

Insuring condominiums: Remember these are a group of homeowners sharing the same structure

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Typically, condominium trusts are viewed and treated as commercial clients by brokers and insurers, and sometimes it's forgotten that a residential condominium is really just a group of homeowners sharing the same structure(s). Thus, the master policy forms are commercially-g geared and it's unfortunate that the policy wordings and the trust documents, including the master and unit deeds, cannot be written to conform with each other; otherwise situations will arise where one requires something of the other that cannot be given, or leaving gaps that remain open to interpretation.

For example, a typical unit deed will define the perimeter border of where the common area ends and unit area starts. It could be "the face of the wall studs," or the "unfinished faces of the walls, ceiling and floors," etc. The problem is that a commercial insurance policy defines "building" as including all of the walls, ceilings, floors, plumbing and electrical, etc., whether they exist within an individually-owned unit or in the common areas. Complicating this further is the fact that a unit-owner's policy, an HO6, is intended to cover the personal property of the owner and not any portion of the building.

To compensate for this discrepancy the HO6 has been expanded to be able to include an amount for "dwelling," which means building. However, the unit-owner can't always know whether the master policy will in fact cover all the parts within the definition of building, or whether the unit-owner needs to insure the value of everything typically considered building which falls within the defined perimeter of the unit. Thus, unit-owners usually either end up not insuring what they should or insuring far more than they need to.

Beyond the subject of building versus unit lurks the subject of improvements and betterments. If they involve the replacement of kitchen and bath fixtures within the unit does that fall under the master policy's definition of building or should that be covered as dwelling under the HO6? Without careful review of all of the relevant condo documents and the master policy wording, there is no simple answer.

The best solution to the dilemma of appropriately covering condominiums is to have the by-laws identify that the master policy will cover the entire building(s) including all improvements and betterments made to the units that would fall within the definition of building on a replacement cost, agreed amount basis. This means that the unit-owners will have the responsibility of reporting the improvements and betterments made to their units, including the costs, and the condominium representative responsible for maintaining the master policy will need to report them to the insurer and include them in the insurable value, but it would seem that that extra bookkeeping would be a small price to pay for adequate coverage. Unit-owners should then maintain some small amount of dwelling coverage under their HO6 to cover anything not reported to the association, or to apply in the event the master policy's deductible is assessed to that particular unit.

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