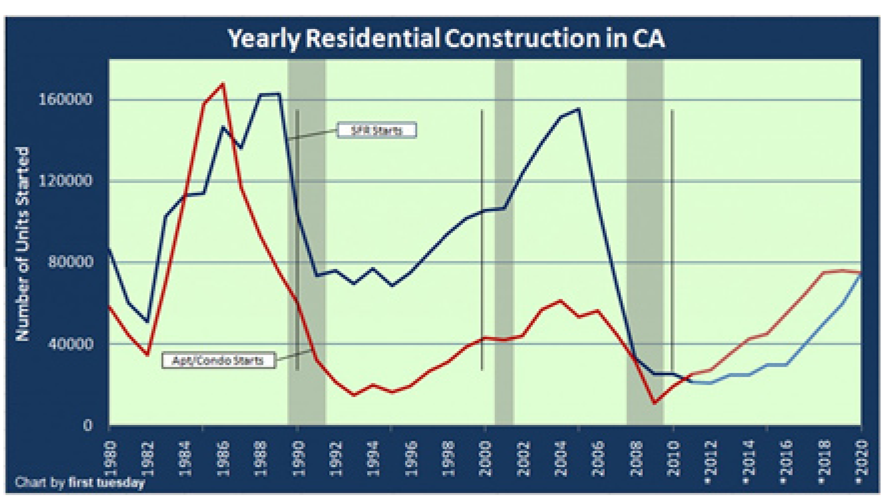
Meteorologists can predict the path of a hurricane, but knowing when a condominium association in California might have a brush with disaster requires much more than fancy computer models. Firestorms and wind events are predictably unpredictable and represent just two of the many perils condominium associations in California face each year.

Perhaps no single duty generates more angst for the average board member than the annual task of selecting the right Master Policy coverage for the community. Unfortunately, buying the coverage is just part of the challenge, since the purchase decision is coupled with the added responsibility of making sure the association is able to qualify for coverage year after year. That's a careful balancing act. The Board wants to have the broadest coverage possible to protect against the large, unforeseen catastrophe, and yet not so broad that the community is in the untenable position of having had too many claims – making the project, from the carrier's perspective, undesirable and potentially uninsurable.

The solution? Purchase broad protection, but couple it with a higher deductible.

The reality is, condominium associations in California are beginning to show their age. As the graph below from the Construction Industry Research Board (CIRB) indicates, a large number of apartment and condominium projects were built during an enormous multi-family housing boom which occurred between 1983 and 1986 (see the red line below). Condominium projects built during this condo "golden years" are now between 23-26 years old. Perhaps the word "golden" may be stretching it. If the developer scrimped on quality (and many developers did), some of the interior components of those hastily-constructed projects are starting to fail and fail in a most dramatic way.



Source: www.firsttuesday.com

Water claims in these older buildings are commonplace and, from an insurance perspective, expensive to adjust and repair. In the average 1980-era condo project, there are three-decade-old supply lines leading to the sink, toilet, washing machine, dishwasher or ice maker. These flexible lines, which have been exposed to constant water pressure day-after-day, are failing. Since most CC&Rs place the maintenance responsibility for those supply lines on the individual unit owner, condominium boards are understandably looking for a way to shift the responsibility for the resulting damage to the individual unit owner without putting the Master Policy in peril. A higher deductible will do just that.

It’s important to be sensitive to the fact that underwriters at commercial insurance carriers are hyper-vigilant about water loss-plagued condo projects that, over time, might eat into their employer’s profitability. As a result, they express no hesitance to non-renew condominium projects that have experienced multiple water damage claims. They consider the repetitive losses to be a reliable bell weather of the future. “Two or three water damage losses is a good predictor of a much larger claim in the Association’s future,” an underwriter says. “Let’s get off this account now, while we still can.” Non-renewing for them has only one hurdle: California Insurance Code requires the carrier to provide the association 60-days’ notice of their intent to cancel.

A higher deductible can help an association in three ways:

1.) A higher deductible shifts more responsibility back to the individual unit owner for claims that occurred either:

A.) as a result of the owner’s negligence; or

B.) for losses that occurred as a result of failure of the unit owner to maintain a portion of the unit that is their obligation to fix, repair or maintain per the governing documents.

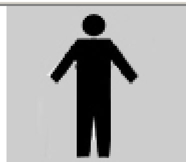
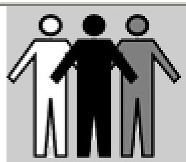
2.) A higher deductible will provide the association with a modest premium savings for the short-term.

3.) A higher deductible will provide the association with a potentially significant savings over the long-term by preserving the association’s loss history and ensuring that these smaller events do not interfere with the association’s ability to purchase competitively-priced coverage year after year.

Deductible Handling Procedure:

Deciding to increase your association’s deductible to $5,000 or $10,000 may be the right decision for your community, but before you make that move, be sure your Board has established a set of rules for handling the deductible. If your association is like the average, about six out of every ten claims submitted under a property policy have occurred due to a unit owner’s negligence, or due to the failure of a unit owner to maintain their portion of the real estate.

Consider determining exactly who is going to be responsible for the deductible, and under what circumstances. Then, be intentional about clearly communicating this change to the owners, so that they can modify their personal coverage, if necessary. Here’s an example of how some associations handle this important issue:

Responsible	Circumstances
 Individual Unit Owner	If the loss occurs as a result of the negligence of the individual unit owner.
	If the loss occurs as a result of a failure of a portion of the unit that is within the unit owner's care, custody and control (according to the governing documents).
 Condominium Association	If the loss occurs as a result of the negligence of the Association.
	If the loss occurs as a result of a failure of a portion of the project that is within the Association's care, custody and control.

By Timothy Cline, CIRMS

Timothy Cline Insurance Agency, Inc.

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

For more information please visit us at: www.timothycline.com
or call us today at: (800) 966.9566