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EBOOK

THE PROPERTY MANAGER'S GUIDE TO COMPLIANCE

Six key strategies for risk mitigation in property management

GETTING STARTED

Property management can feel like drinking from a fire hose. Between handling rent, maintaining occupancy, conducting maintenance, supervising staff and contractors, and managing the budget, there seems to be little time for much else. Yet a critical "to do" item is missing from the list – managing risk. The best property managers focus on income-generating and cost-cutting tasks, but failing to prioritize risk mitigation and insurance compliance could create the biggest cost of all.

Consider these numbers:

- About 75% of US businesses are underinsured by at least 40%.[1]
- Up to 35% of small businesses experience an annual event that could lead to a claim.[2]
- More than 4.1 million US workers suffer a serious job-related injury or illness every year.[3]
- From 2014-16 non-residential building fires resulted in $2.4 billion in annual property losses with cooking causing about 30% of the fires.[4]
- Costs and compensation paid in the US tort system totaled $250 billion from general and commercial liability exposure in 2016.[5]

The data clearly illustrates an important point – property management is risk management.

Now for the good news. Simple, routine loss prevention strategies do not need to be labor intensive or time consuming, but they do need to be a priority. This eBook provides the keys for locking down an effective risk mitigation strategy.

[1] Schmittlein, Marc. "How to Help Small Businesses Avoid Underinsurance and Anticipate the Unexpected." Insurance Journal, 15 Apr. 2012, www.insurancejournal.com/magazines/features/2012/04/16/243594.htm.

[2] "Survey: 1 in 3 Small Businesses Faced Top Hazards Last Year." Insureon, 1 Oct. 2017, www.insureon.com/blog/small-business-insurance-claim-statistics.

[3] "Occupational Safety and Health Administration Injury and Illness Prevention Programs." Injury and Illness Prevention Programs - Frequently Asked Questions, United States Department of Labor, Jan. 2012, www.osha.gov/dsg/InjuryIllnessPreventionProgramsWhitePaper.html.

[4] "Nonresidential Building Fires (2014-2016)." Topical Fire Report Series, National Fire Data Center, July 2018, www.usfa.fema.gov/downloads/pdf/statistics/v19i3.pdf.

[5] 2019 Insurance Fact Book. Insurance Information Institute, 2019, 2019 Insurance Fact Book, www.iii.org/sites/default/files/docs/pdf/insurance_factbook_2019.pdf.

CONTENTS

KEY 1

REVIEW THE CONTRACT

The contract represents the first line of defense in protecting a property. Well-formed lease agreements and third-party contracts prevent litigation and claims by detailing the rights and responsibilities of the signatories. This includes setting operational conditions and insurance requirements. Both practical and legally binding, the contract serves as a blueprint for occupancy and/or working within a property.

Maintain the contract to the business

Get rid of one-size-fits-all contracts. Businesses differ and so should their agreements. A restaurant or bar tenant carries inherent risks distinct from a retailer. The scope of work varies between different subcontractors or vendors as well. Ensure the contract includes language specific to a business's unique operations.

Define insurance coverages

Require that every tenant, vendor, subcontractor, and supplier occupying or operating within a property have insurance. Define the specific insurance coverages and minimum liability amounts in the contract as they relate to each party's line of business. Requiring general liability only may not suffice, so specify all policies required (e.g. Renters, Workers' Compensation, Professional Liability, Contractors Pollution).

Require coverage endorsements

Include insurance endorsements among the contract requirements. Endorsements extend insurance coverage from a named entity to additional parties affiliated with the work or specify how the coverage applies in the event of a claim. Endorsements prevent property manager losses by keeping the ownness of risk closest to the entities most likely to create it. Two important endorsements are:

- **Additional insured** – this endorsement provides coverage to the property manager under a contracted entity's insurance policy.
- **Primary & Non-contributory** – when multiple policies get triggered by the same event, this endorsement specifies the order in which they apply. The clause should state that the subcontractor or tenant's policy is primary to the loss without seeking contribution from the additional insured's policy.

Maintain signed copies

Retain copies of signed contracts and make them easily accessible. In the event of a claim or litigation, insurers may seek to verify specific contract language as it applies to the loss. Property managers often mistake a request for proposal (RFP) agreement, verbal contract, or Certificate of Insurance (COI) as an adequate replacement for a signed contract. These likely will not suffice for fighting a tenant, vendor, or subcontractor's claim.

KEY 2

VERIFY INSURANCE COVERAGE

Claims and losses are inevitable. Out-of-pocket costs and lengthy litigation when claims occur are not. Property managers cannot be everywhere at once. At any moment a fire could break out, a person slips on a wet floor, or a supplier ships faulty materials. Insurance protects property managers and offers financial peace of mind against the liabilities of tenant, subcontractor, and other third-party operations. Clearly outlining and verifying insurance coverage ensures the "financial first responder" is not the property manager for accidents or wrongdoing out of its control.

Validate contract compliance

Collect a COI and copies of endorsements from every entity operating within a property. Outlining insurance requirements in the contract or trusting that a third party has adequate coverage creates unnecessary risk exposure. In fact, if an audit finds a subcontractor without proper insurance, the property manager gets charged an extra premium to make up the difference. COIs provide legal confirmation that appropriate coverages exist regarding policy lines, endorsements and financial limits. By reviewing each COI, property managers ensure contract compliance and protect each entity's operation, including their own.

Confirm coverage before work begins

Approve insurance coverage before handing over the keys or issuing a work order. Time often passes between the date when an agreement is signed and when operations begin. Lots can happen during that gap, including insurance policy changes. Even if a COI was checked when the contract was signed, verify its coverages again before allowing a third party to work or operate on the property.

Track expiration & renewal dates

Nearly 70% of renters cancel their policy prior to renewal, largely due to non-payment.[6] The minute a third party's insurance policy terminates, the property manager becomes liable for all claims and losses. When reviewing a COI, note the expiration date. Proactively notify the contracted party or their insurer that an updated COI is required at least 30 days before the policy's scheduled cancellation. Cease operations immediately upon expiration until a renewal notice is received. Periodically request updated COIs throughout a contract as well to ensure coverage remains active.

[6] Gannaway, Mark. "The Complicated Risk Exposures of Property Managers and Investors." Insurance Journal, Insurance Journal, 13 Oct. 2017, www.insurancejournal.com/magazines/mag-features/2017/10/16/467098.htm.

KEY 3

CONDUCT ONBOARDINGS

Onboarding third parties is an important step for property managers because it sets the foundation for the relationship. Onboardings provide good opportunities for explaining compliance, breaking down contract legalease, and training lessees and subcontractors on operational expectations for the property. Important to any onboarding is a discussion on working safely and mitigating risky practices that cause losses.

Include all third parties

Invest the time to onboard all third parties operating on the property. This applies even to subcontractors doing a one-day job. Start by reviewing compliance documentation. Address contract jargon as it applies to everyday work, distribute contact numbers for questions or issues, and discuss safety and security. Ask third parties to acknowledge the onboarding to eliminate the “I didn’t know that” defense should a claim arise.

Set expectations

Establish a well-defined structure for operating within a property. Clear policies and procedures prevent costly issues down the line. Examples include requiring tenants to maintain a clean premises or mandating immediate notification of defective or dangerous conditions. Property managers also should outline policies for a tenant hiring their own contractor and insurance requirements. About 70% of surveyed property owners and managers admit that tenants could easily bring in a vendor without them knowing, which poses a significant risk to their business. Finally, address how claims, injuries, and damages should be handled when they occur. [7]

[7] “The CRE Guide To Managing Operational Risk 2015 Survey Benchmark Report.” Building Engines, be.buildingengines.com/rs/buildingengines/images/Risk-Guide-2015.pdf.

KEY 4

ESTABLISH KEY PERFORMANCE METRICS

No shortage of key performance metrics (KPMs) exist in business. The adage of "what gets measured gets managed" holds true.

Property management companies frequently track occupancy rates, tenant retention, and expenses because they easily correlate to overall profitability. Creating KPMs around insurance compliance provides another important way to improve the bottom line. The data establishes benchmarks for current performance and creates goals for improvement.

COI compliance

Assess performance in this area by verifying Certificates of Insurance (COIs) for all entities and documenting how many are inactive or non-compliant. Strive for compliance above 90% for each property.

Loss history

Track the number of incidents resulting in a loss by property. Audit incident reports for causation, as well as timeliness and detail in documenting the event. Measure preventable versus unpreventable incidents. Use the findings to create trainings and processes that help prevent future liabilities. Every property should work toward zero preventable incidents.

Maintenance efficiency

Maintenance requests addressed quickly improve tenant satisfaction. They also ensure properties stay in good condition and prevent larger maintenance costs in the future. A seemingly innocent leaky faucet could be the precursor to a very costly flood. To establish KPMs for maintenance, start by benchmarking how long maintenance tasks take and the volume that can be completed in a regular workday. Monitor if work orders and punchlists are completed by their due dates. Track downtime between tenants and the costs to get properties ready for renters. Once you have the data, establish goals around efficiency improvements.

Inspection completion rate

Missed inspections increase the likelihood of loss events and claim denials. When were the fire extinguishers last recharged? When is the back-up generator due for service? When do the appliance warranties expire? Consider inspections low-hanging fruit to avoid unneccesary costs and downtime. Document by property what inpections are needed, when they are due, and if they are completed on time. Surpassing 97% for on-time inspections is achievable.

Staff training

Employee training makes all KPM insurance compliance goals possible. Identify what positions require training and establish a long-term cadence for education across all properties. Staff should have a good understanding of unique contract requirements, the compliance verification process, emergency management, and how to handle claims and loss events. Aim to have 90% or more of employees always current with training.

KEY 5

LEVERAGE TECHNOLOGY

Developing a sound risk mitigation strategy can leave even the best property managers feeling daunted. Plus, finding time to execute on the process represents another significant challenge. Luckily, there is technology to help. COI management platforms offer time savings, organization, and an additional line of defense in proactively preventing claims.

Automate COI tracking

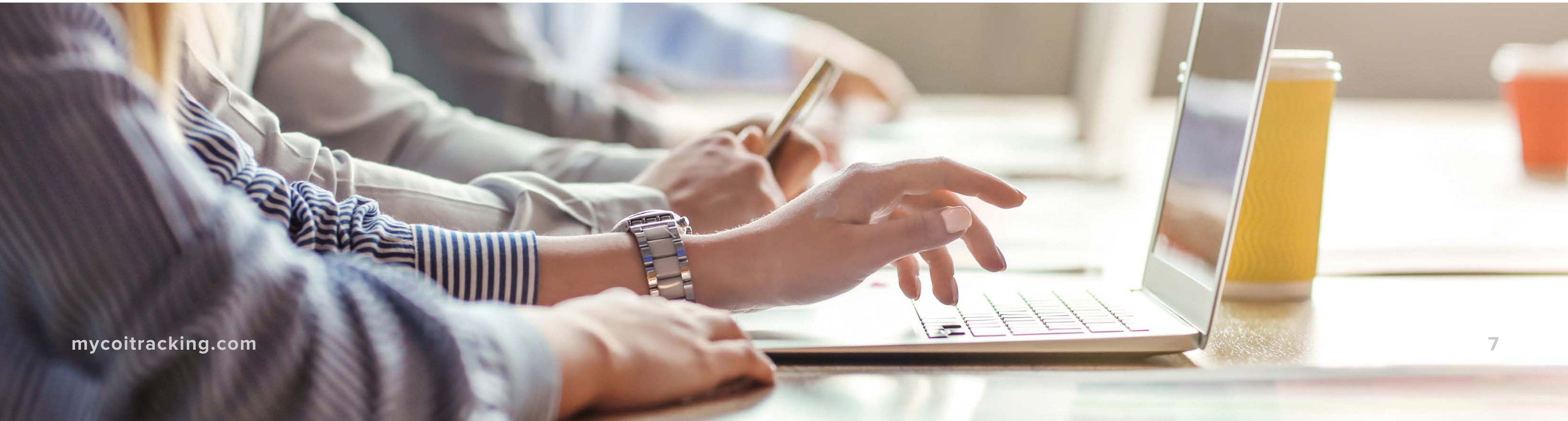
Eliminate error-prone and labor-intensive spreadsheet tracking. Implement a system with a digital repository for all contracts and COIs. The system should allow for COI uploads directly from insurers and automatically issue renewal notices to tenants, vendors, and subcontractors. Good COI management platforms also provide non-compliance alerts and risk insights for preemptive action. Ultimately, automated COI tracking takes less time to create more compliance throughout a property.

Integrate systems

Remove risk management silos within a business by integrating platforms for shared data. Property companies often use RFP, contract, accounting, and risk management platforms independently, but by connecting the systems risk can become an actionable priority for all teams.

Create controls

Use technology for process controls that reduce errors and increase accountability. For example, identify disqualification questions within an RFP that prevents a bidder from progressing to the contract stage or automatically withhold financial payments to contractors flagged as non-compliant.



KEY 6

AUDIT THE PROCESS

For already busy property managers, a new process can easily fall by the wayside. That is a costly mistake. Risk mitigation strategies require constant resolve and refinement over time. Test that processes are being conducted effectively and identify areas of improvement. Address inefficiencies, knowledge gaps, and non-conformities. Monitor KPMs daily or weekly and make the data visible to all departments impacting the performance. Match incremental enhancements with loss prevention numbers and continue modifying until all goals are achieved and maintained.

Risk mitigation is rewarding. Surveyed property owners and managers indicated 40% benefited from premium reductions based on good risk management practices. Added to the cost savings of avoided claims and the financial benefits are substantial. Successful loss prevention programs also translate into a unique selling proposition when competing against the other 200,000-plus property management companies on the next bid. The businesses that step up their risk management practices stand out among the crowd.

ABOUT MYCOI

If your company is ready to solve the compliance juggling act, direct these questions to myCOI. Our intuitive cloud-based solution is backed by a team of insurance experts to keep organizations protected from costly claims. Clients benefit from a comprehensive system for COI tracking, compliance, and risk reporting. Automated processes increase efficiencies and minimize risk. Plus, system integrations create workflow connections that stop noncompliance whenever and wherever it occurs. Make dropping the ball on compliance a thing of the past with myCOI.

For more information or to schedule a free demo visit mycoitracking.com/request-a-demo or call (317) 759-9426.

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