

Condo Insights

#43 – Condominium Association Insurance – Part 3

Insurance is the single largest expense item for many associations and one that associations have little to no control over. The third article in this series will discuss identifying and selecting the right agent and how to avoid gaps in coverage.

The association's risk management process benefits from having an insurance agent that is well-educated and experienced in insuring community associations who can competently advise the board regarding insurance coverage. There are several reasons that working with an agent who understands condo association policies is so important. Condo insurance tends to be different from standard insurance policies and it takes specialist knowledge to understand specialist insurance. The association's coverage has an effect not just on the association but on all association members.

A qualified agent is one that has experience working with condominium and community associations and has similar condo associations as clients. This experience gives them an awareness of and insight into the risks the association is likely to face. Understanding these risks enables agents to prepare for them and recommend the right protective measures. While often overlooked, the agent should have staff with experience and knowledge to support their association clients. Agents experienced with other condo associations understand how coverage plays out in real-world situations and scenarios.

An insurance agent should be able to educate the board (and unit owners) on insurance matters applicable to their association, their amenities and identify any unique risks. The association benefits from a single agent that has access to the coverages that associations need beyond property and general liability insurance, such as directors and officers insurance, umbrella liability insurance, fidelity and crime insurance, workers compensation, and even cyber liability. Working with one agent is more convenient and makes reviewing policies for duplicate coverage and coverage gaps easier.

The association may benefit from working with an independent insurance agent. The word "independent" refers to insurance agents that don't exclusively represent one insurance company. The term distinguishes these agents from the "captive" insurance agents that do work for specific insurers. Captive agents are only able to provide policies underwritten for the insurance company they work for. An independent agent can recommend and negotiate any relevant condo insurance policy that would be a good fit for the association, regardless of the insurer offering the policy.

Associations should discuss possible coverage gaps in both general liability and property insurance with their agent. The industry standard for general liability coverage is \$1million, but in our litigious society, multi-million-dollar awards in litigation are not unusual. Property damage claims are more common than liability losses, but gaps frequently exist in coverage if coverage is intentionally set too low (to reduce premiums). Even worse, gaps may exist if coverage doesn't match the association's needs. Unfortunately, associations may not discover such gaps except in the event of a catastrophic loss.

Associations should consult with their agents if "guaranteed replacement cost" coverage is available, or if their property policy includes automatic inflation adjustments. Periodic insurance valuation appraisals protect the association by making sure the coverage limits are adequate and that any improvements are included.

Many Master Deeds are old and outdated and/or misworded and that leads to confusion and coverage gaps. HO6 policies help unit owners avoid assessments, gaps and disputes. There is an insurance solution for most problems. Unit owners should discuss how to properly complement coverage with their agent.

These are the kinds of issues condo associations should consider but often don't when obtaining association insurance coverage or renewing existing policies. Many associations treat insurance as a commodity and shop based almost entirely on price without considering the nuances that may make one policy, even if somewhat more expensive, a more cost-effective choice than another.

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