

# Seven Important Earthquake Insurance Issues for Condominium Associations

By Timothy Cline, CIRMS, Timothy Cline Insurance Agency, Inc.

- 1. "Insurance to Value" is extremely important.**
  - a. There is no guaranteed replacement cost endorsement available from any stand-alone earthquake carrier. The stated limit on the declarations page is the maximum the carrier(s) will pay as a result of a covered loss. If the limits maintained are insufficient to cover the loss, the insurance carrier will not cover the shortfall.
  
- 2. Building Schedule must be as complete and accurate as possible.**
  - a. Because no "blanket coverage" exists, the carrier relies strictly on the schedule submitted with the application – and will pay claims based on the amount of coverage on each building or structure – regardless of how much total coverage was purchased.
  - b. Has coverage been included for streets, curbs, sidewalks, v-ditches, pools, spas, tennis and sports courts, irrigation, entry gates, recreation rooms, support buildings?
  
- 3. The "Scope of Coverage" should be fully understood.**
  - a. With regard to projects where the Association must insure the dwelling units – is there coverage for any portion of the interior of the units? Is the coverage "bare walls," "original builders specifications" or broader?
  - b. Does the carrier provide coverage beyond the bare walls if the governing documents require it?
  - c. Is there coverage for Building Ordinance (Code Upgrade) issues?
  - d. If the project has residential fire sprinklers, has Earthquake Sprinkler Leakage coverage been included?
  - e. Is there coverage for underground utilities and foundations?
  - f. Is there coverage for "Maintenance Fees Receivable?"
  
- 4. A "layering program" provides both strength and weaknesses:**
  - a. With catastrophic coverage, having all the Association's "eggs in one basket" isn't always preferred. Risk managers argue that having multiple carriers involved reduces the dependency on any single carrier.
  - b. The "following form" endorsement used by excess carriers places focus on the scope of coverage being provided by the lead carrier. In other words, the

language contained in the lead (primary) carrier's contract is what is adopted by all excess carriers.

- c. There is no "drop down" provision that would protect the Association in the event a carrier providing one layer of coverage becomes insolvent. If a carrier providing a certain layer fails, the Association becomes "self-insured" for that portion of the coverage, with the next carrier only being responsible once the loss reaches their predetermined attachment point.

**5. Carrier Strength still remains key.**

- a. Regardless of whether the carrier is an "admitted" or "non-admitted" carrier, what is the carrier's ability to pay claims? (What is the carrier's "Total Admitted Assets" and "Policyholder Surplus")?
- b. What percentage of the carrier's business is written in California?
- c. What percentage of carrier's premium volume comes from the sales of coverage for the peril of earthquake?

**6. Be wary of how a policy's built-in sub-limits, if needed, will reduce the overall coverage available to pay for insured damage.**

- a. Even though there may be adequate building coverage, if portions of the coverage are eaten up by a sub-limit for Building Ordinance or Maintenance Fees, it may leave a substantially reduced limit to cover the remaining loss.

**7. The Master Policy is one of two components necessary to properly protect against damage by the peril of earthquake. Don't forget to educate the individual home owners about the importance of maintaining individual earthquake coverage to supplement the coverage being provided by the Master Policy.**

- a. On average, 25% of individual condominium unit owners has no insurance at all (fire or otherwise). Of the 75% remaining unit owners, less than 50% (on average) will buy individual earthquake protection. This means that some 66% of homeowners in an average condominium association will maintain no individual earthquake coverage whatsoever. Educating the unit owner about the importance of individual coverage will increase the homeowners awareness and make it much easier for the Board to levy a special assessment (if necessary) to cover the Master Policy deductible.

© 2004 – Timothy Cline Insurance Agency Inc.  
ALL RIGHTS RESERVED

**Timothy Cline Insurance Agency, Inc.**

"Insurers of Condominium Associations, Cooperatives and Planned Unit Developments throughout the West"

[www.timothycline.com](http://www.timothycline.com)

Toll Free: (800) 966-9566, Ext. 22

Fax: (800) 736-3830

This letter contains only a general description of coverage and not a statement of contract.  
For a more detailed description of the policy conditions and exclusions, please consult the policy itself