

Risk Insights

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Managing Common Risks for Condominium and Community Associations

Condominium and community associations carry out several essential tasks and responsibilities, such as ensuring the facilities are maintained properly or managing the budget appropriately. However, these entities also face numerous risks. As such, they need to be aware of their exposures to enhance community safety and financial stability.

This article provides more information on the common risks condominiums and community associations face and offers risk management strategies to mitigate them.

Common Risks

Common risks condominium and community associations face encompass:

- **Physical risks**—Several physical risks can lead to property damage, personal injuries and security breaches. For example, natural disasters and vandalism can ruin buildings; people can get hurt in slips, falls, swimming pool accidents and during community events; and theft and unauthorized access can result in stolen items. Condominium and community associations must address these risks to improve safety and minimize potential property and financial losses.
- **Financial risks**—Budget shortfalls and monetary mismanagement can impact condominium and community associations. Additionally, internal threats can cause significant financial loss due to crimes like fraud and embezzlement. These organizations must also be

prepared to address unforeseen expenses, such as emergency repair costs.

- **Legal risks**—Condominium and community associations face legal exposures including potential litigation and fines due to noncompliance with local, state and federal laws. These organizations may also face lawsuits from residents, employees or third parties, and vendors or service providers could file expensive breach-of-contract claims.
- **Operational risks**—These organizations may incur losses from operational exposures, including inefficient or improper management practices and cybersecurity threats. Moreover, inadequate training for board members and staff, as well as poor communication with residents, can create situations that lead to additional risks.



Risk Management Strategies

Condominium and community associations can take the following actions to address the risks they face:

- **Conduct risk assessments and create an emergency preparedness plan.** Taking proactive steps to identify and evaluate exposures can allow these organizations to fix issues before they arise. For example, creating a risk management committee can help an association ensure it assesses and addresses risks. Additionally, having an emergency preparedness plan is essential to facilitate organization and communication if a disaster occurs.
- **Prioritize maintenance and safety.** Conducting regular inspections and making necessary repairs can keep communities safe. Making sure proper safety protocols and equipment (e.g., AEDs) are in place and that personnel receive extensive safety training (e.g., first aid, CPR) can also reduce injuries.
- **Implement cybersecurity measures.** As cybercriminals continue to find innovative ways to access digital networks and computer systems, condominium and community associations must enact measures to protect sensitive information (e.g., credit card numbers). Having cybersecurity protocols, such as multifactor authentication and regular software updates and patches, can protect such information. It is also important that board members and staff receive education on cyberthreats so they are aware of how to safeguard data.
- **Vet and build relationships with vendors and contractors.** Thoroughly vetting vendors and contractors to ensure they are properly licensed and insured can help these organizations manage associated risks. Additionally, establishing and maintaining relationships with trusted vendors and contractors can improve an association's operations.
- **Emphasize financial management.** To address financial risks, condominium and community associations can develop and adhere to a comprehensive budget while building and maintaining adequate monetary reserves. Ensuring that transparent financial reporting processes and checks and balances are in place also helps lessen risks in this area.
- **Ensure legal compliance.** As the regulatory environment continues to evolve, entities must stay current on changing laws and regulations. Consulting with legal

professionals can assist organizations with compliance, and regularly conducting audits can identify areas that may need strengthening.

- **Strengthen governance procedures and communication.** Employing knowledgeable, accessible and transparent leadership is an important risk management strategy. These individuals can communicate effectively with interested parties and provide clear policies and procedures. It's also crucial that associations' boards receive adequate and regular training as well as feedback from community members; this can strengthen boards' abilities and allow them to continue to find effective and efficient ways to lead.
- **Secure adequate insurance coverage.** Obtaining proper insurance coverage is a critical risk management strategy. There are several types of insurance condominium and community associations may need, including property insurance, general liability insurance, cyber insurance, commercial crime insurance, and directors and officers insurance. Obtaining policies with optimal limits is essential. Working with a licensed insurance provider can help organizations purchase the insurance that best fits their needs.

Conclusion

Condominium and community associations perform a variety of duties that require them to be aware of their exposures and proactively address them. There are several key actions these organizations can take to mitigate their risks, thus protecting the associations, their communities and their finances.

Associations should utilize available educational resources and professional assistance to continuously improve.

For additional risk management resources, contact us today.