

Condominium Conundrums

Condominiums present special challenges to the insurance agent. Common questions for the agent include: Doesn't the association cover the building items? What coverage do I need? The answers depend on how much of the "building" items the owner is responsible for. Insurance responsibilities vary depending on each association's bylaws and state statutes. It is essential that the agent be familiar with these requirements to ensure they offer proper coverage to their client and reduce their own errors & omissions exposure.

Prior to 1980, associations usually insured only the building and limited interior elements. The unit-owner was charged with the responsibility of insuring real property that was part of the "unit". This could be a claims nightmare, with multiple carriers adjusting a single loss. A proposed solution was to have associations provide insurance for all real property. The Uniform Condominium Act of 1980 was designed to help with this. The Act's explanation states that "Given the great interdependence of the unit owners in the stacked unit condominium situation, mandating property insurance for the entire building is the preferable approach."

There are three main forms of ownership seen in condominiums: "all inclusive", "as sold", or "bare walls". In an "all inclusive" or "all in" situation, the association insures all real property, including the value of unit-owner installed building upgrades. Under the "as sold" scenario, the association is



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responsible for the cost to replace the unit items as originally built. If the unit-owner upgrades, the additional cost is borne by the unit-owner. A variation of the "as sold" form shifts responsibility for existing upgrades to the association when a unit is resold. In a "bare walls" situation, everything that is part of the "unit" is the unit-owner's responsibility.

In all cases, what is considered part of the "unit" is subject to definitions in the bylaws. It can start at the studs or the unfinished walls, subflooring or flooring.

As we have seen, insurance responsibility for real property can vary depending on what was included at the time the unit was purchased. Who pays for a loss can also vary depending on whether the damage involved just one unit, or multiple units.

Determining the proper amount and type of coverage can be difficult.

Under most common insurance policies, separate limits are required for building items (Additions & Alterations) and property of the unit-owner (Contents). Some company forms have the advantage of offering a combined limit for the building and contents items. One limit is available to cover all items, with no need to differentiate or pick sublimits.

Insuring condominiums is a challenge. Understanding the by-laws and statutes in order to provide the proper coverage for each unit-owner is the mark of the true insurance professional.

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