OHL INSURANCE & FINANCIAL SERVICES

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FAQ Condominium ownership:
Why is Increased Loss Assessment coverage important to unit owners?

Insuring a condominium ("condo") unit presents a set of challenges that condo owners may easily overlook. To avoid gaps in coverage, it is important:

- to know how the association of unit owners is insuring the entire condo complex, and
- to coordinate your **unit's** insurance policy with the **association's** insurance policy.

Q: What is a loss assessment?

A: When a claim occurs on the premises of the condo complex, it triggers the condo association's insurance policy. In certain circumstances, your association can then turn around and seek contribution from you, as a unit owner, such as:

- if the limits on the association's master policy were insufficient, and/or
- to recoup the association's deductible (which is often significant).

Q: Can you give an example?

A: Sure. Let's say a neighborhood child playing on the property grounds gets hurt, and the parents sue the association. Since the accident occurred on the "common elements," the association's policy would respond. If the injuries to the child are significant, and the limits selected by the association exhausted, the association will pay the remainder of the award out of pocket, and will "assess" every unit owner a share of that expense: this is called a "loss assessment."

Q: How likely is this to occur?

A: This can happen to any association and any unit owner. However, it is more likely to occur:

- with severe claims,
- when the condo association chose lower limits/coverage in an effort to contain insurance costs and keep association fees down, and
- for recoupment of the association's policy deductible. Increasingly, condo associations choose policy deductibles in the thousands or tens of thousands of dollars. The portion of each claim under this amount is paid out of pocket, and can then be assessed to unit owners collectively, and in some cases (particularly in Maryland) individually.

Q: You mention Maryland: Can this vary by location?

A: If you are located in a coastal area or one prone to hurricane or windstorms, specific deductibles can apply. They are often expressed as a percentage of the property value rather than a flat dollar amount, leading to higher out-of-pocket costs and loss assessments. Ask your association manager what the deductibles are on the association master policy. In addition, the ability to recoup the deductible can be influenced by state law.

Q: How do I protect myself from a loss assessment?

A: The standard unit owner's policy (traditionally referred to as an HO-6) normally provides $1,000 of loss assessment coverage. This amount can be increased easily by "endorsing" your policy with an add-on called "Increased Loss Assessment Coverage."

Q: Is there anything else I should be asking for?

A: Yes. When discussing the endorsement with your independent agent, make sure you ask whether the endorsement also increases coverage for assessments due to an association deductible. Not all endorsements do.

Q: Are there any types of assessments that are not covered?

A: Loss assessment coverage works hand-in-hand with the underlying coverage, and is generally only covered if the *cause of loss* would be covered under your own individual unit owner's policy. For example, if a loss for which you are assessed was a theft, and you did not purchase theft coverage, your loss assessment coverage would not kick in.

Q: Are there other issues I should be discussing with my agent?

A: Possibly. Insurance for your condo unit requires knowledge of your association's bylaws and declarations, and a solid understanding of both the association's insurance responsibilities and your own. If you have any questions, ask us. You can also review the companion brochure "Condominium Insurance: Similar, but not the same as Homeowners' Insurance."

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