

Common Interest Ownership Act and Connecticut Condominium Master Insurance

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Improvements and Betterments?

On July 1, 2010, a number of changes to the Common Interest Ownership Act (CIOA) will take effect in Connecticut and in response, Community Association Institute – CT Chapter has done its best to get the word out. Education seminars were created to inform property managers, board members and unit owners alike.

When it comes to community association insurance, there are a few items that will change on July 1. Some of these changes may have a direct impact of coverage requirements as well as premiums. Knowing what to expect is key and having a strategy to plan and implement these changes is equally important.

After reviewing the insurance related revisions to CIOA, the insurance coverage for unit owner purchased and installed improvements and betterments seems to be a major change for many associations. Historically, the responsibility for coverage of such "improvements and betterments" was defined in the Property Section of the governing documents for each association. Some associations specifically carved out these 'unit owner purchased and installed improvements and betterments' and some governing documents included them in the definition of the insured property under the master insurance policy and unit owners have purchased unit owners policies (also known as HO-6) policies accordingly.

To further clarify what a unit owner improvement entails, they are any physical enhancements to the condominium unit that were purchased and installed after the original date of conveyance or in other words, the very first sale from the developer to the first unit owner. Common examples of unit owner installed improvements and betterments may include kitchen upgrades, bathroom upgrades, flooring upgrades, ornate moldings, partition walls and finished basements.

When an association's master insurance is intended to cover all improvements and betterments, we refer to this as "All In" coverage. When the master policy is intended to cover the standard unit and each unit owner was responsible for his or her improvements and betterments, we refer to this type of master insurance coverage as "Single Entity."

Now, beginning on July 1, 2010 the revisions to CIOA require the master insurance policy to automatically include these improvements and betterments. If the governing documents originally intended not to, the Association can maintain this same level of coverage, but they now must create a list of standard unit specifications that determine what a 'base unit' is. Once this list is created, and legally reviewed, it is necessary to distribute this list to each unit owner on an annual basis as well as include it in resale packages.

For smaller, newer, uniform associations, creating this list of standard unit specifications is a relatively easy task. However, for older larger associations where there have been a number of building phases over a number of years, the styles and included items may vary greatly.

Furthermore, units may have changed hands numerous times. These associations may have a difficult time determining the definition of a standard unit. Perhaps it may be easiest to accept the change to cover the improvements and betterments as a path of least resistance and of known clarity.

From a premium point of view, to change your master insurance policy form from "Single Entity" coverage to "All In" coverage, most insurers are estimating a 6%-10% increase in the premium. This is proportionate the increased amount of property coverage necessary to encompass these improvements and betterments. This amount of coverage is determined by each insurance company and will vary from insurer to insurer as well as from association to association.

From the point of view of the master insurance provider, the insurance company needs to inflate the building limit on the entire association to cover the assumed improvements. It would be nearly impossible to get an exact inventory of the improvements with modern day replacement values. Furthermore, at the time of loss, it becomes the responsibility of each unit owner to be able to verify what improvements and betterments have been done. In the event of a catastrophic fire, we will most likely see the remnants of the granite counter top or marble flooring, but hardwood flooring, cabinetry and other fixtures may be destroyed beyond recognition.

So a decision needs to be made. Is it in the best interest of the association to create the list of standard unit specifications or is it simply easier to adopt the "All In" coverage and pay the extra premium? I have worked with associations that have assumed both points of view and we're starting to see the required lists of standard unit specifications being created. Associations that would prefer the "All In" coverage are planning to amend their governing documents accordingly.

Regardless of which form of coverage an association wishes to pursue, the insurance companies are requiring documentation. If an association's governing documents are calling for "All In" coverage now, this language simply needs to be passed along to the insurer. If an association that is currently "Single Entity" and wishes to remain single entity, the language from the governing documents is required along with a copy of the list of standard unit specifications. The necessary documentation just needs to be in good order and shared with the unit owners and resale packages as mentioned before.

A discussion with your association's insurance agent and attorney should bring the expertise and advice to guide your condominium through these upcoming changes. Communication is key and don't be afraid to ask questions. The more questions answered the easier it will become for your association to address these CIOA revisions.

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