

# ***Do you have enough insurance to protect your investment?***

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There have always been two very important questions when it comes to insurance -

1. Do you have enough to replace the *interior* of your unit, and
2. Do you have the *right kind* of coverage?

Now there is a third question –

3. Do *you need* all of the insurance you are carrying? (Mainly referring to flood insurance)

The purpose of this writing is to help you better understand how your insurance policy works, what is covered under your personal condo policy and what is covered under the association's master policy. Since insurance is very policy specific, these thoughts and suggestions are NOT meant to apply to each person's specific policy. You should always discuss your policies with your agent. Make sure both of you fully understand your needs, coverages and limitations. The attempt here is to assist you with some helpful thoughts.

When you own a condo, there are four insurance policies which you need to understand. Following is a brief explanation of each.

## **1. UNIT OWNER'S PERSONAL POLICY (HO6 POLICY)**

This policy is designed for the condo owner who wants to protect their investment, contents, and personal assets from liability claims.

1. Effective January 1, 2004 a new Florida Statute § 718.111(11) set forth the various insuring responsibilities between condominium unit owners and condominium associations in Florida. It defines what a master policy can pay and *what it WILL NOT pay*.
  - a. A portion of the statute states – **“the master policy (the policy carried by the condo association) shall EXCLUDE all floor, wall, and ceiling coverings (wallpaper, tile, carpet, etc), electrical fixtures, appliances, air conditioner or heating equipment, 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 which are located within the boundaries of a unit and serve only one unit and all air conditioning compressors that service only an individual unit, whether or not located within the unit boundaries.”**
2. Therefore since the master condo policy does not cover any of the above, then your personal condo policy's BUILDING COVERAGE MUST cover these items. You must have sufficient limits of building coverage to replace all of the above items. If you were to have a contractor and decorator come into an empty shell and complete all of the above what would it cost you?
  - a. One unit owner had the cost of \$45 per square foot suggested to him. While that may do a basic restoration, if you have marble tile, granite countertops, high end cabinets, wall paper, top of the line carpets, etc – you might want to go closer to \$50 - \$60 per square foot or higher. Certainly these are estimates only and you should consult with a

qualified contractor and decorator. You must also remember that if the loss is the results of a hurricane, every contractor and supplier's cost and prices will be **much higher** due to the demand.

3. The second part of your policy covers your **contents and personal property**. You want to make sure you have enough insurance to replace all of your contents with equivalent quality at today's prices. Remember, this is not just your furniture, but also your clothing, small appliances, dishes, etc. Go to Haverty's or some other furniture store and price today's cost of bed room suits, bedding, sofas, etc. – you will get a true sticker shock. Check the drapery or window covering department, walk through the bedding and linen, go to a clothing department store and then go to the kitchen wares. You may find yourself very surprised at what it would cost to completely replace everything in your condo.
4. Another important coverage in your **HO6** policy is your **liability limits** - the normal amount sold in most policies is \$100,000 – if you have many assets at all, you may want to consider a higher amount. The cost to raise this to \$300,000 or even \$500,000 is nominal. In fact, you may want to talk to your agent about a Personal Liability Umbrella policy which could take your coverage up to one million or more.
5. There is another area to look at called **Loss Assessment** - the base provision in the standard policy is \$1,000 – you might want to raise this. I currently carry \$5,000 under my policy. This coverage will help you pay any assessment which qualifies under your policy. If the association has to come back and do an assessment for a *covered insurance loss*, this might help you with the assessment. This clause and amount varies in all policies so check yours closely.

## 2. ASSOCIATION MASTER HAZARD INSURANCE POLICY

You need to know that the Florida Condo statutes, as well as our bylaws, require your Board to carry full hazard coverage. Two years ago the Board retained the services of a professional insurance appraisal company to provide us with a detailed replacement cost appraisal of our property. The Board raised all of our Association coverages to meet the appraised recommendations. There still exists the possibility that should a Katrina occur, building costs will escalate to the point that we could be short on funds – there is no easy way to circumvent this potential situation.

1. The Association policy covers the buildings, common elements, equipment, and contents inside the buildings which belong to the association.
  - a. It is important to know that the Association's Master Policy carries a mandatory Hurricane deductible.
    - i. This usually means an assessment to the unit owners. There is nothing your Board can do about this; it is just specific to living in Florida. In fact the hurricane deductible is mandated by the state of Florida.

### 3. ASSOCIATION'S FLOOD INSURANCE POLICY

This has become one of the greatest trouble issues in the Katrina area. All hazard or fire insurance specifically excludes any damage done from flood or rising water (includes tidal surges). Due to the complexity and cost of this type of coverage it was necessary for the Federal Government to assume this area of insurance quite a few years back. Following Katrina, the Federal Flood Insurance program faced bankruptcy and has since taken a new focus on the insurance and claim handling process. Under their guidelines, **the maximum amount of insurance the Federal Flood Insurance program will pay for a single house or condo unit is \$250,000** – thus if the association buys the maximum amount of \$250,000 per unit – then even if you purchase an additional amount, under their guidelines you cannot collect on your policy. There are a lot of homes in the Katrina area that were valued well in excess of the \$250,000 that were lost to tidal surges and the owners received only \$250,000 period!

Another important area of flood insurance coverage is a very little known and very expensive product called “EXCESS FLOOD INSURANCE” which, if purchased for condo units, appears only to be able to be purchased as a master policy. If it is available for individual units I have not been able to find it, you might have better luck if it is out there. There are only three companies (not agencies) which I have been able to locate, who write this type of coverage. At this time our Association does not carry the EXCESS FLOOD INSURANCE. We are however in the process of determining if it is available to us and if it is economically feasible.

An Example of how excess flood would help us would be that if our Tower buildings, which have the maximum amount of insurance which we can purchase from the Federal Flood program (\$8,000,000), would be destroyed then we would need an additional \$755,487 per tower to rebuild based upon our appraisal. This is a potential assessment of \$9,700 per unit.

Again, I want to emphasize that the Board currently has our buildings insured for either the maximum amount we can purchase under the National Flood Program or to the limit which was recommended in the property appraisal.

### 4. UNIT OWNER'S FLOOD POLICY

Under the guidelines of the Federal Flood Insurance program you will recall that the most they will pay for a single unit is \$250,000. Applying this rule, then the tower owners, according to the representative from the National Flood Association, do not have a need to purchase *building* flood coverage *as long as the association maintains its master flood policy with the maximum amount of coverage.* For the townhouse owners, since we are carrying the recommended (by our property appraiser) coverage amount for replacement, and that amount is less than the \$250,000 per unit, then the TH owners that live in the building with eight units could purchase approximately \$10,000 of building flood coverage on each unit, while the TH with the twelve units could purchase approximately \$7,000 of building flood coverage for each unit and possibly collect under your flood policy if it was determined that it cost more than the association's policy to rebuild the townhomes. As for the villa owners, you could purchase approximately \$1,000 of building coverage per unit and do the same. How would you be able to use these funds? Well a possibility might be to help pay the assessment that would come about because of damage to any of our property. Be sure and talk to your insurance agent about this concept. If you still feel you want to own Flood insurance you should certainly do so.

Owners who have a higher probability of losing their contents in a flood (certainly the Villas and Town home owners as well as possibility the tower owners) – will want to seriously consider purchasing **FLOOD CONTENTS** even if you don't purchase the building coverage portion of the Flood policy. The tower owners might want to check with their insurance agent to see if they should purchase Flood insurance on their contents – what if the building was destroyed by a tidal surge? Who would pay for your contents?

## SUMMARY

So what do we all do with Hurricane Season approaching? Our Board has put together a disaster plan and they have insured our facilities to the best of their abilities. They are prepared, now here are some suggestions for you:

1. Use your digital camera and take pictures of everything in your entire condo in every room at every angle. Open all of the drawers and cabinet doors, include all of your clothing, dishes, utensils, get close ups of the small items and art work, along with all of your furniture and electronics. Most insurance companies cannot start settling with you until you submit a written inventory (often with proof) of the items you lost.
  - a. Transfer the pictures to a CD and mail copies to relatives who live outside of Florida. Keep a couple of extra copies for yourself.
2. If you do not get a contractor's estimate on your replacement cost, at the very minimum take the square footage of your condo's living area and multiply it by one of the above figures (I would use a minimum of **\$50 to \$60** per SF)
3. Check your HO6 (Personal Property Coverage) – do you have enough coverage for your personal property items?
  - a. Do a quick walk through making an estimate of your contents – don't forget if you were starting over you would be buying dishes, pots and pans, clothes, linen, bedding, etc, etc, etc.
4. Determine if you want to purchase Building Flood Insurance (who ever carries your HO6 can write your flood insurance).
5. Put all of your insurance paperwork, policies, and copies of your photos in a file that will be easy to pick up take with you should you have to evacuate.
6. After getting everything with your insurance coverage updated, all you need to do is sit back, relax and enjoy the wonderful place and facilities that we share in.

I hope this article has provided information and help to you. The intent is to help calm your fears (providing you have done all of the above) about proper insurance coverage to protect your assets. Again since insurance is so contract specific please contact your insurance agent and discuss any thoughts or concerns with them. Thank you for taking the time to review and let's all pray for a safe season coming up.

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