

Condo Insights

#41 – Condominium Association Insurance – Part 1

Insurance is the single largest expense item for most condominium associations. It is also one that associations have little to no control over. Many associations are realizing significant increases in insurance premiums in recent years. This four-part series will focus on why premiums are increasing for coastal area condos, guidelines for selecting an agent, and how to avoid gaps in coverage.

Condominium associations are required to have several insurance policies including common area property, general liability insurance as well as several other policies (some mandatory, some optional) for shared risks. The first article in this series will identify the most prevalent types of insurance including: property, general liability, umbrella liability, wind buyback, directors & officers, crime & fidelity bond, flood, and workers compensation.

The association's property insurance covers the association's common property including the building roof and exterior façade. If a storm or natural disaster damages the roof or siding, the association's insurance will likely cover the cost of repairs. The association will have insurance that also covers the common areas including parking lots, lobbies, elevators, tennis courts, swimming pools and any other shared common spaces and areas. The fees owners pay to the association helps to maintain the common areas and amenities and pays for the insurance that covers these areas.

Simply stated: the condo association insurance policy covers everything outside the walls of the condo unit and the individual condo owner's policy pays for everything inside the walls. Typically, the condo association insurance is referred to as "bare walls" coverage and includes coverage for the structure including drywall, studs, and insulation, plumbing and electrical wiring but does not cover any interior part of an individual condominium. This policy may vary depending on the exact wording of the association's bylaws, but "bare walls" coverage tends to be the most common and suitable coverage for condominium associations in coastal communities.

However, some association policies go further. A "single entity" policy includes bare walls coverage and covers specific built-in property that was initially included when the condo was purchased but won't cover upgrades or improvements made by a condo owner. An "all-in" policy provides coverage for the exterior of the condo as well as all parts that the unit came with and provides coverage for cabinetry, countertops, lighting fixtures and appliances as well as additions and upgrades to an individual unit.

Wind buyback insurance provides an additional layer of coverage where property insurance deductibles have significantly increased and helps associations avoid severe out-of-pocket expenses in the event of loss caused by severe storms. Wind buyback coverage is based on the total insured value of the risk and the amount being "bought back" to lower the deductible.

The association will have a general liability policy to protect the association from a liability standpoint, such as if someone falls and is injured on the association's property and decides to sue. Some associations purchase umbrella liability insurance because general liability insurance may not provide adequate protection if an association's common areas include numerous amenities such as multiple swimming pools and private docks or beaches. Umbrella liability insurance coverage kicks in when an association has exhausted its general liability coverage.

Associations have directors and officers insurance to protect the officers, board members, employees and managers from claims against them if they are sued due to their involvement with the association.

Many South Jersey condominium buildings are on the ocean front or located on or near a large body of water and are required to maintain flood insurance because of the potential for flooding. In southern New Jersey flood insurance is a wise investment even if not mandated by the association's governing documents.

Associations need workers compensation insurance if they have employees. Workers compensation insurance protects the association from lawsuits if employees are injured, become ill or are killed while on the job.

Fidelity and crime insurance protects the association from direct loss of money, securities, or inventory from dishonest or fraudulent acts committed by their employees or officers, including direct theft, forgery, robbery, or electronic crime. A commercial crime policy also covers losses from non-employee specific crimes such as alteration of negotiable instruments such as checks and contracts, computer hacking, and fraudulent transfer of funds. Cyber-liability insurance will cover legal costs and possible settlements and damages that need to be paid related to third-party losses that resulted from a cybercrime that targeted the association.

Association board members are encouraged to consult with their insurance agent to discuss these and other types of insurance that may be relevant, including business personal property insurance, building ordinance and law coverage, boiler & machinery, and sewer & drain backup insurance.

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