



MANAGING RISK BEFORE A CLAIM HAPPENS

Insurance, Liability, and the Exposures Boards Often Miss

A practical guide to helping Boards evaluate coverage, deductibles, replacement cost, liability, cyber risk, and the gaps that can become expensive after a claim.

Insurance Is a Backstop - Not a Risk-Management Program

The strongest associations do more than renew policies. They identify exposures, understand what the policy actually covers, plan for deductibles, and review coverage as buildings, values, regulations, and risks change.

Because Communities Deserve Better!

Community Association Management, Limited

Educational White Paper | September 2026

Insurance Is Only One Part of Risk Management

Associations buy insurance because some losses cannot be prevented. A storm can damage a roof. A visitor can be injured in a common area. A cyberattack can expose data or redirect funds. A Board decision can result in a claim. Insurance matters because the financial consequences can be significant.

But renewing the same policies every year is not the same as managing risk. Coverage needs can change as buildings age, construction costs rise, amenities are added, deductibles increase, lender standards evolve, and new cyber or liability exposures appear.

The standard

A Board should understand what can go wrong, which risks can be reduced through operations and controls, which risks should be transferred through insurance, and how much financial exposure remains after the policy responds.

What this guide covers

- Why annual insurance review matters
- Property coverage and replacement-cost valuation
- Deductibles and the cash the association may need after a loss
- General liability, D&O, crime/fidelity, cyber, workers' compensation, and umbrella coverage
- Why condominiums deserve additional insurance scrutiny
- Vendor risk transfer and additional-insured requirements
- Claims readiness and what Boards should know before an emergency
- How claim frequency and small-loss decisions can affect long-term insurance cost
- Questions every Board should ask its insurance professional

1. Review the Association - Not Just the Renewal Quote

An annual insurance review should begin with the association itself. What changed during the year? Were buildings renovated? Did replacement costs increase? Was a clubhouse expanded? Did the association add employees, amenities, cameras, electric-vehicle charging stations, pools, gates, or other new exposures? Did claims reveal a recurring problem?

Community includes a yearly insurance and risk review across its service packages. A specialized insurance partner reviews the association, the current policy, coverage structure, and material exposures so the Board is not evaluating premium alone.

Questions to ask during the annual review

- What has changed about the association since the last renewal?
- Are coverage limits still appropriate for current replacement costs and liabilities?
- Have exclusions, sublimits, deductibles, or policy conditions changed?
- Are there new risks that are not adequately addressed by the current program?
- Are the association's governing documents, lender requirements, and insurance program aligned?
- Do owners understand where the association's coverage stops and their own coverage begins?

2. Property Coverage Starts With Knowing What It Would Cost to Rebuild

A property policy can have a large limit and still leave a serious gap if the insured value no longer reflects the cost to repair or replace the property after a major loss. Construction labor, materials, code requirements, debris removal, and catastrophe-driven demand can all change the cost of rebuilding.

For associations with substantial buildings or common assets, periodic replacement-cost valuations or insurance appraisals are a useful governance tool. The goal is not to predict the next claim. It is to make sure the policy is based on a current, supportable estimate rather than an outdated value carried forward from prior years.

Replacement cost deserves regular attention

Fannie Mae currently requires qualifying project master policies to carry coverage equal to at least 100% of estimated replacement cost for covered project improvements, subject to its detailed project requirements. Even when lender standards do not apply, the underlying question is still important: could the association realistically rebuild what it is responsible for insuring?¹

Coverage to discuss with the insurance professional

- Building and common-property limits
- Building ordinance or law coverage for code-driven costs after a loss
- Equipment breakdown where central mechanical systems create exposure
- Flood, wind, hail, named-storm, earthquake, or other location-specific perils where applicable
- Business income or extra expense when a covered event interrupts association operations or revenue
- Debris removal and other sublimits that may materially affect recovery

¹ Fannie Mae, *Selling Guide B7-3-03, Master Property Insurance Requirements for Project Developments*, updated August 5, 2026.

3. A Deductible Is a Financial Obligation - Not Fine Print

A policy may cover the loss while still leaving the association responsible for a substantial deductible. In coastal or catastrophe-exposed markets, wind, hail, hurricane, or named-storm deductibles may be materially different from the standard property deductible.

The Board should know the deductible before the loss - and know where the money would come from. Depending on the governing documents and circumstances, the association may need available operating cash, reserves, insurance-deductible funding, borrowing authority, or an assessment strategy. A deductible that cannot be funded quickly can delay recovery even when the claim itself is covered.

Boards should understand

- Each major deductible, including percentage-based or per-building/per-unit structures
- How the deductible would translate into actual dollars for a realistic loss
- Whether the association has enough liquidity to fund the deductible promptly
- Whether owners could face deductible assessments and how that responsibility is allocated
- Whether lender standards impose deductible limitations for condominium or project eligibility

Current Fannie Mae project guidance generally limits per-occurrence master-policy deductibles for required property perils to 5% of the master policy coverage amount, with additional rules for per-unit deductibles. Boards of condominium and other lender-sensitive communities should review current requirements with their insurance and lending professionals rather than assume last year's structure remains acceptable.

4. Core Coverages Address Different Risks

Coverage	What the Board Should Understand
Property	Physical damage to insured association buildings, structures, common property, and covered equipment.
General Liability	Claims alleging bodily injury or property damage connected to association operations or common areas.
Directors & Officers (D&O)	Claims tied to governance decisions, alleged breach of duty, enforcement, elections, and other covered management acts.
Crime / Fidelity	Loss of association funds from covered theft, fraud, or dishonest acts. Coverage terms should be reviewed for people and entities handling association funds.
Cyber	Certain costs and liabilities arising from cyber incidents, data compromise, ransomware, social engineering, or related events, depending on policy terms.
Workers' Compensation	Employee injury obligations where the association has employees or other statutory exposure.

Coverage	What the Board Should Understand
----------	----------------------------------

Umbrella / Excess	Additional liability limits above certain underlying policies when a severe claim exceeds primary limits.
-------------------	---

No single policy covers every loss. The Board should understand what each policy is intended to do, the exclusions that matter, and whether limits reflect the association's actual exposure.

5. Lower Limits Can Create Expensive False Savings

Premium matters. So does the amount of risk the association retains. Reducing limits, accepting a narrower form, or choosing a larger deductible can lower the current premium while increasing the amount owners may ultimately have to fund after a serious claim.

That does not mean every association should buy the highest available limit. Insurance is a risk-financing decision. The Board should understand the tradeoff, document the reasoning, and make the decision with qualified professional advice rather than treating the lowest premium as the automatic best result.

Price is only one line in the decision

A less expensive policy can be appropriate. A less understood policy is not. Boards should compare limits, deductibles, exclusions, endorsements, insurer strength, claims support, and owner impacts - not premium alone.

6. Condominium Insurance Deserves Extra Scrutiny

Insurance is often more complicated in condominiums because responsibility may be divided among the association, individual unit owners, and lenders. The governing documents and applicable law can determine whether the master policy covers only common elements, portions of units, original construction, or broader building components.

A mismatch between the master policy and the unit owner's HO-6 policy can create coverage gaps. Boards should communicate clearly with owners about the association's responsibilities, major deductibles, and the importance of discussing individual coverage with their own insurance professional.

Condominium Boards should pay particular attention to

- Master-policy replacement cost and lender eligibility requirements
- Per-unit or percentage deductibles and potential owner assessment exposure
- Building ordinance or law coverage
- Equipment breakdown for central systems where applicable
- Flood and catastrophe coverage applicable to the location
- How the governing documents divide insurance responsibility between association and owner
- Whether owner HO-6 policies should address interior improvements, loss assessment, deductibles, personal property, liability, and loss of use

Current Fannie Mae guidance also requires individual unit-owner coverage in certain situations, including when portions of the unit are not covered by the master policy or when the master policy has a per-unit deductible. Requirements change, so Boards should not rely on assumptions from prior lending cycles.²

7. Vendor Insurance Transfers Risk Away From the Association

The association's own insurance should not become the first line of defense for losses caused by a contractor. Vendor qualification and contract requirements are part of the association's risk-management program.

Community requires approved vendors to maintain defined insurance standards, sign a standalone vendor agreement, and name required parties as additional insureds where appropriate. Coverage is monitored, and expired insurance is subject to a cure period before payments are stopped until compliant coverage is restored.

This is why vendor insurance belongs in the same conversation as association insurance: both are tools for deciding where financial responsibility should sit when something goes wrong.

8. Claims Readiness Matters Before the Emergency

A Board should not be learning its claim procedures while standing outside a damaged building at 2:00 a.m. The first hours after a major loss can affect safety, documentation, mitigation, owner communication, and the eventual claim.

Before a loss, know

- Who should be contacted first for emergency mitigation and insurance reporting
- Who has authority under the management agreement to act when immediate Board approval is not practical

²Fannie Mae, Lender Letter LL-2026-03, Updates to Project Standards & Property Insurance Requirements, March 18, 2026.

- Where current policies, endorsements, valuations, vendor contacts, and governing documents are stored
- How emergency expenditures will be documented and approved
- How owners will receive updates during a prolonged restoration
- Who will coordinate the insurer, adjuster, engineers, contractors, counsel, and other professionals if the loss becomes complex

9. Manage Claim Frequency - Not Every Loss Needs to Become a Claim

Insurance is designed to protect the association from losses it should not reasonably absorb on its own. That does not mean every minor repair or small property loss should automatically become a claim. A pattern of frequent claims can affect an association's loss history and may influence future premiums, deductibles, underwriting terms, or the number of carriers willing to quote the account.

When a loss is relatively small and the association can reasonably pay for the repair, the Board should discuss with its insurance professional whether paying the expense directly may be more prudent than submitting a claim. The decision should consider the size of the loss, the deductible, the association's existing claims history, whether additional damage may emerge, and the long-term value of preserving a favorable loss record.

Use judgment - and involve the insurance professional

Avoiding unnecessary small claims does not mean hiding losses or failing to give required notice. Bodily injury, third-party liability, potentially significant water intrusion, uncertain damage, or incidents that could grow into a larger claim should be discussed promptly with the association's insurance professional. Policy notice requirements should also be considered before deciding not to report an event.

A practical question for the Board

Are we using insurance primarily for material losses the association should not reasonably absorb - or filing claims for routine expenses that may be better handled within the operating budget?

10. Cyber Risk Now Belongs in the Insurance Conversation

Associations increasingly rely on online payments, portals, cloud records, email, connected access systems, and digital communications. That creates efficiency - and new exposure. Phishing, social engineering, ransomware, account compromise, and data incidents can create direct financial loss as well as privacy, notification, forensic, legal, and recovery costs.

Cyber insurance should be reviewed alongside operational cybersecurity controls. Insurance cannot compensate for every excluded event, poor access practice, or preventable payment failure. The strongest approach combines technology controls, employee and Board awareness, payment verification, incident procedures, and appropriate coverage.

Questions every Board should ask about cyber coverage

- Does the policy address social engineering or fraudulent transfer, and what verification conditions apply?
- What incident-response, forensic, notification, legal, and restoration costs are covered?
- Are the management company and third-party service-provider relationships properly considered?
- What security controls must be maintained as conditions of coverage?
- Who must be contacted immediately after a suspected incident?

11. Questions Every Board Should Ask at Renewal

1. What changed in our exposures, property values, operations, or claims history this year?
2. Are we filing small claims that could reasonably be absorbed without materially affecting the association?
3. What are our current replacement-cost assumptions, and when were they last independently evaluated?
4. What are the largest deductibles in actual dollars?
5. Could we fund those deductibles without delaying repairs?
6. What major exclusions, sublimits, or coverage changes should the Board understand?
7. Are our property, general liability, D&O, crime/fidelity, cyber, workers' compensation, and umbrella limits appropriate for our current risks?
8. Are there gaps between the association master policy and owners' expected individual coverage?
9. For a condominium, do current master-policy terms support applicable lending requirements?
10. Are vendor contracts and certificates transferring risk appropriately?
11. If a major loss happened tonight, who would make the first calls and who has authority to act?

12. How Community Supports Better Risk Management

Community Association Management, Limited is an independently owned, AAMC-accredited community association management company serving North Carolina and South Carolina. Our role is not to replace the Board's insurance professional. It is to help make risk review a recurring part of association management rather than a once-a-year premium discussion.

Our approach includes

- Annual insurance and risk review with a specialized insurance partner across all four service packages
- Review of claims history and claim frequency to identify avoidable losses and opportunities to protect long-term insurability and insurance cost
- Coordination of policy, coverage, exposure, and renewal information for Board review
- Vendor insurance standards, additional-insured requirements, and ongoing certificate monitoring
- Escalation when a material coverage, claim, deductible, or operational risk needs Board attention
- Financial reporting and reserve planning that help Boards understand whether significant retained risks can be funded
- Emergency-response coordination when immediate action is required to protect people or association assets
- Education that helps Boards ask better questions before a claim exposes the gap

Insurance should support the association's operating model - not sit apart from it.

The strongest risk-management program connects coverage decisions with financial planning, vendor controls, emergency procedures, maintenance, cybersecurity, and Board governance.

Ready to Review More Than the Premium?

Use this guide with your Board before the next insurance renewal. Identify what changed, understand the largest retained risks, and ask whether the current program is designed for the association you have today - not the association you had several years ago.

Visit communityassociationmanagement.com to learn more or request a conversation about your association's management needs.

Because Communities Deserve Better!

Educational Notice: This white paper is intended for general educational and risk-management discussion. It is not legal, tax, investment, insurance, lending, or accounting advice. Coverage needs, policy terms, governing-document requirements, lender standards, and applicable law vary by association and can change. Boards should work with qualified insurance, legal, lending, and other professionals as appropriate.