California Apartment Insurance
Est. 1966
"We Know Apartment Insurance!"

"7 Deadly Mistakes a Apartment Owners Can Make"

By

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Failure to insure ALL of your properties

This may sound very basic, but it can happen if you have multiple locations (you own several single family dwellings or duplexes) or multiple buildings at one location (you forget about a garage or a pool house).
This can create a large gap in your protection plan leaving you uninsured on a structure.

How can this be prevented?
Review your property tax statements matching every location for which you pay property taxes and reconcile that list to your list of insured properties. If you have properties in multiple entities, this should be performed for every entity.
Another method is to reconcile the depreciation schedule used for your federal income taxes against your list of insured locations. This only works for properties still being depreciated. A third option is to reconcile your list of income properties reported on your federal income tax records against our list of insured locations.
You should sit down with your insurance professional and go over this list annually to make sure you have not missed a location.
These points seem obvious, but it is amazing how often my clients fail to insure all of their properties. This is especially true if a property is purchased for cash. When there is not a banker in the picture demanding proof of insurance for the property on which they are the mortgagee, properties tend to be forgotten.
Usually landlords are very busy people and making the deal gets the adrenaline going. Once the deal is closed and the rush is over, many forget to call the insurance agent to let them know what happened.
Liability Insurance, the forgotten coverage.
I have also had many landlords tell me they paid cash for a building, and they are not concerned about a loss. (usually in the case of a sheriff's sale or tax sale). They are forgetting that a building that may have been purchased for hundreds of dollars could cost them thousands of dollars if a liability suit were to arise.

Failure to insure building to 100% of value

"I only paid $5,000 for the place, Why do I need to insure it for $50,000?"
Never tell an insurance agent that coinsurance is a type of deductible. Chances are, you will be considered wrong. A coinsurance provision in a property insurance policy means an insured shares in a loss. Isn't this the act of a deductible?
Insurance rates are determined on a number of assumptions. A major one is projected losses. Another is that every insured will take enough insurance dollar-wise to cover the full value of an insured property. However, some insureds will figure that most losses are small and rarely a total loss. So those insureds will insure for less than the value of the property. In turn, the premiums received by the insurance company are less than expected.
The insurance company reasons that if you want to insure for less than full value, you'll have to share in the losses. The insurance policy will set a coinsurance percentage, frequently 10%. That percentage will be the basis for loss sharing. **If the insured maintains insurance to the required percent, there is no loss sharing.** For example, a

$100,000 building, a 10% coinsurance requirement, and $90,000 of insurance equals full recovery. Meeting the required coinsurance percentage means no loss sharing.
Coinsurance penalties are established at the time of a loss. If your property has increased in value, surprise! Your loss recovery is reduced by a penalty.
Coinsurance is more complex in detail, but those are the basics. What looks like a rip-off at the time of a loss settlement actually translates into premium savings over the years. Want to avoid coinsurance problems? Then don't avoid this tip!
☛ **Tip.** Dodge coinsurance penalties with avoidance tools. Review this with your agent! Ask about an *agreed value provision.* This allows you and your agent to set the amount of insurance you carry. If this agreed amount is carried, then a coinsurance provision is waived. Other avoidance tools are *Replacement Cost Coverage* and *Inflation Guard Protection*. These prevent your coverage from falling below the required coinsurance percentage, forcing you to share a loss.

Failure to have Replacement Cost coverage

You may think, "At last, here are the secrets the insurance industry hides from us!" No, but you *will* find a number of tricks to make insurance work better. You'll learn how to make the right choices when you buy your insurance

Boundaries On Loss Payments

How do you determine value? For example, my old refrigerator just gets noisier and noisier. Now if there's an electrical fire, will the insurance company pay me for the cost of a new one? Or will I be paid what the old clunker was worth at the time of loss?
The standard recovery is *Actual Cash Value* or ACV. The law defines ACV in several ways. One ACV is current fair market value; another is replacement cost less depreciation. An insurance policy may qualify ACV giving the insurer the contractual right to replace or repair an item if this is economical.
Let's say my refrigerator was only a year old when my place had a fire. The actual cash value of my used refrigerator is much less than a brand new one will cost. The loss payment is less than the cost of a new fridge. I've been let down by the insurance process. Policy options to the rescue!
I can save myself this problem if I buy **replacement cost coverage** on personal and real property. This is known as "new for old." Of course there are controls on a loss recovery. This is designed to make it fair to me *and* the insurance company. Another tool for a fair recovery is **inflation protection**. This offers an automatic rise in insured property values so inflation won't mean low recovery at the time of a loss.
Valued Policy, Valued Policy Law, Agreed Value Policy and similar names indicate policies with a special settlement provision. These policies have set amounts you must pay at the time of a total loss. Most common are collector vehicle policies. The amount to be paid for vehicle theft or destruction is set in the Declarations. In other words, this is *a pre-adjusted loss.*
☛ **Tip.** Don't rely on the terminology for these insurance policies! It is seriously misused. Know your policy. Ask questions about things you don't understand. Your agent is there to give you answers.
Some states have *value laws.* These require the insured value to be paid in a total loss. These laws stop insurance agents and companies from selling high dollar coverage that would never be paid under an ACV policy.
☛ **Tip.** Review your insured property values each year. Values change.

THE LOSS OF BUSINESS INCOME TRAGEDY

Suddenly, your business is destroyed and your income stream crashes to a halt. It will be months before you can hope to be operating again. Your property insurance will provide funds to rebuild, but where will your personal expenses, e.g., your home mortgage, come from? Will your valued employees drift off if there are no funds for payroll? Will your customers return when you reopen? What if your business can't stop and you must fund a temporary location?

★ **Example.** A dairy owner can't tell cows, "We're not going to milk for a month or so." A number of businesses must keep operating, such as newspapers and banks. There are, of course, other examples. Closed businesses can't maintain customers or fulfill important contracts.

Business Interruption Coverage—Protect Yourself Before It's Too Late

Many businesses know they need to cover their property with insurance to replace physical property. But most fail to see the significance of business stoppage. Fortunately, insurance is available to answer the need for income funds. Business Interruption, Business Income, Time Element, and Extra Expense are all terms used for insurable non-physical losses.

What Does Loss Of Business Income Insurance Mean For You?

Business income insurance covers business earnings in the event of an interruptive loss. The ISO forms state that:

coverage is provided for net income (net profit or loss before income taxes) earned or incurred. Coverage is also provided to continue normal operating expenses incurred, including payroll

Think Profit and Loss statement.

☛ **Tip.** Use a worksheet to determine coverage.

A business income worksheet establishes coverage amounts of business interruption insurance. This establishes dollar amounts of coverage with no uncertainty. Involve your accountant in preparing a worksheet.

Do You Need Extra Expense Dollars?

There are two major reasons for extra expense insurance: competition (for instance, small businesses) and public demand (newspapers, banks).

Extra expense insurance is bought with business income insurance. It provides extra operating money while the business income coverage provides earnings. The extra expense funds cover continuing operating costs. This might mean temporary operating quarters until the permanent quarters are repaired or rebuilt.

Important Info: Additional Time Element

If you have suffered a business income loss or an extra expense problem, you are required to pursue normal operation quickly. This requirement protects the insurance company. That way recovery isn't prolonged because the business is enjoying an income stream.

What if business doesn’t return to normal volume right away? After the disaster of being forced to close, nothing is more discouraging than opening the door to a slow start. There is special insurance for this situation. It’s called *Extended Loss After Operations Resume.*
Sometimes one business depends seriously on another business. Perhaps there’s a fire at a computer chip factory and they can’t supply the computer manufacturer. Or the anchor department store in a business’s shopping center burns and shopping traffic disappears. *Dependent Property* coverage, formerly called Contingent Business Interruption Coverage, provides protection.
Many options exist in Business Interruption insurance. For example, the loss of rental from damaged property can be covered. So can the loss of tuition by organizations that receive their income at a given time of the year.
The specifics of business income coverage depend on the perils covered by the policy. The perils closely mirror those in the property policies we have looked at previously.

Failure to have Personal Injury coverage

“If you can’t say something nice…”

Personal injuries defined in the CGL policy as follows:

Personal injury means injury other than bodily injury arising out of one or more of the following offenses:

- false arrest, detention or imprisonment
- malicious prosecution
- wrongful entry into or eviction of a person from a room dwelling or premises that the person occupies
- Oral or written publication of materials that slanderers or liable as a person or organization or disparages a person's organizations, goods, products, or services
- Oral or written publication of material that violates a persons right of privacy

Depending on the policy form that you have, personal injury may or may not be included with the policy. It is a good idea to ask your insurance agent about personal injury and make sure that it is part of your policy.
Personal injury is an exposure that all landlords have. Even if you're not guilty of a crime, you still must defend yourself, and that can be very expensive. The insurance company should defend you if such an allegation is brought forth.

Failure to maintain complete and accurate records

No job is finished until the paperwork is complete.
Every business must maintain records, and landlords are no exception. Some of the records that are pertinent to a landlord are:

A file for current tenants

This should include the application, lease, criminal background checks, records supporting the condition of the rental space prior to occupancy, a security deposit record, and any other documents created in the screening process.

A file of previous tenants

The current file plus exit inspection records, security deposit transaction, and any other documents that are necessary.

Maintenance records

The compilation of these records is totally dependant upon your situation. Some methods might be:
The maintenance crew could be required to keep a task by task journal with times spent per task.
Use the accounts payable to track various maintenance expenses.
*** Tip.** Door key management is another issue. It is very important to have access to any rental space at any given time since emergencies can occur day or night.

Accounting records

If using a computer system you must **BACKUP YOUR FILE**S**!!!**
This task should be completed on a regularly scheduled basis.
It is a good idea to keep as many records as possible in this accounting system (A/R, A/P, fixed asset purchases and disposal, security deposits and depreciation schedule.) Depending on the software you use, it may be possible to set up a depreciation schedule for every fixed asset acquisition and disposal.
If a claim for loss of rent is ever filed, the main source of evidence to support your claim will be your accounting records.

Records are also to be kept in an accurate manner as well as complete.
This is especially true for accounting records. ***These records are critical when settling an insurance claim.***
For example:

- The tenant files will be used to establish which units were occupied and the amount of rent per unit.
- The extra expense coverage can be calculated based on the normal expenses.
- The assets lost may be determined from the list of assets on the balance sheet.
- In the situation of defective workmanship, the old accounts payable file can be used to determine who completed the job in question.
- When you sell your real estate holdings, your gains or losses will be much easier to compute.
- A potential buyer will have a better idea of what they are buying if the records are accurate and complete, possibly netting you a higher sales price.
- Always keep your federal income tax returns and state returns (if applicable). You never know when you might need them.

Failure to have a Boiler and Machinery Policy. The Missing Piece

The HVAC system of is part of the building and is insured under the building coverage, UNLESS you have a boiler. Then you have some exclusions to deal with, hence the use of the Boiler Policy. Typically this is a separate policy but some insurance companies will just include it into the policy. Please check to make sure your boiler is covered.

Property Coverages
<u>Standard Exclusions</u>

Mechanical Breakdown

Electrical Arcing

Explosions of Steam Boilers, Piping, Engines, Turbines

Loss of damage to Steam Boilers

Loss or Damage to Hot Water boilers

1. Mechanical Breakdown, including rupture or bursting by centrifugal force

2. Artificially generated electrical current that disturbs electrical devices, appliances or wires

3. Explosion of Steam Boilers, Piping, Engines, Turbines caused by or resulting from any condition or event inside such equipment

4. Loss or damage to Steam Boilers caused by or resulting from any condition or event inside such equipment

5. Loss or damage to Hot Water Boilers, or other water heating equipment caused by or resulting from any condition or event inside such boilers or equipment