

Effective Coverage • White Paper

Resident Risk Management is changing from **Burden To Benefit**

Management of resident risk is an operational burden full of regulation and potential insurance coverage holes. Compliance can be extremely challenging to enforce, due to the fact that insurance is regulated on a state-by-state basis. Further compounding the issue, the resident is often a reluctant participant in what they perceive to be an unnecessary tax.

However, resident risk management is a necessity for every professionally managed portfolio. How to build an ecosystem that protects residents, owners, and provides a positive cash flow stream for the properties is available today.

The Building Blocks

1 Commercial Insurance

Commercial insurance is a tool for managing risk and protecting assets. But overusing it can impact your portfolio long term.

2 Personal Risk Advice

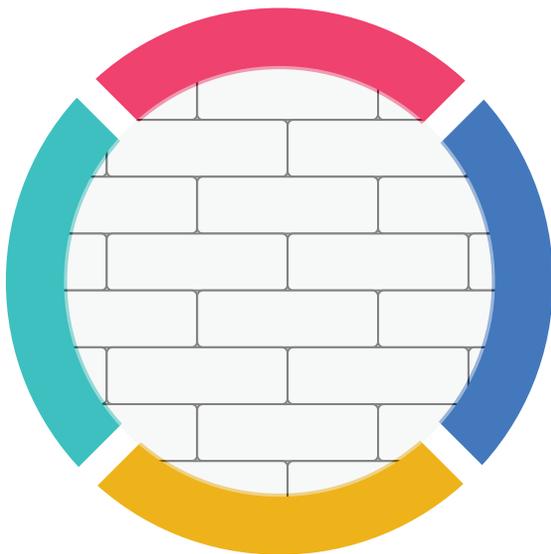
Personal Risk advisors should be offered as part of an apartment community's concierge services.

3 Certificate Management

42% of all policies cancel for nonpayment. Managing insurance certificate compliance is a job by itself, not something to burden leasing agents with.

4 Fee Program

Charging a fee provides a recourse other than eviction for residents who do not purchase any type of insurance coverage.



All portfolios of scale secure a traditional commercial insurance policy to help transfer the risk of loss off their balance sheet. A realistic assessment of the exposure to your commercial program is an important part of a healthy resident risk management initiative. The goal should be a deductible retention strategy that allows you to safeguard against losses.



Using commercial insurance for tenant-caused damages can impact your commercial policy for 5 years in the form of higher premiums. This can significantly impact the operating margins of the building in question, as well as the entire portfolio.

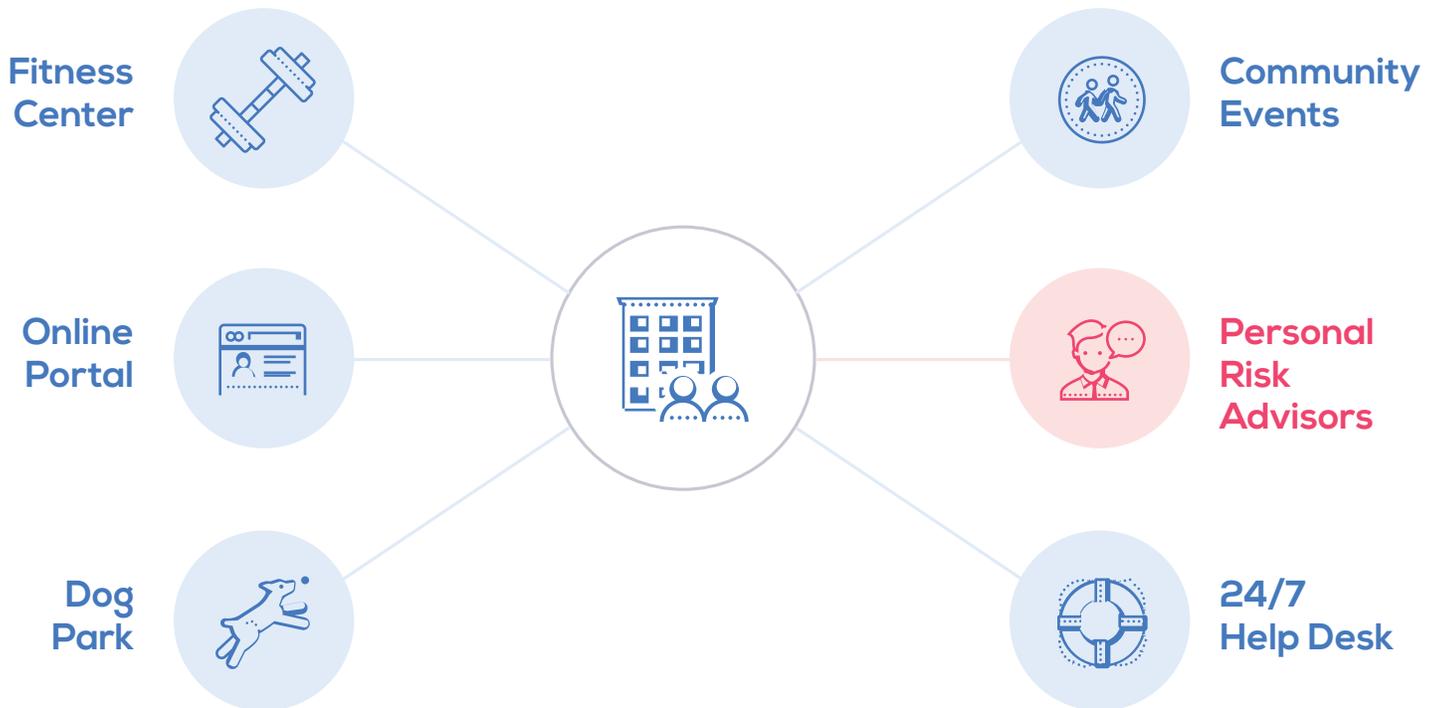


One of the first classes of real estate to see the impact of a hard market is the multifamily space. The higher exposure to risk means fewer carriers willing to write policies. The key is to protect the commercial program from the resident. A long-term solution to the volatility of the commercial insurance space is to take a larger retention in hard market years, while still having the funds to mitigate actual exposure.

Once those claims are secured or limited to the deductible side, fewer claims will go to the carrier. You could potentially see a deductible go from \$25,000 to \$50,000 or even \$100,000, equaling lower monthly costs. However, with a higher deductible comes a higher risk, and an increased need for protection.

Protection for portfolios of scale should be twofold; protecting the physical asset from inevitable resident negligence, and protecting the commercial policy from claims which stick around for years. Managing the delta between the two is the key to driving profitable income to the portfolio.

Personal Risk Advice



Many apartments have activity centers for recreation, and fitness centers for physical health, which are community-enhancing perks. Offering personal risk advice from a licensed insurance agent as part of your concierge services can give your property a competitive advantage.

Insurance advisors provide residents with guidance and answers to coverage questions. They can recommend plans to cover liabilities and financial loss in the face of unforeseen events. They can also help facilitate communication between the insurance company and the resident, increasing the resident's understanding of their lease requirements.

Many residents are closer to the edge of financial pain than they know. Offering these residents good advice and education on how to transfer the right risks is vital. This community benefit is easily built and maintained online and over the phone. Residents can book appointments on their phones and receive the right education on how to sufficiently protect their assets.

Your residents' proof of coverage is a never-ending series of changes. Policies are often paid monthly and even though the policy might cancel in 10 days for non-payment, it can take until renewal for the owner to learn this.

This gap of hundreds of days overlaid on thousands of units creates a disturbing set of odds that a claim will not be paid.

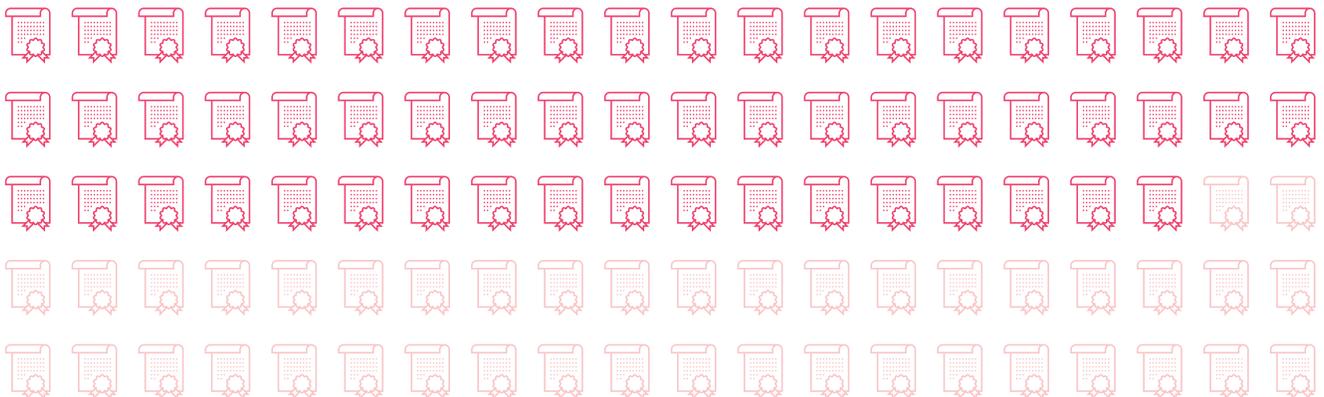
Proper tracking involves reviewing all proofs of insurance for compliance with lease terms, and making changes to policies that allow the apartment owner to be notified in a timely manner so that proactive steps can be taken.

42%

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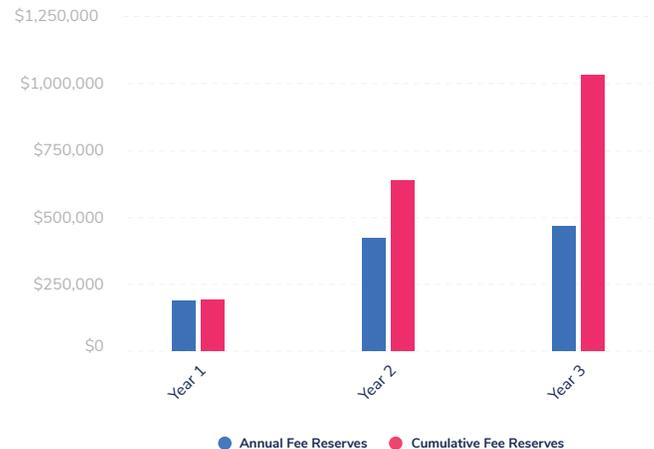
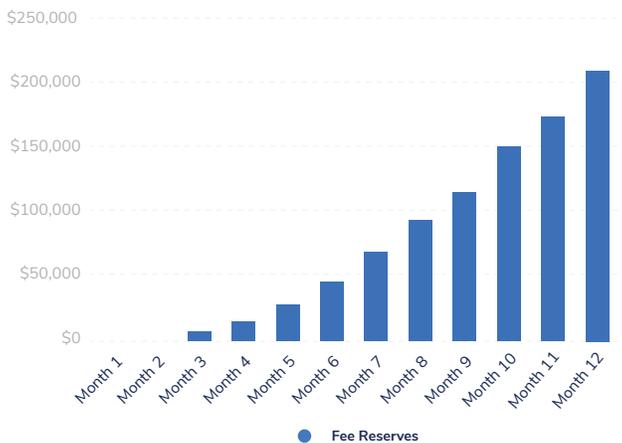
Best practice in tracking

- Obtaining compliant proof of insurance.
- Immediate follow up on non-payments and cancelations.
- Communication with the insurance company.
- Helping the insured maintain coverage.
- Providing advice to the resident so they feel cared for, not harassed



Fee Program

Pro Forma Based On 10,000 Units



4,500

**Residents
enrolled in fee**

\$224,000

**Year 1 resident
fee reserves**

\$453,600

**Year 3 annual
fee reserves**

\$1,109,600

**Year 3 cumulative
fee reserves**

Many owners reach a scale where offering the resident a choice can build an additional profit center. Structuring a fee program for those residents who chose not to purchase insurance can be an excellent method to increase portfolio performance.

This choice is to pay a monthly fee due in addition to rent instead of to an insurance company. The maintenance and management of a fee program has a few best practices that include:

- Offering residents a competitive insurance policy in lieu of paying a fee.
- Communicating with the resident about their decision to not maintain insurance
- Properly allocating funds to ensure adequate protection in the event of a loss.
- Securing a master policy to insure against catastrophic losses
- Conducting a captive review

We have seen fee program revenue reach into the millions and give owners the chance to have better clarity and control when it comes to paying for losses that fall under the deductible of their commercial insurance programs.

Conclusion



Property owners are building stable portfolios of properties that can be profitable for the long term. Maintaining a mutually beneficial relationship with the residents can change the financial metrics of a property.

At Effective Coverage, we are still a tech company, but we are more than our software. We are a process improvement company, established through years of experience. We have developed a resident risk management system designed to seamlessly integrate with property portfolios.

Property owners face major roadblocks when it comes to implementing change on a large scale. Partnering with the right resident management services company can help you ensure alignment between property owner and resident, while protecting your investment and creating a new profit center.

Resident risk management has changed - what have you done to keep up?

About Effective Coverage

Effective Coverage provides a unique resident risk management solution for real estate operators seeking increased profitability and full lease compliance.

The firm was founded with great respect for the value that experience and focus brings to the business. Our principals possess deep expertise in the insurance industry, which has allowed us to deliver best practices with a high level of individualization. This leads not only to our success, but also to that of our clients.

Learn more about our company and history at www.EffectiveCoverage.com/thought-leadership

Eric Narcisco
Founder & CEO

Narcisco@EffectiveCoverage.com
646-395-9888



www.effectivecoverage.com

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