



**LaBarre/Oksnee Insurance Agency**

## **ABC'S OF INSURANCE FOR CONDOMINIUM ASSOCIATIONS**

Determining the limits and coverage needed for a homeowners association is generally based on the following:

- State Statutes (Civil Codes).
- Insurance requirements as outlined in the governing documents (CCR's).
- Lending Institutions requirements (FNMA, FHA)
- Property Valuations based on property owned and maintained by the association.
- Amenities and Number of Units within an association.
- Class of construction, industry / company guidelines for insuring to value.

### **TYPES OF COVERAGE'S NEEDED**

**Most condominium associations require a master package policy which includes at least two lines of coverage on one policy, most common of which are the property and liability coverage.**

**1) PROPERTY COVERAGE:** Covers all real property and insurable improvements owned and maintained by the homeowners association. This may include the following:

**Buildings including;** residential units, clubhouse, offices, guard houses, rest rooms, and equipment rooms.

**Structures including;** arbors, trellises, cabanas, courts, pools, play equipment, gates, walls, fencing, fountains, roadways, statues, walks, monuments, etc.

**Other Property including;** furnishings, computers, fine arts, valuable papers, accounts receivable, signs, trees & shrubs, etc.

There are generally three ways buildings can be insured. The governing documents will most often dictate which one of the forms should be used:

- A. All Inclusive:** Most CCR's require this type of coverage, it includes; property included in units which was initially installed in accordance with the associations original plans and specifications, or a replacement of like kind and quality, but also *includes improvements and betterments made at the expense of /or acquired by the unit owner*. This can include such a items as; completed additions, fixtures, permanently installed machinery & equipment, fire extinguishing equipment, outdoor furniture, appliances used for refrigerating, ventilating, cooking, dishwashing, laundering, floor coverings, wall coverings, cabinets, etc. With this type of coverage, the unit owner only needs to insure his personal property.
- B. Standard Features:** Property included in the units which was initially installed in accordance with the associations original plans and specifications or a replacement of like kind and quality. *Does not include improvements or betterments*. Unit owners can insure improvements and betterments separately on a unit owners policy.
- C. Bare Walls:** Coverage excludes property within the units and just covers the structures up to the interior drywall. No coverage for fixtures, cabinets, floor or wall coverings, etc. With this coverage, a unit owner will need to insure all interior items (standard items or improvements) with a unit owners policy.

#### **OTHER OPTIONS TO INCLUDE ON PROPERTY COVERAGE:**

**Blanket Endorsement:** A single amount of insurance that can be used on all property insured without a limitation of coverage on one specific item.

**Replacement Cost:** Replacement of the damaged property with no deduction for depreciation. Replacement of like kind and quality at today's costs even if those costs are greater than the original construction.

**Extended Replacement Cost:** Replacement cost coverage with a percentage added for inflation. Coverage is usually 120% to 125% of limit.

**Guaranteed Replacement Cost:** Replacement cost with no cap on the limit of the policy. GRC will cover up to the limit of the loss, even if the loss exceeds the limit of coverage outlined in the policy.

**All Risk or Special Form:** A policy which covers loss caused by any peril which is not specifically excluded. Normal exclusions are earthquake, flood, pollution, latent defect, insects, wear & tear.

**Agreed Amount Endorsement:** This endorsement waives any co-insurance clause and eliminates the possibility of a co-insurance penalty if the property is not insured to value at the time of loss. The insured and carrier agree to insure the property to a certain amount stated.

**Building Ordinance Coverage:** This coverage is generally excluded and would need to be added by endorsement. The coverage is broken up into three components:

- a. **Contingent Liability:** This coverage is needed to rebuild the undamaged portion of a building when regulatory authorities condemn the whole building rather than a replacement of just the damaged portion.
- b. **Demolition:** Covers the cost of demolition and removal of debris of the undamaged portion of the building in the event that building ordinance or law requires demolition.
- c. **Increased Cost of Construction:** Covers the increased cost associated with reconstruction to meet current building codes.

**2) PRIMARY LIABILITY COVERAGE:** Insures against third party claims arising from alleged bodily injury or property damage to members of the public. The insurance company has the duty to defend the association against any claim that alleges injury or seeks damages even if the association is “negligent”. The Property Management Company is generally included as an additional insured. Coverage should include the following:

**Host Liquor Liability:** Provides coverage for liability that may arise if the association sponsors events where alcoholic beverages are consumed or served.

**Non-Owned or Hired Auto Liability:** Provides coverage for the association against liability when a non owned or hired vehicle is used on behalf of the associations business.

**Independent Contractors Liability:** Protects the association from loss due to liability arising from operations of subcontractors.

**Personal Injury:** Extends bodily injury to include false arrest, imprisonment, malicious prosecution, libel, slander, defamation of character, invasion or privacy, wrongful eviction and entry.

**Contractual Liability:** Provides liability coverage for a legal obligation assumed under the terms of a contract.

**Advertising Liability:** Provides coverage against claims of libel, slander, defamation of character, infringement of copyright, invasion of privacy, etc. out of the use of an advertising program.

**Medical Payments:** Provides coverage for medical expenses of members of the public injured on the common property.

**Cross Liability:** Provides protection if an owner or member of the association sues the association for bodily injury damages occurring on common areas because of negligence by a unit owner or the association.

**Severability of Interest:** Precludes the insurance company from denying liability because of negligent acts of the association or a unit owner.

#### **LIABILITY LIMITS: Limits are based on ...**

**Governing Documents (CCR's) and Current Civil Code (1365)-** Associations with fewer than 100 units should carry a limit of \$2,000,000. Associations with 100 or more units should carry a limit of \$3,000,000. Other factors for choosing higher limits than those noted above are the number of amenities, units, or exposures that the association has.

**Occurrence** – An occurrence means an accident that results in injury or damage neither expected nor intended from the standpoint of the insured.

**General Aggregate** – The general aggregate limit is the most the insurance company will pay for any and all liability occurrences or losses under the policy during any one policy year.

**Note:** An Umbrella or Excess policy is commonly recommended to obtain higher limits. Umbrella or Excess liability policies can also include both general liability and directors & officers liability.

**3) DIRECTORS AND OFFICERS LIABILITY:** Provides protection against claims alleging loss arising from mismanagement or wrongful acts. A wrongful act means any breach of duty, neglect, error, misstatement, misleading statement, omission or other act done or wrongfully attempted by the association. Covers expenses incurred in defending lawsuits arising from the alleged wrongful acts of the Officers or Directors. Persons insured under Directors & Officer's liability should include:

- Association
- Directors and Officers, Past and Present.
- Employees
- Committee Members
- Volunteers
- Manager or Management Company

**Common Exclusions:** Fraudulent or Illegal acts, failure to maintain earthquake insurance, pollution, construction defects, and bodily injury. \*Policies differ in coverage's and exclusions so please read the policy for specific coverage and exclusion information.

**4) EMPLOYEE DISHONESTY (FIDELITY BOND):** Coverage indemnifies the association for loss of money, securities, or any other property due to the acts of dishonesty committed by an employee acting alone or in collusion with other persons with the intent to cause the association to sustain a loss. Examples of dishonest acts include theft, larceny, embezzlement, and wrongful abstraction. Directors and Officers and Management Company Employees are deemed employees of the association.

**Limits** are determined by either FNMA or the governing document (CCR's) requirements and generally **require a limit equal to three months association fees plus reserves.**

**5) WORKERS COMPENSATION:** Insures against claims for work related injuries or diseases suffered by employees that are compensable by statute and/or are imposed by law as damages. Coverage is provided for payment of medical expenses and reimbursement of lost wages.

Coverage should also be considered even if there are no regular employees. Protection may be needed if the association employs casual labor or if the association hires an independent contractor who has no insurance coverage. In addition, coverage may be needed for contractors who have let their policy lapse, or have done work outside the scope of their contractual duties.

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