What Every Homeowner Should Know About Condo Insurance

Overview

A portion of your association dues goes toward the premium of the homeowners association. This premium insures common property, any employees, most liability exposures, vehicles, theft of monies, and professional liability for the board. In this overview we will clarify where the homeowner's association's responsibility ends and yours begins regarding coverage for your unit. We will also provide you with basic risk management tips and suggested insurance coverage you should have. We are not professional insurance agents so these are recommendations. Please discuss this with your insurance agent to finalize the coverage appropriate for you.

Loss Adjustment/Condominium Unit Definition

There are three methodologies to define a unit for insurance purposes. Each methodology has its own idiosyncrasies – both positive and negative. Each association has its own priorities and reasons for choosing a particular method. However, with any of the three methodologies, communication is the key to successful and equitable loss adjustment and settlement.

- Bare Walls is simple; everything inside the unit is the responsibility of the unit owner. This method can often make overall insurance costs (unit owner and association) more expensive.

  With bare walls, it is critical that all unit owners are told that they are responsible for insuring these improvements and they should regularly update their own values with their insurance representative. Failure of the unit owner to keep up with their values will cause serious problems in the event of a loss.

- With All In, all of the improvements are the responsibility of the association to insure. Adjustment of losses is simpler as the association and the unit owners all negotiate with one insurer. There is normally no ambiguity regarding loss payment responsibility.

  It is important that the Homeowners Association regularly obtain updates from the individual owners of improvements made to the unit and their value, so that the reported building limit can be kept current with the association's insurer. It is not as equitable for the unit owners as the cost of all improvements are distributed among all homeowners. If one unit has extensive changes and the other does not, the additional cost for the value of the changes and the subsequent insurance cost are divided among the two.

- Original Specifications (**Ocean Dunes' current method)** presents its own complications. The Homeowner's Association must regularly remind the unit owners to keep their own insurance current by and insuring any improvements that are "upgrades" from what originally came with the unit. Below are listed the original specifications for the units.

All units except 1800 & 1900:

- All appliances were Whirlpool.
- Kitchen stove was a drop-in self-cleaning electric with electric elements, no microwave.
- There was a re-circulating hood fan above the stove.
- The washer/dryer was an apartment size stack unit.
- The hot water heater was a tall 50 gallon electric unit.
- The kitchen sink had a garbage disposer.
- The living room and bedrooms were carpeted of medium grade.
- The hallways, bathroom and kitchen had vinyl flooring of medium grade.
- The kitchen had fluorescent lighting.
- The hallways had small fixtures for incandescent bulbs.
- The bathroom had globe fixtures above the sink.
- The bathrooms had re-circulating vent fans.
- The dining room had track lighting.
- The kitchen cabinets, bathroom vanities and bar were low- to mid-builders grade.
- The kitchen and bar had laminated Formica tops and the bathrooms were cultured marble tops.
- The HVAC was builder's grade and the owners are responsible for the condenser.

Units 1800 & 1900:

- All appliances were Whirlpool.
- The kitchen stove was a slide in with electric elements and a self-cleaning oven and an integral microwave.
- The washer was a full-size unit.
- The dryer was a full-size unit.
- The hot water heater was a 50 gallon tall electric unit.
- The kitchen sink had a garbage disposer.
- The master and middle bathrooms had Jacuzzi tubs.
- The master was combination Jacuzzi, steam room.
- The third bathroom had a stand-up shower (1801, 1802, 1803).
- The house was carpeted throughout including the sun room and bathrooms with a medium grade carpet.
- The kitchen had vinyl flooring of medium grade.
- The kitchen and laundry room had fluorescent light fixtures.
- The bathroom lighting was globe fixtures above the sink.
- The combination bathroom fan and light was externally vented.
- The hallways had small fixtures for incandescent bulbs.
- The kitchen cabinets had fluorescent lighting under the top unit.
- There was a chandelier in the dining room.

- There was an ice maker in the bar area.
- There was a trash compactor.
- The kitchen cabinets, bathroom vanities and bar were low to mid builders grade.
- The kitchen and bar had laminated Formica tops and the bathrooms were cultured marble tops.
- The HVAC was builder's grade and the owners are responsible for the condenser.
- Units, 1803 (x4), 1804 (x4), 1901 (x2), 1904 (x2), had the referenced number of "Roof Windows" (Skylights).

The windows, sliding doors and roof windows for all units were contractor grade for the 1980s. Any hurricane shutters and storm doors that exist are not part of the originals specs and were installed by individual owners.

The unit owner and their insurance agent need to accurately calculate the value of their improvements and compare this value to the original specifications.

At the time of loss adjustment, the Ocean Dunes' building insurer will need to coordinate with the unit owner's insurer to allocate who pays for what. This method could expose the unit owners to an uninsured loss if they have not purchased appropriate coverage or have elected not to purchase insurance.

Suggested Insurance Coverage

The insurance for you should use for your condo is referred to as an HO-6 policy. Not all HO-6 policies provide the same scope of coverage. Choose an agent versed in HO-6s.
There are several parts of an HO-6 form.

Coverage A – Dwelling, Additions & Alterations

Covers the value of the additions or alterations from the original specification. Losses should be adjusted at replacement mcost, up to the policy limits, not actual cash value.

Coverage B – Other Structures

Covers other structure around the property which is not used for business, except as a private garage.

Coverage C – Personal Property

Covers personal property, with limits for the theft and loss of particular classes of items (e.g., $200 for money, banknotes, bullion, coins, medals, fine arts, jewelry, etc.). Although more costly this coverage should also be on replacement basis. If you have these items in your condo you may need to purchase separate jewelry, fine arts, precious metals floaters to cover this exposure.

Coverage D – Loss of Use/Rents/Additional Living Expenses

Covers expenses associated with additional living expenses (i.e. rental expenses) and fair rental value.

Coverage E – Personal Liability

Covers the liability for bodily injury or property damage that occurs within the walls of your unit not covered by the master policy. $300,000 or $500,000 would not be an unreasonable limit. This should dovetail with your personal umbrella policy for additional limits.

Coverage F- Medical Payments

Covers medical payments for those injured on your premises due to your negligence.

Loss Assessment coverage is an additional coverage and as discussed below can be worded different ways. Limits are your option and usually begin at $1,000.

Two areas to review with your agent are:

1) You want to have as broad a special assessment coverage as possible; some cover only assessments for damage caused by the HOA itself, others broaden it to cover special assessments resulting by damage caused by perils covered in the master policy, and others broaden it further to include special injury claims and even further to include assessments caused by an error in judgment by the Board of Directors.

2) Share with your agent the original specifications standard used by Ocean Dunes in evaluating a property loss so that your policy dovetails properly with it. It is best to err on the side of being conservative and maintain a broader scope of coverage and perhaps more than is necessary.

Insurance Coverage Enhancements for Rental Units

If you rent out your condominium unit, there are some additional coverage enhancements you should look at in your insurance form.

- If your unit is insured as a business entity for your property and general liability coverages, your form is probably sufficient but you need to verify with your insurance agent about the commercial handling "of your unit."

- If your unit is not insured as a business enterprise and you use the personal HO-6 format, there are some potential issues in your basic form:

1. Property that is in a unit regularly rented or HELD FOR RENTAL to other parties by any insured is not covered.

2. The peril of theft does not apply to a loss from a resident premises rented by an insured to a non-insured party.

3. An HO-6 that is not endorsed excludes bodily injury and property damage in connection with a business but does allow limited coverage if the unit is rented on an OCCASIONAL basis. The term “occasional basis” is not usually specifically defined time-wise and therefore the insurance carrier might apply any interpretation.

To fill these gaps you should ask your agent to price and add the endorsement HO-1733 or its equivalent to your current HO-6 policy.

There are some other generic improvements that you should consider and discuss with your insurance agent. While the form numbers shown are the most commonly used, some insurance carriers use their own numbering system. The description shown should be enough to identify the endorsement for your agent.

These are:

- HO-0428 Limited Fungi, wet or dry rot, or bacteria coverage
- HO-0435 Loss Assessment coverage
- HO-0454 Earthquake Coverage
- HO-0490 Personal property replacement coverage
- HO-1731 special all risk personal property coverage
- HO-1732 special all risk dwelling coverage
- HO-XXXX if you have valuable personal property

Discuss these with your agent and ask your agent for any other suggestions for further enhancements to protect your situation.

One final item: your insurance carrier places responsibility on you as a policyholder. Whenever there is a claim, your insurance carrier has provisions in the contract regarding prompt reporting of claims and it is important that you comply with these provisions. You do not want your carrier to make claim-adjusting difficult for you because of late reporting. You should notify your agent as soon as practical of any claim you may have, even if it may only constitute a minor part of the total adjustment. Your personal agent will handle it and thereby save you hassles in the future.

All of the above are recommendations. The ultimate decision as to what coverages and limits you have is your choice, with the advice of your agent.

Recommended Risk Management Techniques

1) Photograph any improvements that have been made in your unit.

2) Keep copies of any improvement invoices etc.

3) Make a list of replacement appliances and improvements made.

4) Make a list and photograph all contents so an adjustor can see what the property looked like prior to a loss.

5) Keep all documentation somewhere else besides the condo.

6) Keep your storage area clean and free of flammable items such as paint, gasoline or solvents.

7) Don't block the breakaway walls on the Oceanside units.

8) If you can't understand your agent and are unable to get the coverage, you should shop for a more knowledgeable agent.

9) If a fire occurs in your unit, protect yourself first, and call the fire department – 911.

What to Do If You Hire a Contractor

Your H0-6 insurance policy does not cover contractors. If they are injured on your premises while doing work for you, your policy will not pay for those damages. Nor will it pay for any damages that the contractor might cause. You would be responsible to pay for those damages out of your own pocket and then need to sue the contractor later on to recoup those costs.

You should make sure that your contractors have their own coverage for both general liability and workers comp. The general liability is for damages that they may cause, and the workers comp is for themselves and employees of theirs.

Just because they tell you they have coverage, don't believe them. Ask for a certificate of insurance. The certificate will show you their insurance carrier and the effective dates of the coverage. Although many contractors need to be licensed by the state, there is no requirement for them to have insurance. The only exception is some states have a lower certificate of exception for workers compensation coverage for small contractors.

Many contractors will say their company just too small for insurance and they can’t afford it. A typical liability policy for a small contractor costs them between $2 and $3 a day for a minimum $100,000-limit liability policy. This will provide you with protection from third-party claims of property damage and bodily injury that the contractor might cause.

You can’t afford to deal with a contractor that is uninsured. Again, the Board of Directors is not a professional insurance organization, and these are only sound recommendations. If you have questions on this, again, your agent should be able to help you.