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Insuring the Condominium

An Insurance Guide for
Florida Condo Unit Owners



Introduction

Along with the many advantages to living in a condominium, there are unique insurance hazards and problems. Fortunately, there are also unique insurance products designed to help the reduce risks of financial loss.

The condominium declarations and bylaws, along with certain Florida Statutes, set forth the responsibilities and risks assumed by both the association and the individual unit owners. Because there is no standard for condominium documents, it is critical that unit owners consult with their insurance agent to properly insure the condominium unit.

This booklet provides a general overview of condominium insurance issues, but is only a guide; unit owners should refer to their policy for exact policy language. The technical details are based on the current Insurance Services Office (ISO) homeowners program, though policies vary with individual companies. Our agency is available to discuss policy contract provisions with you at any time.

The Florida Condominium Unit Owners Policy

This form of protection is a variation on the popular homeowners "package" protection used by most residence owners and renters. It provides protection against a wide range of hazards for personal property both at and away from the condominium unit, for additions and alterations to the unit, and for liability protection against injuries or damage to others arising from the unit itself or personal activities away from the unit. In addition, there are numerous options to expand the basic coverage.

I. Coverage on Personal Property

The condominium unit owners policy covers personal property (clothing, furniture, etc.) against many perils, including fire, windstorm, vandalism, and theft anywhere in the world. It is the unit owner's responsibility to establish the desired amount of coverage. This amount may be based on replacement cost or actual cash value (the latter being replacement cost less allowance for depreciation). For this purpose, a household inventory should be prepared. This will not only establish an appropriate amount of insurance, but also will assist in making a claim in the event of a loss. The personal property coverage limit selected by the unit owner should be adequate to replace all personal property.

The most common deductible applicable to each property loss is \$500. Usually, arrangements may be made for other deductibles. A separate deductible usually applies for losses due to windstorm during a hurricane and this deductible is normally significantly higher than the regular policy deductible.

Special limits apply to certain types of property such as money, securities, jewelry, furs, silverware, watercraft, guns, and collectables. The special limits vary in some company policy forms from \$200 to \$2,500 or more. Often, these limits can be increased, or the unit owner may purchase a "personal articles floater" policy on those types of valuable property.

Theft coverage in the basic unit owners policy is excluded if the unit is rented to others. The policy may be amended to provide such coverage.

II. Building Coverage/Additions and Alterations

Under the association master policy, the statutes exclude certain building items. Thus, the unit owner must insure these to be protected from the financial consequences of loss. Per the statutes, the following items are not covered by the master policy: floor coverings; wall coverings; ceiling coverings; electrical fixtures; appliances; water heaters; water filters; built-in cabinets and countertops; and window treatments, including curtains, drapes, blinds, hardware, and similar window treatment components, or replacements of any of the foregoing. Air conditioning and heating equipment was excluded prior to the 2008 legislative session, but as of January 1, 2009, the master policy no longer excludes this equipment. This area of loss exposure demands the close attention of the condominium unit owner.

According to statute, insurance on condominium buildings provided by the condo association must include, "All portions of the condominium property as originally installed or replacement of like kind and quality, in accordance with the original plans and specifications."

To avoid under- or over-insurance, the unit owner should clearly identify the property for which there is personal responsibility to insure. If in doubt, or if the condominium documents are unclear as to the particular areas of responsibility, the best recommendation is to increase the amount of coverage the unit owner maintains for additions and alterations. It is also important to determine whether or not the condominium association carries a high deductible, which may preclude the payment of relatively minor damages on interior unit items under the association policy. If so, coverage should be provided by the unit owner. Additionally, the statute allows condominiums to alter their bylaws in a manner that may make a loss to a single unit the sole insurance responsibility of

the unit owner. Thus it is critical that owners read the bylaws to see how losses are allocated after a property loss.

The unit owner should know the cost of building items and the additions and alterations made at personal expense. Establishing an amount of insurance adequate for a serious or total loss to the additions and alterations is important because quality and quantity varies so greatly among unit owners. While there is no "magic number" for an adequate amount of insurance, suffice it to say that limits in the tens of thousands of dollars have been inadequate after a major loss. It is not uncommon to find limits well above \$100,000 on some policies, and for condominium units in upscale associations, it's not uncommon to find coverage limits greater than \$1 million. Only the unit owner knows what an adequate limit is. Building items as well as additions and alterations are normally valued on a replacement cost basis, not a depreciated value; so, it is critical that this fact be taken into consideration when selecting a proper limit.

The limit on additions and alterations may be increased to any desired amount (subject to insurance company underwriting) and the perils may be broadened from "named peril" to "special coverage" (subject to certain exclusions). With so many items specifically eliminated from coverage under the condominium association policy, special consideration should be given to these coverage improvements.

III. Other Property

If the condominium unit owner personally owns a separate, detached structure on the association premises (such as a carport, storage building, or cabana), it may be covered under the unit owners policy for the same perils that apply to additions and alterations (as long as the structure is not rented to others nor used for business purposes). Increased coverage for these other structures is typically available.

IV. Loss of Use

The condominium unit owners policy covers the additional (above normal) living expenses incurred when the unit is unfit to live in because of damage to the unit or to the building from a peril insured against. The basic limit of coverage, which is automatically included, is 50 percent of the limit selected to cover personal property. With some insurers, this limit may be increased.

When the unit owner purchases the option to broaden coverage for rental of the unit to others, as described under "Coverage on Personal Property," that option also provides for application of the Fair Rental Value coverage to loss of rents that would have been realized during the period of time the unit was unfit to live in.

V. Personal Liability and Medical Payments

The condominium unit owners policy includes protection against claims for bodily injuries and damage to property of others arising from within the unit, or personal activities away from the unit. In addition, and without regard to whether or not the unit owner is legally liable, the policy pays for medical bills incurred by others who do not reside in the unit and are accidentally injured in the unit or arising from personal activities of the unit owner.

The basic limit for liability is \$100,000 and the basic limit for the medical payments coverage is \$1,000. Many insurers offer increased limits. While not available under the homeowners policy, many people buy a separate "personal umbrella policy" to provide protection against a catastrophic judgment. For example, a liability limit of \$300,000 might be selected for the condominium unit owners policy with a personal umbrella policy increasing this protection by \$1 million or more.

If any business activities are conducted in the unit, or if the unit is rented to others, your agent should be fully informed to assure proper protection under the policy.

One of the more important limitations of the liability and medical payments coverage relates to watercraft. Limited coverage is provided for the use of some watercraft. In order to assure proper coverage, unit owners should discuss coverages with their agent on watercraft they own, rent, or borrow.

Another area of concern is golf carts owned or used by the unit owner. Whether owned, rented, or borrowed by the unit owner, coverage under the unit owners policy is limited. Options should be discussed with the agent. The same recommendation applies to other recreational vehicles such as four-wheelers, go-carts, and Segways. Coverage for any type of motorized land conveyance should be discussed with the agent.

Unit owners are advised to be aware of and satisfied with the liability insurance carried by the condominium association. Be sure that (1) the association carries an adequate limit, and (2) the association policy provides that unit owners are individually protected in the event of a claim directly against the association.

VI. Loss Assessment Coverage

If the condominium association suffers a loss or claim not insured by the association, the unit owners may be assessed for the necessary funds. This again makes it incumbent on all unit owners to be aware of and satisfied with the association's insurance.

Unit owners may, however, take steps to avoid or reduce the financial consequences of assessment losses by purchasing additional "Loss Assessment Coverage" as an option under their own condominium unit owners policy. This coverage reimburses unit owners for assessments from the association arising from (1) property losses to association property, if covered by a peril insured against under their own unit owners policy; (2) liability losses covered under their own unit owners policy; and (3) directors and officers claims arising from acts of elected directors, officers, or trustees serving without income. While \$2,000 of property loss assessment is mandated by statute and \$1,000 of liability loss assessment is typically included in most policies, that amount is seldom adequate and should be increased if available from the insurer.

Examples of the need for this coverage include assessments for (1) a large liability claim exceeding the limit of the association's coverage; (2) loss to the association's property by a peril not insured against in the association's policy but covered by the unit owners policy; (3) a property loss wherein the association's amount of insurance was inadequate; or (4) a property loss wherein the association's insurance did not respond because of a high deductible. In the case of an assessment to the unit owner as a result of the association's deductible, no more than \$2,000 will be paid under each unit owners policy even if an increased amount of Loss Assessment Coverage is selected. Some companies, however, will pay more than \$2,000 for an assessment due to a deductible, depending on policy wording.

This option does not cover assessments from every cause. For example, if the association were to assess unit owners as a result of flood damage, Loss Assessment Coverage would not cover such a loss because the condominium unit owners policy does not cover flood losses. A flood policy is available to cover such an assessment. Likewise, assessments for routine items such as normal roof replacement, repaving the parking lot, and routine painting are not covered by this coverage. Statutes dictate that a deductible of no more than \$250 shall be applied to a covered claim.

If this increased Loss Assessment Coverage is desired, determining the appropriate amount of coverage is difficult. While this decision must be made by the unit owner, and should be based on knowledge of and the degree of satisfaction with the insurance carried by the association, this agency will gladly provide counsel and advice.

VII. Rental of Unit to Others

Special policy provisions should be made whenever your unit is rented to others, whether for a short-term or a long-term basis. A separate insurance contract may be necessary if the unit has been purchased for investment purposes and is rented to others continuously. Failing to properly structure the unit owners policy for the rental of a unit could result in significant coverage gaps.

VIII. Flood Insurance

Losses due to flood damage are not covered by the standard unit owners policy. Coverage for both building damage and damage to personal property is normally available from this agency through the National Flood Insurance Program. We urge all unit owners to consider purchasing flood insurance.

IX. Association as Additional Named Insured

In 2008, the Legislature amended the statute to require that the unit owners policy provide "additional named insured" status to the condominium association. The Legislature removed this requirement effective 7/1/2010.

X. Mandatory Unit Owner Insurance

In 2008, the Legislature amended the statute to state that the condominium association "shall require" unit owners to obtain a policy of their own. This requirement was repealed effective 7/1/2010. The association can, however, still require unit owners to obtain insurance by including such wording in the condominium bylaws and documents. The board, in consultation with an attorney, makes such a decision.

Other Forms of Insurance

Other kinds of coverage not unique to condominium unit owners, such as automobile, life, and health insurance, may be appropriate.

As an independent insurance agency, we will be happy to consult and advise on all forms of coverage.

Prepared as a public service by:

FAIA

Florida Association of Insurance Agents

Your Insurance Checklist

Personal Property Coverage:

- ☐ Estimated actual cash value: amount to apply within unit
\$ _____
—OR— Estimated replacement value
\$ _____
- ☐ Special limits (money, securities, jewelry, furs, silverware, guns, boats) \$ _____
- ☐ Floater coverage (jewelry, furs, fine arts, silverware, cameras, sporting goods, etc.—*itemized*)
\$ _____
- ☐ Rental Coverage
- ☐ Theft Coverage Extension
- ☐ Flood
- ☐ Other _____

Additions and Alterations:

- ☐ Estimated replacement value: amount of coverage
\$ _____
- ☐ Broadened perils ("special" coverage)
- ☐ Flood

Additional Living Expense:

- ☐ Amount of coverage \$ _____

Other Property:

- ☐ Estimated actual cash value: amount of coverage
\$ _____

Personal Liability, Medical Payments:

- ☐ Personal Liability limit \$ _____
- ☐ Medical payments limit \$ _____
- ☐ Watercraft Liability \$ _____
- ☐ Personal Umbrella Liability limit \$ _____

Loss Assessment Coverage:

- ☐ Amount of coverage \$ _____



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