

- The fundamental concepts of property and liability insurance
- The types of insurance commonly obtained by community associations to protect themselves against financial losses resulting from:
 - Damage to or destruction of property
 - Fraud or embezzlement on the part of officers, directors, and employees
 - Computer related crimes
 - Negligence related lawsuits and insurance claims
- Community association insurance related statutes
- The manager's role

It also briefly discusses insurance purchased by CAMs and CABs for protection against claims by the association for losses resulting from negligence or inadequate performance.

Insurance for individual association members is outside the scope of this course.

BASIC CONCEPTS

INSURANCE

Insurance is a means of transferring risk from an individual person or entity, the insured or policyholder, to an insurance company, also referred to as an insurance carrier, or more simply as the insurer.

RISK

Risk is the uncertainty concerning the possibility of loss resulting from a peril. A peril, sometimes referred to as a hazard, is a cause of loss, such as a hurricane, a fire, or, in a broader sense, a lawsuit for defamation of character. Perils are discussed in greater detail later in the course. Associations that effectively manage risk can reduce the frequency and/or the severity of perils.

Risk management is the identification, analysis, assessment, control, avoidance, minimization, and/or elimination of unacceptable risks. An important initial step in risk management is to determine the type and level of risks that are acceptable and retained and those that are unacceptable and are designated to be transferred. An acceptable risk is one in which the association is unwilling to pay the cost of transferring it to an insurer. For example, an association may be concerned about the possibility of loss resulting from a terrorist act, but it may determine not to include such coverage in its property insurance policy. Another example would be an association that opts for a higher deductible because it reduces the cost of the insurance. In effect, the association has determined that it is willing to accept the risk of a greater financial loss.



The transfer of risk through the purchase of insurance is an important element of risk management. The decision to purchase a specific amount of insurance is typically made at the same time the purchaser determines the level of risk it is willing to retain in the form of deductibles, coinsurance, and limits on the amount and comprehensiveness of their coverage. Deductibles and coinsurance are discussed in greater depth in a separate section. An association is said to be self-insured for the risk it is willing to retain. This means that it must pay out of pocket for any uninsured financial losses it experiences.

Examples of actions community associations can implement to reduce risk include:

- Proper maintenance of buildings and structures, elevators, recreational areas, machinery, lighting, roadways, and parking areas
- Compliance with building code and pool safety ordinances and required signage
- Hardening¹ of buildings and structures
- Installing engineered fire and life safety systems
- Installation and maintenance of security cameras
- Limiting unsupervised children's access to recreational areas
- Compliance with occupational safety codes
- Requiring annual financial reports be performed by a certified public accountant
- Requiring a minimum of two officers to sign checks to reduce the possibility of fraud
- Drug screening of applicants for employment and/or employees
- Screening of applicants for ownership and/or residency

THE INSURANCE POLICY

An insurance policy serves as the contract between the insured and the insurer. The factors motivating parties to enter into an insurance contract are typically fear of financial loss by the person or entity desiring to reduce their risk, and the desire to earn a profit on the part of the insurer. Persons and entities seeking to purchase property and homeowners with mortgages are commonly required by their lenders to have adequate property insurance coverage. State and federal laws require community associations to seek or obtain certain types of insurance. Statutory requirements are described in greater detail later in the course.



All parties to an insurance contract are bound by the principle of "utmost good faith," which legally obligates them to reveal to the others any material fact that might influence the others' decision to enter into the contract.

An applicant for insurance must disclose:

- Facts that would render a risk greater than normal and because of the absence of this information the insurer would rate the risk as normal. An example would be the

¹ The process of strengthening a building structure and systems, such as installing shutters or impact resistant glass, or retrofitting the roof.

- 1 withholding of information by the applicant regarding the existence of a deteriorated
2 storage tank for diesel.
- 3 • Facts which would suggest that an applicant has an improper motive, such as an
4 intent to commit arson, if applying to purchase of an excessive amount of insurance
 - 5 • Facts that suggest the abnormality of the buyer, such as an extensive history of slip
6 and fall type lawsuits.

7
8 Failure of a policyholder to disclose material facts can result in a rejection of a claim and
9 cancellation of the policy.

10
11 The insurance policy is the entire printed insurance contract. It includes:

- 12
13 • The declaration, which identifies the insured, the insured location address, the
14 insuring company, the perils (causes of loss) and property are covered, the policy
15 limits (amount of insurance), any applicable deductibles and coinsurance, the policy
16 period and premium amount. The declarations page is also known as the *information*
17 *page*. See [Exhibit 1 - Citizens Declaration Page and Invoice](#) for an example.
- 18 • Definitions of important terms used in the policy.
- 19 • The insuring agreement that describes the covered perils, or nature of coverage.
20 This is where the insurance company makes one or more express promises to
21 indemnify the insured.
- 22 • Conditions that are specific provisions, rules of conduct, duties, and obligations with
23 which the insured must remain in compliance to keep coverage in effect. If policy
24 conditions are not met, the insurer can deny the claim. A typical condition of a
25 property policy is a requirement for the insured to act, after a storm, to prevent
26 further damage to the insured property, including covering a roof, walls, doors, and
27 windows with plastic sheeting or plywood. Failure to perform such requirements can
28 result in a denial of the claim.
- 29 • Endorsements or riders are additional forms attached to the policy that modify it in some
30 way, either unconditionally or upon the existence of some condition.

31
32 Once a policy is purchased, the insured is indemnified against the loss covered in the
33 policy.

34 35 **THE PREMIUM**

36
37 The premium is the amount of money charged by the insurer to the insured for the
38 coverage described in the insurance policy.

39 40 **INSURABLE INTEREST**

41
42 A person or entity desiring to purchase insurance from an insurer must have an
43 insurable interest in the person or property being insured. An insurable interest is a right
44 or relationship to the subject matter of the insurance contract such that the insured can
45 suffer a financial loss from damage, loss, or destruction covered by the policy. For
46 example, since a community association is at risk of suffering a financial loss from
47 damage to or destruction of its buildings and other property, it therefore has an insurable
48 interest and can purchase insurance coverage to compensate it upon the occurrence of
49 an insured event or peril.

RELIABILITY OF THE INSURER

Purchasing an insurance policy in and of itself is not sufficient to accomplish the objective of reducing risk unless the carrier has the financial strength and stability to pay legitimate claims. Before purchasing an insurance policy, the person or entity seeking coverage should evaluate the financial strength and stability of the insurer as rated by one or more financial ratings companies, such as A.M. Best, Fitch Ratings, Moody's Investor Services, Standard & Poor's, and Weiss Ratings. These companies' ratings should not be viewed as totally reliable, but as a useful guide. Prospective buyers should also determine if the premium quoted by the insurer is the best price available by soliciting other proposals for comparable coverage by comparably rated insurance companies.

ADMITTED AND SURPLUS LINES CARRIERS

An *admitted* or *authorized carrier* or insurer is an insurance company that is authorized to operate in a particular state and is subject to its laws and regulations. In the event of insolvency, the state or its authorized agent (in Florida, the Florida Insurance Guaranty Association (FIGA)) will pay claims up to the maximum amount established by statute. For condominium and homeowners' association, the maximum amount is the lesser of the policy limits or \$100,000 multiplied by the number of units in the association.

A surplus lines insurance company is not licensed to transact business within the state where the risk is located. Since the insurer is not licensed in the insured's state, it is not regulated by the insured's state's department of insurance in the same way admitted insurers are regulated. In Florida, the insurance regulatory body is the Florida Office of Insurance Regulation (OIR). Purchasers of surplus lines insurance are not protected by statutorily created insurance entities such as FIGA. Insurance companies that provide surplus lines insurance are referred to as non-admitted or unauthorized carriers.

Surplus lines carriers, although unlicensed, are permitted to sell insurance in Florida and other states. Unauthorized insurers can have excellent ratings from financial ratemaking companies. The financial strength of an insurer is unrelated to its status as an authorized or unauthorized carrier. They can be especially valuable in providing property and windstorm insurance if there is a limited number of authorized carriers willing to participate in the market. Like most other products, the cost of insurance is subject to supply and demand. The participation of surplus line insurers can provide competition in a market that lacks competition.

THE INSURANCE AGENT AND BROKER

Soliciting competitive bids and evaluating the quality of insurers are typically performed by insurance agents or brokers on behalf of a prospective buyer. Brokers and insurance agents both sell insurance. The main difference between an insurance broker and an agent is that an insurance agent (also called captive agent) typically works for one insurance company and thus can sell insurance policies of this company only. An insurance broker does not work for one insurance company but has a distributor relationship with multiple insurance companies. That allows the broker to compare several policies available on the market.



Agents and brokers provide useful services to the person or entity seeking a policy or to the policyholder once the policy is issued. They legally represent the interests of the insurance company, not the customer.

UNDERWRITING

The insurer, to achieve its objective of making a profit, its earned premium,² plus investment income, must exceed its incurred losses and underwriting expenses. To do this, it must ensure that a sufficiently large number of a specific class of insureds (referred to as exposure units), such as building owners, purchase policies to allow the law of large numbers to operate. The law of large numbers is a statistical axiom that states that the larger the number of exposure units independently exposed to loss, the greater the probability that actual losses will equal expected losses.

Additionally, the insurer must determine the risks they are willing to assume and the price of the premium for each risk. This is known as underwriting. It is based on the actuarial science of ratemaking or price setting of policies, which uses statistics and probability to approximate the cost of future claims based on a given risk. Initial ratemaking involves evaluating the frequency and severity of insured perils and the expected average payout resulting from these perils.

To limit a potential loss resulting from a catastrophic event, such as an earthquake or hurricane, an insurer purchases reinsurance, typically from a broker representing a syndicate of insurance companies, such as Lloyds of London. In effect, the insurance company is purchasing insurance to transfer part of its risk to other insurers. Reinsurance is insurance for the insurer.

ROLE OF GOVERNMENT

Certain types of catastrophic events, such as floods and windstorm, can result in financial losses that exceed the claims-paying capability of both insurers and reinsurers. For these types of perils, federal and/or state initiatives are required to either provide coverage or ensure that funds are available from a state sponsored agency. An example of the former is the National Flood Insurance Program (NFIP). The NFIP is a program created by the United State's Congress through the National Flood Insurance Act of 1968. The program enables property owners in participating communities to purchase insurance protection, administered by the government, but sold by private insurance companies, against losses from flooding.

Another example is Citizens Property Insurance Corporation, commonly referred to as Citizens. Citizens was established by the Florida legislature in 2002 to provide both windstorm coverage and general property insurance for associations and homeowners who could not obtain insurance elsewhere.

An example of the latter is the Florida Hurricane Catastrophe Fund or CAT Fund. It was created by the Florida legislature in 1993 after Hurricane Andrew. The purpose of the fund is to protect and advance the state's interest in maintaining insurance capacity in Florida by providing reimbursements to insurers for a portion of their catastrophic hurricane losses.

² Typically, all or part of the premium is pre-paid. The earned amount is based upon the time that has lapsed from the inception of a policy.

The National Association of Insurance Commissioners (NAIC) is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the fifty states, the District of Columbia and five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer review, and coordinate their regulatory oversight. NAIC staff supports these efforts and represent the collective views of state regulators domestically and internationally. NAIC members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the U.S.

PERILS

The *Perils of Pauline* is the title of a 1914 silent movie serial in which the villain of each episode exposes the heroine, Pauline, to a different type of peril including fire, drowning, plane crash, snake bite, and being run over by a train. If Pauline was a real rather than a fictional character, and, if a life insurance company had advanced knowledge of the perils that she would be facing, we can be certain that the insurer would decline her application for coverage. Unless, that is, it knew that Pauline would inevitably escape unharmed and live to a ripe old age.

Simply put, a peril is a cause of a possible loss, such as a fire, windstorm, flood, or theft. Strictly speaking, Pauline had only one peril, the villain who intended to deprive her of her inheritance. Florida community associations, however, are at risk of financial loss from a wide range of perils, including the possibility that a villain, in the guise of a director, officer, and yes, even a CAM, could abscond with its embezzled funds. There is an insurance policy for almost every type of peril imaginable. This course will explore the major types of policies that community associations purchase to transfer some, or all, of the risk of loss caused by specific perils.

DEDUCTIBLES AND COINSURANCE

Many types of policies, especially property, do not insure for the total amount of a covered loss. The loss, in effect, is shared between the insurer and the insured. The method of determining the amount or percentage of the loss retained by the insured is described in the policy under two headings, deductible, and coinsurance.

A *deductible* is a specified amount of money that the insured must pay before an insurance company will pay a claim. *Coininsurance* is a provision of an insurance policy that provides that the insurance company and the insured will apportion between them any loss covered by the policy according to a fixed percentage of the value for which the property is insured.

Insurers employ insurance adjustors to evaluate an insurance claim and determine the amount, if any, the insurer must pay to the insured. Once an amount is determined, the insurer subtracts the percentage of the loss retained by the insured. The deductible is subtracted from the difference. Associations typically retain coinsurance of between 0 and 20%.

PROPERTY VALUE

Property insurance policies include a statement of the replacement value of the property being insured. F.S. 718 requires condominiums to have an updated appraisal of the replacement value of the condominium property at least once every 36 months.

Replacement value is the amount that an entity would have to pay to replace an asset, based upon its value as determined by its most recent appraisal. Replacement value differs from market value and actual cash value. Market value is the highest estimated price that a buyer would pay, and a seller would accept, for an item in an open and competitive market. Actual cash value is replacement value less depreciation. The depreciation is usually calculated by establishing a useful life of the item determining what percentage of that life remains. This percentage multiplied by the replacement cost equals the actual cash value. Property insurance policies typically contain a contractual stipulation that the damaged asset must be repaired or replaced before the replacement cost is paid. This prevents over-insurance, which can be a motivating factor for arson and insurance fraud.

If the cost of replacing damaged or destroyed property exceeds the insured replacement value, the association must pay the difference. This does not imply that the association is required to ensure that the insurer assume 100% of the current replacement property value (unless required by their documents). It does mean that the board, regardless of statutory or other requirements (or the lack thereof), should ensure that the value of their insurance coverage be based on a current appraisal performed by a licensed appraiser.

LAW AND ORDINANCE

Associations may purchase insurance for 100% of its replacement value, based upon a current appraisal, and may still suffer a significant financial loss beyond its deductible. This is because the Florida Building Commission (FBC) periodically revises the Florida Building Code to make buildings more hurricane resistant, especially since Hurricane Andrew in 1992. Local building codes may adopt more stringent requirements, but they must comply with the minimum standards of the state code, and require approval by the FBC. Older associations, especially, are at risk, after suffering extensive structural damage as the result of a hurricane or disaster, of having to make expensive upgrades to their buildings to comply with the current code. Property insurance policies for community associations typically exclude coverage for expenses resulting from building code revisions.

Property insurers offer law and ordinance coverage as an endorsement to their property insurance policies. Such coverage pays the cost of upgrading structures, up to the policy's (including the endorsement) limits, so that they meet the current building code. However, the amount of law and ordinance coverage an insurer is willing to provide may be extremely limited.



TYPES OF INSURANCE

PROPERTY INSURANCE

Property insurance, also known as hazard insurance, pays for the repair or replacement of property, both real and personal, damaged by specific perils. There are three forms of insurance coverage that establishes and defines the perils that a property insurance policy covers. They are referred to as *causes of loss forms*. They are:

- **Basic form:** Provides coverage fire, lightning, explosion, smoke, windstorm, hail, riot, civil commotion, aircraft, vehicles, vandalism, sprinkler leakage, sinkhole collapse, and volcanic action.
- **Broad form:** Provides coverage for the perils insured against in the basic causes of loss form plus falling objects, weight of snow, ice, or sleet, water damage (in the form of leakage from appliances), and collapse from specified causes.
- **Special form:** Provides coverage for loss from any peril except those that are specifically excluded.

The basic and broad form policies are referred to as *named perils policies*. The special form is referred to as an *all risks policy*.

Perils that are typically excluded are listed below:

- | | |
|---|-----------------------------|
| • Appliance leaks | • Governmental action |
| • Continuous leakage | • Marring and scratching |
| • Criminal acts | • Mechanical breakdowns |
| • Damages from insects, rodents, or other animals | • Nuclear hazard |
| • Discharge of pollutants | • Ordinance and law changes |
| • Fungus, mold, and decay | • Terrorism |

Excluded perils can usually be added to the policy for an additional premium, by means of an endorsement. The amount of coverage the insurer is willing to provide may be limited to a specified amount.

Residential community association policies are referred to as *commercial residential policies*.

WINDSTORM INSURANCE

Windstorm insurance, although included as a cause of loss in both the basic and broad forms, is often excluded from property insurance policies. It may be offered as a separate windstorm policy, as a peril covered by a property insurance policy, or as an endorsement to a property insurance policy. Because of the extensive damage caused by Hurricane Andrew (1992), Hurricane Wilma (2005), Hurricane Michael (2018), and others, many insurers became highly selective in offering



such coverage. In some cases, private insurers refused to offer windstorm to associations located along the coast, to older buildings, and to associations that did not meet the current building code. Some insurers simply left the market.

As referenced earlier, the state of Florida created Citizens to be the insurer of last resort for associations and their members, who could not obtain insurance from an insurer in the private market. Citizens operates an insurance pool that provides multi-peril without wind and windstorm (referred to as *wind-only*) insurance policies to residential associations that cannot obtain such insurance coverage from the private market. A community association can purchase either a multi-peril without wind or a wind-only policy from Citizens but not both. Citizens has the right to require an association to purchase from a private insurer even if the cost of private insurance is higher than Citizens' premium.

To obtain insurance through Citizens, an insured must obtain an up-to-date property appraisal by a licensed appraiser. Once a policy is issued, Citizens requires a new appraisal once every twelve months. Citizens requires a deductible of 3% or higher of the insured value of the property for windstorm coverage. It offers a different deductible for windstorm damage due to non-hurricane events and for non-windstorm property events. Wind-only policies are available in certain areas of the state when all eligibility requirements are met. They cover only damage from hail and windstorms, such as hurricanes and tropical storms. Citizens does not offer a law and ordinance endorsement. Certain court decisions have required Citizens to provide law and ordinance coverage.

Note: A condominium is ineligible for wind-only coverage through Citizens if 50% or more of the units are rented more than eight times in a calendar year for a rental agreement period of less than 30 days.

State law requires insurers of windstorm, including Citizens, to provide discounts for new and properly maintained roofs and for buildings in which windows, doors, and other exterior openings are protected with code-compliant protection systems, such as shutters or impact-resistant glass. OIR has created a form on which associations and members may apply for such discounts. See [Exhibit 2 - Uniform Verification Mitigation Inspection Form](#).

FLOOD INSURANCE

The Federal Emergency Management Agency (FEMA)³ defines a flood as, "A general and temporary condition of partial or complete inundation of two or more acres of normally dry land area or of two or more adjacent properties from one or more of the following sources:

- Overflow of inland or tidal waters
- Unusual and rapid accumulation of *runoff* or *surface*⁴ waters from any source



³ FEMA's mission is to support the citizens and first responders to promote that as a nation we work together to build, sustain, and improve our capability to prepare for, protect against, respond to, recover from, and mitigate all hazards.

⁴ **Surface water:** Water on the surface of the planet, such as in a river, lake, wetland, or ocean. It can be contrasted with groundwater and atmospheric water.

- Mudflow
- Collapse or subsidence of land along the shore of a lake or similar body of water resulting from erosion or undermining caused by waves or currents of water exceeding anticipated cyclical levels that result in a flood as defined above.”

It is important to keep in mind that flood insurance provides coverage for damage caused only by rising water.

FEMA has flood insurance rate maps that display the degree of flood risk in specific areas. Studies have shown that a high percentage of floods occur in low to moderate risk flood zones.

To qualify for NFIP coverage, a property must be in a municipality or county that participates in an emergency or regular program. The emergency program is the initial phase of a community's participation in the NFIP. In return for the local government's agreeing to adopt basic floodplain management standards, the NFIP allows local property owners to buy modest amounts of flood insurance coverage. In return for agreeing to adopt more comprehensive floodplain management measures, an Emergency Program community can be “promoted” to the Regular Program. Local policyholders immediately become eligible to buy greater amounts of flood insurance coverage. In addition, Regular Program communities are eligible to participate in the NFIP's Community Rating System (CRS). Under the CRS, policyholders can receive premium discounts of 5 to 45% as their cities and towns adopt more comprehensive flood mitigation measures.



The two major types of insurance products offered by the NFIP to eligible community associations and their members are:

- The Residential Condominium Building Association Policy provides coverage for associations located in Regular Program communities. Under this program, the maximum amount of building coverage that can be purchased is the building's replacement cost value or the total number of units in the building times \$250,000, whichever is less. The maximum allowable contents coverage is the actual cash value of the commonly owned contents up to a maximum of \$100,000 per building. Each separate building in an association must be separately insured, with a single deductible per building. The standard deductibles are \$500 or \$1,000 with optional deductibles up to \$25,000
- The General Property Form is available for residential cooperative associations on behalf of the association and its lessees. The maximum amount of building coverage that can be purchased is \$250,000 with standard deductions of \$500 or \$1,000 with optional deductibles up to \$5,000.

Associations can purchase excess (additional) coverage from the private insurance market.

LIABILITY INSURANCE

Liability is the state of being responsible for something, as determined by law. Liability insurance, also known as *general liability insurance*, is any insurance policy that protects an association from the risk that it may be sued and held legally liable for property damage, bodily injury, or personal injury to another person or entity. *Personal injury* is a legal term for an injury to the mind or emotions.⁵

The insurer, in return for the premium, has the duty to provide a legal defense, the duty to settle reasonable claims, and the duty to indemnify the defendant. The duty to indemnify is the insurer's duty to pay all covered sums for which the insured is held liable, up to the limits of coverage, and subject to any amounts of money which the insured is required to pay out-of-pocket as a precondition to the insurer's paying its share of the loss. A liability claim is typically initiated by the insured upon receipt of a legal action, such as a lawsuit, request for mediation, or arbitration action. It is satisfied when the insurer pays such covered amounts to the plaintiff who obtained the judgement. Most policies provide for payment of monetary damages as well as any costs, expenses, and attorney's fees that the plaintiff may also be entitled to as the prevailing party.

Both property and bodily injury lawsuits are filed against the person or entity that allegedly caused the harm by their negligence. Negligence is the failure to act as a reasonably careful person would act or to commit an act, which a reasonably careful person would not commit, under the same or similar circumstances, to protect oneself or others from property or personal damage. To prove negligence, the plaintiff must prove all of the following:

- The defendant owed a legal duty (duty of care) to the plaintiff under the circumstances.
- The defendant breached their legal duty by acting or failing to act in a certain way.
- It was the defendant's actions (or inaction) that caused the plaintiff's injury.
- The plaintiff was harmed or injured because of the defendant's actions or inactions.

The term *negligence* includes *gross negligence*,⁶ *reckless conduct*,⁷ and *intentional misconduct*.⁸ In some cases, a person or entity can be accused and found guilty of causing property or bodily harm to another based on the legal concept of strict liability. *Strict liability* applies when a defendant places another person in danger, even in the absence of negligence, simply because they are in possession of a dangerous product, animal, or weapon. When used in this course, negligence should be understood to include all of the preceding terms.

It is important to draw a distinction between being sued for damages allegedly caused by negligence and being guilty of negligence. The insurer's function is to defend the association against unfounded claims, as well as claims that appear to be clearly the result of an association's negligence. Even in claims in which the association is clearly negligent, the legal concept of comparative negligence may come into play. Comparative negligence is a legal defense that reduces the amount of damages that a plaintiff can

⁵ Some definitions of personal injury include bodily damage. The definition used in this course is from Black's Law Dictionary.

⁶ A legal concept which means serious carelessness

⁷ A legal term used to describe a person's behavior where they display a perceived disregard for the life, well-being, safety, reputation, and rights of other people.

⁸ **Intentional misconduct:** The conscious or willful disregard of the rights and safety of another.

recover in a negligence-based claim based upon the degree to which the plaintiff's own negligence contributed to cause the injury. For example, an owner trips on an uneven sidewalk, falls, and breaks their ankle. The association is negligent because it is responsible for ensuring that sidewalks are in good repair and do not present a hazard to pedestrians. However, the owner who tripped was observed to be looking at a bird perched on a tree with a binocular while he was walking just before he fell. The court would likely apportion the negligence and reduce the amount of damages accordingly. Liability insurance pays the cost of legal defense services, an agreed upon cash settlement with the plaintiff, or, depending upon the policy, a court ordered dollar amount, up to the limits of the policy. Liability insurance policies typically insure against civil (non-criminal) legal claims. In general, damage caused intentionally, as well as an unfulfilled contractual obligation, are not covered.

Liability insurance policies describe whether the policy accept claims on an occurrence basis or a claims-made basis. Most liability policies provide coverage on an occurrence basis. Occurrence basis policies require the covered event to have occurred during the period of policy coverage, but the claim may be made after the expiration of the coverage period. Such policies limit the period for making claims. For example, a policy might require claims be made within six months of the policy expiration date. In a claims-made policy, the claim must be made during the period of policy coverage, regardless of the date the event occurred. Claims-made policies also have reporting period limitations.

Liability policies provide coverage for claims made against the association for property damage to others, bodily injury, which includes both injury and illness, or personal injury. Personal injury includes claims of discrimination, false arrest, illegal detention, libel, malicious prosecution, slander, mental anguish, alienation of affections, or violation of one's right of privacy. Liability insurance typically does not cover employment related claims.

The following anecdotes describe some events covered by an association's liability policy.

Property Damage to Others

Watch Your Step Condominium Association owns and maintains street lighting for a community of single-family townhomes. The light posts are set in a concrete base and surrounded by grassy swales. One morning Pamela Roberts emerges from her townhome and observes a fallen light post lying diagonally on her car, crushing its roof and the rear window. Pam takes pictures and sends an email, including the photos, to the association's CAM, her auto insurer, and to her attorney, Tony "Mad Dog" Peligroso. She then arranges for the vehicle to be towed to a collision shop to obtain a repair estimate.



Pamela soon hears back from her auto insurance agent, Lucy Von Klunk. Ms. Klunk informs her that, because Pam chose to drop comprehensive coverage from her policy, she is not insured for the loss. Pam immediately contacts Tony and demands that he sue the association for negligence. He asks her why she believes the association was negligent. Pamela informs him that she has observed landscapers, on numerous occasions, carelessly striking the light posts with their lawn mowers. She forwards him

emails that she had sent to the association complaining in general about the poor quality of the landscaping and specifically about the careless use of the lawn cutting equipment. Tony responds that she has a good case. After receiving copies of the estimates, he proceeds to file a lawsuit against the association claiming that their negligence caused the damage to Pam's vehicle and demanding the association pay for the repairs and legal fees. Upon receiving service of process, the association forwards the claim to its insurer.

Bodily Injury



Two months have passed, the claim is still pending, and the light post, despite Pam's written complaints, is lying horizontally upon the grassy swale, with exposed wiring. Additionally, the coach light located on the exterior of the townhouse next to the door is not working because its wiring is connected to the street light. Pamela has just received an emotional phone call from her sister in Maryland informing her that their father is extremely ill and near death. She immediately books the next available flight leaving at 6 A.M. the next morning from Miami International Airport. At 4:30 A.M., Pam walks out of her townhouse and begins her descent down the three steps to the sidewalk. Unfortunately, because the area is dark as well as moist from poorly directed sprinklers, Pam slips and falls, breaking her ankle.

She immediately calls 911 and, on the way to the emergency room, calls Mad Dog who expresses sympathy as he is calculating his cut of the settlement.

Pamela's health care providers will submit their bills to her health insurance company. The insurer will pay up to the policy limits for each procedure, less deductible and co-payments, which are Pamela's responsibility. Pam's health insurer will then seek to be reimbursed for the amount they have paid out by the association's insurance company. This process is referred to as *subrogation*.⁹

Personal Injury

At the next board meeting, President Emma Righteous discussed the status of Pamela's lawsuits. She informed the board that all of Pamela's claims were without merit and that Pamela was solely responsible for her misfortunes. Emma explained that the light post was weakened because Pam has a severe alcohol problem and had struck the post with her car on numerous occasions. She went on to say that Pamela had probably been drunk or on drugs when she tripped going down the steps. The secretary, Louis Le Boeuf, believing he has an opportunity to become president if Emma is discredited, makes sure that Pamela receives a copy of the audiotape of the meeting. Of course, the tape makes its way to Mad Dog who quickly amends the lawsuit to accuse the president and the association of defamation of character.

Defamation

- You may be tempted to respond to something particularly outrageous by calling the person responsible a crook, a swindler, or an incompetent.
- KEEP IT IN YOUR HEAD!
- If you don't, you could be sued for **defamation**, a false statement that tends to damage someone's character.

⁹ **Subrogation:** The filing of a liability lawsuit by the insurer against a third party for reimbursement of the insurer's losses resulting from its insured's claim. For example, if a neighbor of the insured's negligence results in water damage to the insured, the insurer will seek reimbursement from the neighbor and, if the neighbor has insurance coverage, from the neighbor's insurer.

Directors and Officers Insurance (D&O)

Personal injury claims relating to injury to the mind and emotions, such as defamation of character by an agent or agents of the association, are covered by *directors and officers insurance (D&O)*. D&O is a type of liability insurance that pays for legal services and damages awarded a plaintiff as a result of a legal action alleging that one or more directors, officers, volunteers, managers, or the board itself, committed a wrongful act in the performance of their official duties, or failed to take an action that it should have taken. Such coverage can extend to defense costs arising out of criminal and regulatory investigations/trials as well.

D&O policies cover intentional, but not negligent acts, which are covered by the general liability policy. However, intentional acts that are found to be illegal are typically not covered. In effect, the D&O policy may cover the legal defense, and if it is determined that an intentional illegal act has occurred, it may demand reimbursement of its costs. The burden of proof in defamation lawsuits is always on the plaintiff. Truth is an absolute defense to a defamation lawsuit. If the statement that is the subject of the suit is true, even if it's an ugly truth, and can be proved, the plaintiff's claim will be dismissed.

Liquor Liability Insurance

Liquor liability is a type of insurance that covers businesses for claims related to liquor. Litigation costs, including the fees to retain an attorney, and court costs, are covered under a liquor liability policy. If the association operates or leases facilities for operations of a restaurant, bar, or other purpose where alcohol is sold or consumed, the association may want to seek such coverage.



Usually, such claims involve damages resulting from the actions of an intoxicated person. For example, a lawsuit filed by someone injured in a crash caused by a drunk driver who was served alcoholic drinks at an event held on the common areas of the association.

The association should carry this insurance if it permits members to have events that serve alcohol in its facilities, or if the association hosts events that serve alcohol. The association could be held liable for any incidents that are caused by an intoxicated member, resident, or guest.

Non-Owned Vehicle Insurance

Non-owned vehicle insurance is typically added as an endorsement on a general liability policy. This insurance provides coverage if directors, officers, employees, or volunteers use their personal vehicles, while working for the association. For example, if the manager is involved in an accident while on business for the association, the manager's vehicle insurance may exclude coverage or subrogation of a claim to the association's insurer.

Garage keeper's liability insurance provides physical damage coverage for vehicles left in the association's care. This would include coverage for an association that provides valet services or houses vehicles in a garage.

A *cybercrime* is the use of a computer to steal or alter data, or to gain unlawful use of computers or services. Types of cybercrimes that may negatively impact community associations include:

- [illegible]

While a D&O policy covers losses resulting from officers, directors, and employees who have committed fraud by the use of the association's computer, coverage for losses resulting from the violations listed above require a cybercrime insurance policy.

Umbrella Policy

No, this not a policy that indemnifies the insured for losses related to forgetting their umbrella on a day that it pours cats and dogs and the insured gets hit on the head with an unhappy feline.



Umbrella insurance is a form of liability insurance that provides coverage in excess of the standard limits of general liability and D&O policies. It may also provide primary insurance for losses not covered by the other policies. If an insured becomes legally liable for an injury to the property or person of another, a settlement or court decision could result in a financial award to the plaintiff far beyond the limit of the association's policy.

Let's consider Pamela Roberts' bodily injury lawsuit against Watch Your Step Condominium Association. The suit drags on for five years after the accident. Despite receiving the highest quality medical care and rehabilitation, Pamela's broken ankle does not heal properly. Her doctors inform her she will walk with a pronounced limp and require heavy pain medication for the rest of her life. She becomes depressed, loses her job, and her husband files for divorce.

The case finally goes to court and the jury finds in her favor in the amount of \$15,000,000 for current and future medical costs, auto repairs, pain and suffering, court costs, and legal fees. Fortunately, for the association, the presiding judge was unsympathetic to Pamela during the trial and found Mad Dog in contempt for his overly aggressive courtroom theatrics. He determined that Pamela was insufficiently careful descending the steps in the dark, and declared that she was 50% culpable for her injury.

The association is ordered to pay Pamela \$7,500,000. The association's general liability coverage pays up to its limit of \$2,000,000, leaving a balance of \$5,500,000. The umbrella policy then comes into play. It has a policy limit of \$5,000,000 of which it pays to Pamela less any deductible. The association must pay Pamela the balance out of its cash accounts. If there aren't sufficient funds, it may have to obtain a loan or special assess the members (excluding Pamela) for the shortfall.

Fidelity Bond

A *fidelity bond* is a form of insurance that covers an association for losses it incurs from fraudulent or dishonest acts by individuals named in the bond. It protects from losses of company monies, securities, and other property from employees who commit a crime. A fidelity bond protects the association from acts of dishonesty by employees, directors, officers, and other volunteers who have control over the association's funds.

A fidelity bond covers losses from the following:

- Forgery
- Kickbacks
- Misappropriation of funds
- Misappropriation of securities
- Other crimes resulting in loss of funds
- Theft of monies, securities, or other property

Every condominium, cooperative, and HOA is required to cover the following persons:

- Any person who controls and disburses funds of, or who has control over, association monies, including persons who authorize or approve services, authorize or approve payment of invoices, or prepare checks for signature by board members
- Any person who signs checks
- Corporate officers (at a minimum, the president, secretary, and treasurer)

The amount of the fidelity bond, by law, must be equal to or greater than the maximum amount of funds that will be in the custody of the association at any time during its fiscal year.

The association must bear the cost of the fidelity bond as a common expense. In an HOA, the majority of eligible TVI present at a properly called meeting of the association may vote to waive the requirement of obtaining a fidelity bond. This must occur on an annual basis.

Bid, Performance, and Payment Bonds

Certain bonds¹⁰ are guarantees that a contractor provides to an association, stating that it has the capability to take on and implement the project once it is selected during the bidding process. These bonds are designed to protect the association if the association awards the contract and the vendor fails to sign the contract (bid), perform the work (performance), or pay its subcontractors (labor and materials).

Bid, performance, and payment bonds are typically used for capital projects, such as roof replacement. A performance and payment bond may add at least 10% to the cost of the contract. While the contractor purchases the bond, the association pays the premium, which is included in the total contract amount.

Due to time constraints, we will not discuss these bonds in this course. You should consult with the association attorney when your association plans to enter into a contract.

Errors and Omissions Insurance

Errors and omissions insurance (E&O) is a type of professional liability insurance that protects companies and their employees (management company, manager and employees) from claims made by clients for *alleged* inadequate work, failure to properly perform job responsibilities, or negligent actions. Errors and omissions insurance often covers both court costs and any settlements up to the amount specified by the insurance contract.

At a minimum, the insurance should:

- Cover prior acts

¹⁰ Often referred to as *Surety insurance* or a *surety bond*, it is a promise by a surety or guarantor to pay one party a certain amount if a second party fails to meet some obligation, such as fulfilling the terms of a contract. The surety bond protects the obligee against losses resulting from the principal's failure to meet the obligation. An obligee is a person to whom another is bound by contract or other legal procedure.

- Include at least a 1-year discovery provision (that is, it will cover the manager for claims that are made by the association up to 1 year after the manager and the association terminate their relationship)
- Have limits of no less than \$1 million.

STATE INSURANCE STATUTES

SELF-INSURANCE FUNDS

F.S. 624.462 (insurance statute) provides for a not-for-profit group comprised of one or more community associations, responsible for operating at least 50 residential parcels or units, created and operating under the Condominium, Cooperative, Homeowners' Association, Timeshare, and Mobile Home Acts, which restricts membership to community associations only and which has been organized and maintained in good faith for the purpose of pooling and spreading the liabilities of its group members relating to property or casualty risk or surety insurance.

The Condominium, Cooperative, Homeowners' Association, and Timeshare Acts provide that an association or group of associations may provide adequate property insurance through a self-insurance fund that complies with the requirements of F.S. 624.460-624.488. The self-insurance group may also provide adequate property insurance coverage for a group of at least three communities created and operating under the same acts, by obtaining and maintaining for such communities, insurance coverage sufficient to cover an amount equal to the probable maximum loss for the communities for a 250-year windstorm event. Such probable maximum loss must be determined by the use of a competent model that has been accepted by the Florida Commission on Hurricane Loss Projection Methodology. A policy or program providing such coverage must have been reviewed and approved by the Office of Insurance Regulation. The review and approval must include the policy and related forms, the rates, and a determination that the loss model approved by the commission was accurately and appropriately applied to the insured structures to determine the 250-year probable maximum loss. For condominiums, it must also include a determination that complete and accurate disclosure of all material provisions is provided to members before execution of the agreement by an association.

CONDOMINIUM ASSOCIATIONS

F.S. 718.111 (11) applies to every residential condominium in the state, regardless of the date of its declaration of condominium, with the exception of timeshare condominiums. However, associations that do not have Kaufman language in its governing documents may not be required to comply with the statute. Associations should consult with their attorney on these issues.

A copy of each policy of insurance in effect must be made available for inspection by unit owners at reasonable times, as required by statutes.

Property Insurance Requirements

Every property insurance policy issued or renewed on or after January 1, 2009, must provide primary coverage for all portions of the condominium property, as originally installed or replaced with like kind and quality, in accordance with the original plans and

specifications and all alterations or additions made to the condominium property or association property pursuant to F.S. 718.113(2). F.S. 718.113(2) describes the requirements relating to material alterations. The coverage must exclude all personal property within the unit or limited common elements, and floor, wall, and ceiling coverings, electrical fixtures, appliances, water heaters, water filters, built-in cabinets and countertops, and window treatments, including curtains, drapes, blinds, hardware, and similar window treatment components, or replacements of any of the foregoing which are located within the boundaries of the unit and serve only such unit. Such property is the responsibility of the unit owner.

Adequate property insurance, regardless of any requirement in the declaration of condominium, must be based on the replacement cost of the property to be insured as determined by an independent insurance appraisal or update of a prior appraisal. The replacement cost must be determined at least once every 36 months.

If an association is a developer-controlled association, the association is required to exercise its best efforts to obtain and maintain insurance. Failure to obtain and maintain adequate property insurance during any period of developer control constitutes a breach of fiduciary responsibility by the developer-appointed directors, unless the directors can show that, despite such failure, they have made their best efforts to maintain the required coverage.

An association controlled by unit owners operating as a residential condominium shall use its best efforts to obtain and maintain adequate property insurance to protect the association, the association property, the common elements, and the condominium property that must be insured by the association.

The declaration of condominium may provide that condominium property consisting of freestanding buildings comprised of no more than one building need not be insured by the association if the declaration requires the unit owner to obtain adequate insurance for the condominium property.

Liability, Insurance for Employees, and Flood Insurance

A condominium may obtain and maintain liability insurance for directors and officers, insurance for the benefit of association employees, and flood insurance for common elements, association property, and units.

Unit Owner Responsibilities

A unit owner may undertake reconstruction work on portions of the unit with the prior written consent of the board of administration. However, such work may be conditioned upon the approval of the repair methods, the qualifications of the proposed contractor, or the contract that is used for that purpose. A unit owner must obtain all required governmental permits and approvals before commencing reconstruction.

Unit owners are responsible for the cost of reconstruction of any portions of the condominium property for which the unit owner is required to carry property insurance by the association's governing documents, or for which the unit owner is responsible. The cost of any such reconstruction work undertaken by the association is chargeable to the unit owner and enforceable as an assessment. The condominium may collect those

monies in the manner provided for the collection of other assessments described in F.S. 718.

Multicondominiums

A multicondominium association may elect, by a majority vote of the collective members of the condominiums operated by the association, to operate the condominiums as a single condominium for purposes of insurance matters, including, but not limited to, the purchase of the property insurance required by this section and the apportionment of deductibles and damages in excess of coverage. The election to aggregate the treatment of insurance premiums, deductibles, and excess damages constitutes an amendment to the declaration of all condominiums operated by the association, and the costs of insurance must be stated in the association budget.

Deductibles

When determining the adequate amount of property insurance coverage, the association may consider deductibles.

Policies may include deductibles as determined by the board. The deductibles must be consistent with industry standards and prevailing practice for communities of similar size and age and having similar construction and facilities in the locale where the condominium property is situated. The deductibles may be based upon available funds, including reserve accounts, or predetermined assessment authority at the time the insurance is obtained. The board must establish the amount of the deductibles at a meeting of the board (and include establishment of the deductible on the agenda).

Damage Repair

Any portion of the condominium property that must be insured by the association against property loss, which is damaged by an insurable event, must be reconstructed, repaired, or replaced, as necessary, by the association as a common expense. In the absence of an insurable event, the association or the unit owners is responsible for the reconstruction, repair, or replacement as determined by the maintenance provisions of the declaration or bylaws. All property insurance deductibles and other damages in excess of property insurance coverage under the property insurance policies maintained by the association are a common expense of the condominium, except that:

- A unit owner is responsible for the costs of repair or replacement of any portion of the condominium property not paid by insurance proceeds if such damage is caused by intentional conduct, negligence, or failure to comply with the terms of the declaration or the rules of the association by a unit owner, the members of their family, unit occupants, tenants, guests, or invitees, without loss of the subrogation rights of the insurer.
- The provisions described above regarding the financial responsibility of a unit owner, also apply to the costs of repair or replacement of personal property of other unit owners or the association, as well as other property, whether real or personal, which the unit owners are required to insure.
- To the extent the cost of repair or reconstruction for which the unit owner is responsible under this paragraph is reimbursed to the association by insurance proceeds, and the association has collected the cost of such repair or reconstruction

- from the unit owner, the association shall reimburse the unit owner without the waiver of any rights of subrogation.
- The association is not obligated to pay for reconstruction or repairs of property losses as a common expense if the property losses were known or should have been known to a unit owner and were not reported to the association until after the insurance claim of the association for that property was settled or resolved with finality, or denied, because it was untimely filed.

An association may, upon the approval of a majority of eligible TVI, opt out of the above provisions for the allocation of repair or reconstruction expenses and allocate repair or reconstruction expenses in the manner provided in the declaration.

The association is not obligated to pay for any reconstruction or repair expenses due to property loss to any improvements installed by a current or former owner of the unit or by the developer if the improvement benefits only the unit for which it was installed and is not part of the standard improvements installed by the developer on all units as part of original construction, whether or not such improvement is located within the unit. Condominium associations are also required to obtain a fidelity bond as described in the **Types of Insurance** section.

Case law has established a legal basis for an association's governing documents, to require an association's board to obtain specific types and limits of insurance not required by statute. Case law may also allow an association to obtain coverage for certain types of property within a unit, even if specifically excluded by statute. The association should always check with its attorney.

COOPERATIVE ASSOCIATIONS

F.S. 719.104 (3) requires the association to use its best efforts to obtain and maintain adequate insurance to protect the association property. The association may also obtain and maintain liability insurance for directors and officers, insurance for the benefit of association employees, and flood insurance. A copy of each policy of insurance in effect must be made available for inspection by unit owners at reasonable times, as required by statutes.

Cooperative associations are also required to obtain a fidelity bond as described in the **Types of Insurance** section.

HOMEOWNERS' ASSOCIATIONS

Homeowners' associations are required to obtain a fidelity bond, as described in the **Types of Insurance** section. There are no other state statutory requirements related to obtaining insurance.

FIDUCIARY DUTY OF DIRECTORS

Although community association statutes and/or the association's documents may not require specific insurance coverage, directors have a fiduciary duty to the members to protect the association's assets, including ensuring adequate insurance coverage.

THE MANAGER'S ROLE

The role of the CAM, depending upon the needs and desires of the association president and board, typically includes:

- Knowledge and understanding of the associations policies, including the small print
- Prepare and maintain an annual summary sheet of the association's policies describing the type of each policy, its insurer and rating, whether it's an admitted or surplus line carrier, the policy limits, expiration date, deductibles, coinsurance, most recent appraisal date, and other important information. See [Exhibit 3 - Insurance Chart Summary for an example.](#)
- Review of the insurance policies and consultation with the insurance broker prior to the policies' expiration dates and as part of preparing the next year's budget proposal, to determine the need for revisions, the addition of new or deletion of existing policies, statutory changes, the availability of coverage, and competitive bids
- Review of recommendations related to the above with the association's president and/or chair of the insurance committee
- Determine the requirement for a current property appraisal
- Remind condominium president of the requirement to include the determination of the level of deductibles on the agenda of an upcoming board meeting
- Explore financing options for insurance premium from broker and banks
- Include loan interest as a separate budgetary account or line item if the association finances its premiums
- Be aware of the history of liability claims, especially slips and falls and other types of accidents
- Correct deficiencies in the association's safety policies or implementation if there is an excessive number of claims or a pattern of recurring claims
- Be aware of the availability of premium discounts, especially for property and windstorm insurance, and communicate such information to the president and board
- Maintain a current video of the association's property to provide a record of the community's appearance before the occurrence of an insured event, such as a windstorm
- Document all events that may lead to insurance claims, with photographs, videos, and written reports
- Report the occurrence of all events that may potentially become claims against the association to the insurance broker upon the president's or board's approval
- Advise the president and board to seek legal advice, through the insurer or the association's legal counsel, for events that present potential liability for the association



THE CAM, INSURANCE, AND CLIMATE CHANGE

The Florida Climate Center, Office of the State Climatologist, of Florida State University¹¹ reports, "Warming of the climate system is unequivocal, as is now evident from observations of increases in global average air and ocean temperatures, widespread melting of snow and ice, and rising global average sea level." In summary, the report states, "The climate of the Southeast is likely to change in the next decades. While the extent of these changes is subject of intense debate, we need to prepare for the challenges posed by climate change by becoming a more efficient society, reducing greenhouse gas emissions, identifying vulnerable sectors of society, and developing adaptation strategies."

Climate change driven events are resulting in increases in windstorm and flood insurance premiums, and threaten the viability of vulnerable areas of the state. Coastal associations are now subject to increased flooding from rising water levels, especially during "King Tides," high tides and storm surges. It is necessary for communities to adopt adaptation strategies to respond to the impact of climate change. Such strategies include hardening of buildings and structures, storm drain system improvement, construction and maintenance of seawalls, levees, and breakwaters, protection and restoration of salt marshes and mangrove forests, beach re-nourishment, and sand dune systems.

Although some of these strategies can be implemented by individual associations, it will take a major commitment of resources by local, state, and federal government to effectively address the effects of climate change on associations and the wider community. The role of the CAM is to provide the board with current information on the potential impact of climate change on their communities, and guidance on measures the association can take to minimize risk and the cost of insurance.

SUMMARY

In this course, we have discussed the fundamental concepts of property and liability insurance, and the types of insurance commonly obtained by a community association to protect itself and its residents against financial losses resulting from damage to or destruction of property, fraud or embezzlement on the part of officers, directors, and employees, computer related crimes, negligence related lawsuits and insurance claims. We have briefly reviewed community association insurance related statutes. Finally, we have briefly reviewed the CAM's role in insurance.

We recommend that CAMs consult with their insurance broker and attorney when selecting policies for the association, and when handling claims for, and against, the association.

¹¹ Climatecenter.fsu.edu/topics/climate-change, July 5, 2018

FINAL EXAM

1. Which of the following is TRUE of insurance?
 - a. Insurance is a transfer of a peril from an insured to an insurance company.
 - b. Insurance is a means of transferring risk from the insured to an insurance company.
 - c. Insurance distributes risk from one insured to many insureds.
 - d. Insurance is a means of enriching the insurer and impoverishing the insured.

Ref: Basic Concepts, Insurance

2. Which of the following is TRUE of risk?
 - a. Risk is the uncertainty concerning the possibility of loss resulting from a peril.
 - b. Risk is nature's way of making life exciting.
 - c. Risk is the fear that something bad will happen sooner or later.
 - d. Risk is always unacceptable and must be transferred to the greatest extent possible.

Ref: Basic Concepts, Risk

3. What is a peril?
 - a. A peril is something dangerous that must be avoided at any cost.
 - b. A peril is an event that frightens the association president.
 - c. A peril is a gem found within the shell of an oyster.
 - d. A peril is a cause of a possible loss, or cause of property damage or personal injury.

Ref: Basic Concepts, Risk

4. The role of the CAM includes:
 - a. To ensure that a current video of association and owner personal property be maintained to provide a record in case there is an insured event.
 - b. To read and understand the association's policies, excluding the small print.
 - c. To prepare and maintain an annual summary sheet of the association's insurance policies.
 - d. To survey all owners annually to ensure that every owner has insurance policies protecting the association from any claims the owners may have against the association.

Ref: The Manager's Role

5. Which of the following is TRUE of Citizens Insurance Property Corporation?
 - a. It is the insurer of lost causes.
 - b. It requires a new appraisal once every 36 months.
 - c. It offers a law and ordinance endorsement.
 - d. It provides insurance for community associations that cannot obtain insurance from an insurer in the private market.

Ref: Types of Insurance, Windstorm Insurance

6. Which of the following is the correct definition of an insurable interest?
 - a. An insurable interest is a right or relationship to the subject matter of the insurance contract such that the insured can suffer a financial loss from its damage, loss, or destruction.
 - b. An insurable interest is the amount of interest earned by the insurer from the insured's premium.
 - c. An insurable interest is the interest a community association's members display at board meetings when insurance is discussed by the board.
 - d. An insurable interest is a right or relationship to the subject matter of the insurance contract such that the insurer can suffer a financial loss from its damage, loss, or destruction.

Ref: Basic Concepts, Insurable Interest

7. Which of the following is TRUE of surplus line carriers operating in Florida?
 - a. They are financially weak insurance companies.
 - b. If they become insolvent, their policyholders are covered by FIGA.
 - c. They are licensed to sell insurance in Florida by the Florida Office of Insurance Regulation.
 - d. They are not regulated by the Florida Office of Insurance Regulation.

Ref: Basic Concepts, Admitted and Surplus Lines Carriers

8. Which of the following is TRUE of a cybercrime?
- a. Phishing is a type of cybercrime that specifically affect the computers of cruise line condominiums.
 - b. A cybercrime is the use of a computer to steal or alter data, or to gain unlawful use of computers or services.
 - c. A D&O policy covers cybercrime claims against an association for the actions of its directors and officers.
 - d. Identity theft is a cybercrime in which the CAM assumes the identity and authority of the association president.

Ref: Types of Insurance, Cybercrime Insurance

9. Which of the following is TRUE of umbrella insurance?
- a. It provides insurance for the risk of illness resulting from being caught in a downpour without an umbrella.
 - b. It is a form of property insurance that provides coverage in excess of the standard limits of a property or windstorm policy.
 - c. It is a form of liability insurance that provides coverage in excess of the standard limits of general liability and D&O policies.
 - d. It provides insurance coverage in excess of the standard limits of a liquor liability policy and covers damage to the bar owner's reputation caused by insults from an inebriated customer.

Ref: Types of Insurance, Umbrella Policy

10. Which of the following is TRUE of a community association's fidelity bond?
- a. The amount of the fidelity bond, by law, must be equal to or greater than the maximum amount of funds that will be in the custody of the association at any time during its fiscal year.
 - b. A fidelity bond is a form of insurance that covers an association for losses it incurs from fraudulent or dishonest acts by owners of the association.
 - c. Only condominiums are required to have each person who controls and disburses funds of the association bonded through a fidelity bond.
 - d. In a condominium, the majority of eligible TVI present at a properly called meeting of the association may vote to waive the requirement of obtaining a fidelity bond.

Ref: Types of Insurance, Fidelity Bond