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Tips for Insuring Condos, Condexes and Homeowners Associations

WORCESTER, MASS. — Much like renters insurance policies, condominium insurance policies offer pared down, limited coverage that insurance agents should be adding to in order to build a buffer for insureds — and against an errors and omissions (E&O) claim, according to David Collins, CIC, AAI, agency development field specialist, Eastern New York and Western Massachusetts, SAN Group.

Explaining that condos are one of the most challenging personal lines risks to write, Collins offered tips on how agents can better insure condos at the SAN Group's recent annual business meeting. "Our biggest challenge is clients who think a condo is just a nice apartment. They think it's like being insured on a renter's policy. They don't understand that it's a much more complex account," he said.

When insureds buy a home and a standalone homeowners policy, agents can obtain information on it fairly easily and know they have to insure the entire dwelling. Likewise, when insureds are renters, they do not own the building, so agents focus on insuring contents. There are a multitude of tools available to help agents figure out how much the client needs to insure.

When insuring a condo, agents need to address the building and understand what the risk is to unit owners.

What's in a Name? Condos, Condexes and Homeowners Associations

A condominium is any building that contains multiple units or apartments (or houses in some cases) that are owned in common with other people. Condos have shared common spaces and often come with other amenities.

In addition, some form of an association is involved. Condos are often managed by a board, and/or there could be a property manager.

A condex is a two-family home. They became popular in New England in the early 2000s when builders realized that instead of building a single-family home worth $600,000, they could build a two-family, call it a condex and make more money, noted Collins. "The problem is when a condex is established, it is forever, unless someone absolves the entire agreement."

The only major difference between a condo and a condex is how the master association documents define what property needs to be insured.

A homeowners association (HOA) is an entity comprised of homeowners residing within a particular area, whose principal purpose is to ensure the provision and maintenance of community facilities and to enforce various covenants and restrictions. Each member of an HOA owns his/her individual lot. The common area is owned by the HOA, not the lot owners.

"While there are various kinds of condo and homeowner associations, the key is to figure out what needs to be insured. That's the hard part," said Collins.

Master Condo Documents

A master condo document describes what the insured is responsible for insuring. It is the main document used by both the insured's property adjuster and the master association's property adjuster to settle claims. Once established, master condo documents do not tend to change very much.

There are two issues at hand. The first is that many insureds do not receive a copy of the master document, and the second is that no two master condo documents are exactly alike. The challenge is trying to understand who is going to insure what. "There are some active homeowners associations who help homeowners understand what they need to buy, but I've found that to be a small percentage. It's buyer beware," cautioned

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SAN Group's Don Eaton, regional vice president, and Dave Collins, agency development field specialist.

Collins.

One trend that Collins is seeing with large condo associations is that to save money, they increase deductibles. While in the past, a condo complex valued at a few million dollars might have had a deductible of $1,000, now Collins is seeing them with deductibles of $5,000, $10,000 or even $25,000. In addition, Collins has seen ice dam deductibles becoming more popular, which he described as scary.

"Say you have a condo association of 30 units — let's say three, 10-unit buildings. It could have a $1,000 property deductible with a $5,000 per unit ice dam deductible. The association is doing it to save money, but what really happens is that the unit owners gets assessed for that," he explained.

Using the HO-6 Form

The policy used for individual condo unit owners is form HO-6, which provides the following coverages:

- Coverage A: Dwelling
- Coverage C: Personal property
- Coverage D: Loss of use
- Coverage E: Personal liability
- Coverage F: Medical payments to others

Of all the above coverages, Collins has found that dwelling coverage is the one that agents do not provide enough of because it is a challenge to figure out how much is needed. Insureds often underestimate the value of their contents, thinking they need $10,000 total in coverage when they may have $15,000 in electronic equipment alone.

"Remember, these aren't big premium policies, so we run through them quickly and move onto the next one. The problem is under the dwelling coverage, any betterments or improvements condo owners make inside the unit won't be accounted for. So it's key to assess dwelling coverage correctly," said Collins. "If something is permanently attached, it's no longer personal property — it's dwelling and building coverage. You can add a lot of dwelling coverage under a condo policy, and it's very inexpensive. The building rates are a lot cheaper than the personal property rates."

Fundamental Tips

Collins outlined several key items to look when determining coverage needs:

Evaluate the property coverage. Speak with the prospect and review the master condo document. Collins noted that only a slim percentage of insureds will have the document. Given that, he suggested that agents give a lot of thought as to how they are insuring all of their condo clients, especially from a personal lines policy.

"What do you have for coverage A? I'm telling you right now, if you're putting $1,000 on coverage A, you're setting yourself up for a potential E&O claim because the master association policies are getting bigger deductibles and at the time of loss, if there is no building coverage, you're going to have a very upset client."

Find out what the master association deductible is. The client's realtor may be able to get the association's master condo certificate, which agents should look at. Most mortgage brokers want the certificate from the associations early in the process, noted Collins.

Understand the difference between "bare walls in" or "all in" coverage. "Bare walls in" means that the insurance for the condo association covers the building structures, up to the uncovered sheetrock and subfloor — not the paint on the walls, the carpet or interior fixtures, such as cabinets and countertops.

"All-in" means that the association provides insurance coverage for paint, carpet and cabinets. In the event of a loss, the insurance for the association would pay to replace the unit back to its condition as it was originally built; however, if there have been upgrades made since then, such as a remodeled kitchen with granite countertops, the condo owners HO-6 policy would need to pay for the difference in pricing.

Make calculations to address building and contents to give approximate numbers. When looking at condo policies, Collins suggested that agents come up with a standard to use for themselves. For example, every condo policy has X amount on coverage A; every condo policy has X amount for special loss assessment — whatever a company would offer.

"Look at your carriers to see what limits they give because all are a little bit different. One carrier may have a particularly robust HO-6 residential unit owners policy. If it were me, that's where I'd start with all of my condo policies," said Collins.

Use caution when determining property value. Do not minimize property value. "You can sell big. Have the conversation with insureds and cut the coverage down if they object. Have insureds sign a piece of paper saying you recommended the coverage that they're declining. Document it so you can protect yourself."

Loss Assessment

Unit owners become responsible for insurance loss assessments, so agents need to address them. On the HO-6, personal property, agents can add special loss assessment coverage. Base policies often only provide $1,000 in special assessment coverage, noted Collins.

Each carrier is different, varying from $25,000 to $150,000, so agents need to be sure the limit is adequate. "My philosophy is to sell as much loss assessment as you can because it's generally very inexpensive. Only back it out if a client doesn't want it. If a carrier gives $50,000 of loss assessment coverage, that's what I'd sell them," said Collins.

"Loss assessment is an enhancement endorsement. Carriers aren't using an ISO form, so they script it however it works best for them. You're setting yourself up for E&O claim if you don't have enough loss assessment."

Coverage Enhancements

Other coverage enhancements agents should suggest to insureds are water backup coverage and special perils coverage on Coverage A and Coverage C on the HO-6.

Provide Sufficient Liability Protection

In a property that is owned in common, there is no question that there is more liability exposure than a standalone dwelling, according to Collins. So he would like to see agents quoting higher limits of liability. In addition, he suggested including personal injury as an option, which includes libel or slander. "Some neighbors might be jerks, and the insured could have words with them. It doesn't mean the insured will buy it, but have the conversation."

Agents should also confirm if insureds are going to be a condo board member, which would expand their liability. Find out what the condo board is providing for coverage.

Umbrella coverage should be considered as well because of the property owned in common.

Key Takeaways

It is critically important for agents to have in-depth conversations with customers to understand what needs to be insured. Keep in mind that no two condo associations are alike, so their insurance responsibilities need to be fully understood before quoting any type of insurance policy. "If you do your research and understand where coverage is needed, you can successfully insure these types of accounts. With added expertise, you can develop a niche that will allow you to write a lot more of these insurance accounts successfully." ■