

## ASSESSING LOSS ASSESSMENT

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How many times have we heard reference to *loss assessment* when speaking of an HO6 Unit-Owner's Policy? I challenge you to find an example of a claim paid under loss assessment. Examples are rare, at best. This article will address loss assessment in connection with the ISO Homeowners 6 – Unit-Owners Form HO 00 06 05 11.

Loss assessment is widely misinterpreted and misused in the insurance industry, not only by agents, but by underwriters and adjusters. The coverage name is simply misleading. It sounds as though condo owners can be assessed for their unit loss and collect under loss assessment, right? Not true. Below are stipulations that trigger Section I, Property Loss Assessment.

1. A property owners' organization, such as a condominium association, charges the insured their share of a loss, and
2. The damaged property is owned collectively by all members of the property owners' organization (examples of property owned collectively could be gazebos, sheds, detached garages, fencing, condo roofs and siding, or pools), and
3. The damaged property is the same type that the HO6 would cover, if it had been owned by the insured, and
4. Loss is from a peril insured against under Coverage A (excluding earthquake or volcanic eruption earth movement), and
5. The charge is made during the policy period. The damage does not need to occur during the policy period.

A typical condo claim scenario is a burst pipe resulting in damage to the unit's drywall and flooring. The condo owner is charged with the first dollars of unit damage below the master policy's \$10,000 deductible. This assessment is for damage to the unit, which is owned individually, not owned collectively. It is important for agents to understand that in a condominium, each owner holds title to a unit and only the common elements are owned in common. Loss assessment would not respond to unit loss because it is not owned collectively.

In most scenarios, condo owners are charged for unit loss rather than property owned collectively. Condo associations might have \$25,000 master policy deductibles and the condo owners are responsible for unit damage below that deductible. In other situations, unit owners are responsible to insure all portions of the unit, other than the bare perimeter walls. In this case, the unit owner needs to insure the partition walls, cabinetry, fixtures and floor coverings, to name a few. As agents, we have to order the proper unit coverage and it is NOT loss assessment.

The situations above could be covered under the Unit Owner's Policy Coverage A – Dwelling. The dwelling limit can be determined with fact-finding. The condo association's declaration and bylaws should reveal the definition of a unit and whether or not the master policy covers the unit. In a condo, a unit typically includes the drywall inward, which would encompass partition walls, cabinets, floor coverings and fixtures. Often, you will find the master policy covers the unit.

If the master policy covers the unit, why would unit owners need dwelling coverage? First, assume a unit loss below the master policy deductible will be the unit owner's responsibility. Find out the highest master policy deductible and use that amount as the dwelling limit starting point. We could have to increase that dwelling limit with the cost of improvements added by current and prior owners, such as the addition of hardwood floors or granite countertops. Or, we might need to add the cost of all fixtures and finishing from the unfinished bare surfaces of the perimeter drywall inward. The association's governing documents should state if these items are the owner's insurance responsibility. If so, insure them using the HO6's broad unit coverage.

### **Coverage A – Dwelling**

#### **1. We cover:**

- a.** *The alterations, appliances, fixtures and improvements which are part of the building contained within the "residence premises";*
- b.** *Items of real property which pertain exclusively to the "residence premises";*
- c.** *Property which is your insurance responsibility under a corporation or association of property owners agreement; or*
- d.** *Structures owned solely by you, other than the "residence premises", at the location of the "residence premises".*

Then why have loss assessment? There are situations when it could respond, but they are rare. What if the condo association neglected to schedule the vandalized community pool or the wind-damaged common fencing bordering the association? The repair cost could be charged to the condo owners who could recover under loss assessment. Perhaps it would be clearer if the name were changed to Collectively Owned Property Loss Assessment.

Section II, Liability also contains loss assessment. This responds if a property owners' organization assesses the insured for bodily injury, property damage or personal injury loss. An injury on the association's playground could result in a jury award greater than the association's general liability limit. The association could assess unit owners for the balance of the award in which case this coverage would respond. Also, it extends to the insured's liability for acts as an elected director, officer or trustee of a property owners' organization. Section I and Section II Loss Assessment have \$1,000 limits which can be increased.

The unwarranted use of loss assessment might have been a negligible problem in the 1980s when there were only 9.6 million Americans living in community associations. The misapplication is rampant today when there are 333,000 associations housing more than 66 million U.S. residents. Condominiums make up an estimated 45 percent of these associations. Through a better understanding of loss assessment coverage, agents can more appropriately determine the insurable interest of unit owners and recommend corresponding coverage.

