

Special Consumer Report

Insurance Insider Reveals...

# **7 Dirty Little Secrets No One Wants You To Know About Apartment Insurance**

*How Many Of These Dangerous Mistakes Are You Making?*



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I guess we could say that purchasing insurance for your apartment building is one of life's "necessary evils"...nobody seems to like it, but you gotta have it. Your mortgage lender requires it. In fact, you cannot even close escrow without an insurance policy. Let's face it, you want to protect your investment should there be a loss. It is easy to sometimes think we would be better off without it or to attempt to cut corners and save a few bucks.

**However, when it comes to protecting your financial well-being and most likely your future retirement, nothing is more important than having the best protection for your money. Nothing.**

Protecting your home and auto are important. Fires and accidents do happen.

Life Insurance and Long Term Care Insurance are critical components of anybody's financial plan.

For your financial protection you need a rock solid apartment insurance policy! This special free consumer report will help clarify some of the fine print that is contained in all insurance policies and give you some tips to get the best insurance deal on your apartment investment.

## **Secret #1: Do you have a correct and current lease with your tenants?**

Ok...You are asking, "what does my tenant's lease have to do with my insurance policy and the fine print?" Well, your insurance policy is silent on any tenant's lease and there is no fine print. So what's the deal? A properly written lease will protect you and prevent unnecessary claims being submitted to your insurance carrier.

Here is an example of an actual claim that an apartment owner submitted to their insurance company:

- ❖ The tenant slipped and fell caused by water on the bathroom floor of the apartment. The insurance company paid about \$2,100 in medical expenses. The apartment owner did not receive any previous report of leaking pipes. Yet the insurance carrier ended up paying since the lease did not require a prompt report of any maintenance issues or any type of a hold harmless clause to protect the apartment owner. Review your lease agreements; it could prevent unnecessary claims from being paid by your insurance carrier and in the long run reduce your insurance costs

## **Secret #2: Do you obtain certificates of insurance prior to permitting any contractor to work at your Apartment building?**

Most of the time an apartment owner will have an electrician, plumber, or repair person come to their apartment building to do repairs whenever there's a problem. It takes just one incident to create a problem that could have been avoided and it could save you thousands of dollars. Usually, the typical apartment owner has a working relationship with a contractor that handles these repairs. When you hire someone, ask for a certificate of insurance for General Liability coverage with a minimum of \$1,000,000 of coverage and Worker's Compensation coverage. To be extra careful ask to be named as an additional insured on their general liability policy.

Here is what can happen if you bring in an uninsured contractor or a friend to perform your repairs:

- ❖ The plumber repairs a dripping pipe under the kitchen sink in one of your apartment units while the tenant is at work. The tenant comes home to a flooded apartment caused by the plumber. The tenant has estimated water damage to the furniture of \$10,000+. If the plumber had insurance, the plumber's insurance company would handle this. Now the claim is submitted to your insurance company. They will pay and may try to recover the loss from the plumber. This claim will be on your record and your current carrier could cancel or raise your rates at the next renewal. When you check for other insurance options, you will find that you may have lost the preferred pricing and lowest premium and your cost of insurance will increase for at least the next three years. If you are selling your building this one incident could lower your selling price since your insurance record has a water claim. The certificate will cost you nothing but it could save you thousands of dollars.
- ❖ An employee of a repair service is directed to repair a window screen on the second level. The ladder collapses and the employee falls and breaks a leg. You find out months later that your repair person did not have worker's compensation when you are presented with a lawsuit. In California, worker's compensation is the exclusive remedy. However, when an uninsured injury occurs the injured worker will not only seek recovery from the owner of the repair service but the apartment owner who hired the company to do the repairs. This situation could have been prevented with a simple certificate of worker's compensation coverage. Your cost would be zero!

## **Secret #3: Insure your apartment building to current Replacement Cost Values.**

The cost of building materials to build or replace an existing apartment building has increased more than 27% the last three years. It is likely that your current building could be underinsured. Your insurance carrier only has guidelines on replacement costs. It is entirely up to you as a building owner to insure to the correct and current value. It is important to take the time and determine a value that will prevent a coinsurance penalty in the event that you have a loss and discover that you are underinsured. Below is an example of a coinsurance penalty:

- ❖ The Adams Family Apartment was insured for \$1,000,000 with a 100% coinsurance clause with a \$1000 deductible. A \$100,000 fire loss occurred and it was determined that the correct building value should have been \$1,200,000. The coinsurance penalty is determined as follows:

Original coverage \$1,000,000  
Correct coverage \$1,200,000  
 $\$1,000,000 / \$1,200,000 = .8333\%$  insured to value

$\$100,000(\text{actual loss}) \times .833(\text{penalty}) = 83,333$

$\$83,333 - \$1,000(\text{deductible}) = \$82,333$

The insurance company will pay \$82,333. The remaining \$16,667 is not covered by the insurance policy.

Your apartment is one of your major lifetime investments. Don't try to save a few dollars of premium by under insuring your investment. It is not worth the trade off in the event of a serious loss. Other techniques can be used to waive the coinsurance clause that some insurance carriers may consider.

### **Secret #4: Protect your net worth and apartment investment(s) with at least a \$1,000,000 umbrella policy at an amazingly low price.**

A good rule of thumb is to carry enough liability insurance to protect your net worth or at the very least your apartment investment. The additional cost to obtain at least a \$1,000,000 umbrella policy is inexpensive. It is well worth the extra dollars to not only have the protection, but to get a good night's sleep should you get a high profile liability claim. Serious accidents occur despite your best intentions.

Your insurance company will not pay more than the limits on your apartment package policy. If a claim against you goes beyond your liability limits this means that the insurance company will settle for the policy limits and you are now responsible for the balance and/or any additional attorney fees. I will reveal two simple ideas to pay for this umbrella policy later in this special report.

## **Secret # 5: Consciously selecting higher deductibles and retaining more of the small direct property losses.**

The absolute minimum for property deductible for your apartment building should be \$1,000. Nearly all apartment owners will pay for the small direct property damage claims. In fact I have observed through the years building owners purchasing a \$1,000 property deductible and then when there is a small claim of about \$1,800 they still will still pay for it. Thus, consider going to a \$2,500 property deductible. Depending on your values you may be surprised at your savings. It will help pay for the additional \$1,000,000 umbrella policy

## **Secret# 6: Routine property maintenance.**

You've heard the term "curb appeal" when you sell your building. It is that first impression on the buyer that can make or break the deal. The same is true when the insurance company does an inspection. When your property is well maintained, the insurance inspector will give a favorable report back to the underwriter. You will not be hassled with recommendations and you retain a favorable premium.

The insurance companies are inspecting the following key areas:

1. Parking areas and walkways – correct uneven surfaces in parking lot and walkways – repair potholes. This will prevent premises liability claims. The statistics are amazing. Most liability claims (64%) are caused because of uneven surfaces and poorly maintained parking areas.
2. Adequate outdoor lighting – This also helps prevent not only slip and fall claims but deter the night time assault on a tenant. The apartment owner can be held liable for inadequate lighting to protect tenants.
3. Yard area well maintained – The area around the apartment is clean and well kept. No junk or trash in the yard.
4. Compliance with city codes – Balcony rails, handrails, and swimming pools meet the code requirements.
5. The apartment building is well maintained with no graffiti.

Should your apartment building meet or beat these requirements you could be eligible for a preferred program that would lower your basic rate. Thus, we have now found two areas that will reduce costs to purchase the extra liability coverage.

## **Secret # 7: Watch out for the gaping holes in your apartment insurance program.**

The issue is the city/county codes relating to the quality of construction. Grandfathering is a way that cities pass laws that improve the quality of new construction but exempt existing structures. If you were required to upgrade your property every time a new building construction item was enacted, you would revolt.

The laws that permit grandfathering also indicate when the grandfather exemptions end. Typically, an existing building has to comply with the newer laws when it undergoes a substantial renovation or after a substantial loss occurs. You need to check your local requirements so you know what would be expected. A typical provision may require that if 50% or more of a noncompliant structure is damaged, then the entire structure must be brought up to current code.

Here is the **GAP** in most policies! Insurance policies are indemnity contracts that are meant to return you to the condition prior to the loss, not to improve the structure. Complying with ordinances creates a betterment for you. Thus, in most policies unless this coverage is added there is no coverage for the betterment. There are important endorsements that can be included in the policy to close this gap in your protection.

The other **GAP** that nearly all apartment policies exclude is Tenant Discrimination. Unfortunately, tenant discrimination can happen accidentally. For example, it could be the wrongful treatment of a tenant in refusing a lease, the refusal to allow a guest of a tenant access to the leased property, the eviction of a guest of a tenant from the leased property because of discrimination on the basis of race, religion, age, sex, sexual preference, national origin, family status or disability or the violation of the Fair Credit Report Act or any similar state or local statute.

We have prepared another special consumer report that gives the details of this overlooked **GAP** in coverage with 10 claims examples, including what is not covered by this policy.

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