

PICKMAN PARK CONDOMINIUM TRUST
INSURANCE CONSIDERATIONS FOR PERSONAL INSURANCE SELECTIONS

Living in a condominium presents a unique challenge for properly insuring one's interests. If a unit owner is concerned with protecting his or her assets from property loss and liability loss, the place to start with all condominium residents is the by-laws. The by-laws state what the master covers and what the unit owners are responsible for. Every condominium has a unique set of by-laws. Often claims are incorrectly settled leading to confusion. The correct method is to always refer to the by-laws. The Pickman Park Drive Condominium Trust by-laws state:

Section 6.12. Insurance: The Trustees shall obtain and maintain, to the extent available in their name as insurance trustees for the Unit Owners master policies of insurance of the following kinds, insuring the interest of the Trust, the Trustees, all Unit Owners and their mortgages as their interest may appear.

Casualty or physical damage insurance on the building and all other insurable improvements forming part of the Condominium (including all of the units, but not including ceiling, wall or floor decorations or coverings, drapes, furniture, furnishings and other personal property purchased, supplied or installed of or by the Unit Owners therein), now existing or as they may from time to time be increased by amendment to the Master Deed, together with the service machinery, apparatus, equipment and installations located in the Condominium and existing for the provision of central service or for common use, in an amount not less than one hundred (100%) percent of their full replacement value.

However, the Board has purchased what is called "All In Coverage" so that your ceilings, walls and flooring are all currently covered by the master policy. Unfortunately, the Association has been subjected to paying for minor claims that either could have been avoided, or if we change the coverage could be the owner's responsibility.

Over the past decade, I have been amazed that some unit owners do not have insurance because they are of the mind set that there is a master insurance policy and they do not need additional coverage. This is not the case at all. In some cases, I have found many unit owners have too much coverage. If you have purchased a Home Owner Policy (HO6) and your insurance agent did not ask to look at your condominium bylaws or a copy of the Master Insurance Policy, you may not have adequate coverage. You may have too much or too little.

I have spent a great deal of time on developing a guide for unit owners to discuss with their individual insurance agents. The #1 question is "How does the Master Insurance Policy coordinate with a personal condo owners' policy?" A condo owners' policy (HO6) is structured as follows:

Coverage A: Dwelling The Master Insurance Policy for Pickman Park Condominium Trust will cover the entire unit except the unit owners' furniture, furnishings, and personal property. Therefore the unit owner need only have enough Coverage A to cover the Master Policy Deductible. This deductible is currently \$5,000.

Coverage C: Personal Property The master provides no coverage for personal property. Each person must decide what it would take to replace his or her personal property. Per the By-Laws, each person should insure his or her furniture, furnishings and personal property.

Coverage D: Loss of Use This is a big coverage that receives very little attention. If a unit burned to the ground and it took a year to rebuild, where would you live? This coverage provides the coverage for this expense. It is based as a percentage of your coverage C. Very often, we see coverages as low as \$5,000. This coverage should be carefully discussed with your agent. If you needed to rent an apartment while your unit is being reconstructed, how much would you need?

Coverage E: Personal Liability Excluding auto use and commercial activity, this is where an individual obtains personal liability protection for bodily injury and property damage to others. We have been advised that purchasing at least \$300,000 in protection and an additional \$1,000,000 in umbrella coverage. Please note that with exception of Chubb Insurance, condo owners' policies do not cover any activities while acting as an association director or officer.

Other Coverage for Consideration:

The following is not an exhaustive list of possible coverage improvements. These are the coverage's most often missed by unit owners.

Replacement Cost on Dwelling & Contents: Provides new for old when personal property is destroyed by covered perils (Fire, Lightning, Windstorm, etc.)

Unit Owners All Risk Coverage A & C: Changes coverage from named perils, i.e. wind damage (no coverage unless peril is named in policy) to coverage unless peril is specifically excluded in policy. This is a major increase in coverage. In other words, if you do not have "all risk coverage" and your policy does not specifically state you are covered for wind damage, then it is excluded from your policy. If you do have "all risk coverage" the policy would need to state that wind damage is not included, otherwise it is included.

Loss Assessment: Should the master policy be unable to adequately cover a covered loss, this coverage will protect you to the amount purchased for assessments made by the board after a loss. In other words, if the Association could not reconstruct for the amount allotted by the Insurance Company and we Special Assessed Unit Owners for the difference, your loss assessment coverage would cover this expense up to the amount purchased. **Earthquake Loss Assessment:** Same as above but limited to earthquake.

Sewer & Drain Back Up: This peril is excluded by almost every carrier except Chubb. This can be a very expensive loss. Some carriers will allow you to purchase minimal amounts of coverage.

Earthquake & Flood: These perils are not normally covered by an HO6 policy.

Business Activity in the Home: HO6 policies provide **NO** coverage for any liability arising from business activity in the home. This coverage can be purchased in certain situations.

Special Limits Increase / Scheduled Coverage: Every HO6 has special list of items with reduced coverages such as \$1,000 for loss of jewelry by theft.

Workers Compensation for Domestic: If you have help, don't risk it.

Umbrellas: Umbrellas or excess liability inexpensively increases liability coverage over both personal liability and auto liability as well as vacation homes and boats.

Please discuss the above with your agent to determine what is appropriate for you.

“EXHIBIT A”

Pickman Park Insurance Losses:

As you may know the Condominium Documents for Pickman Park do not allow for a deductible on the insurance in excess of \$1,000. I have gone back to July 2000 to evaluate the loss history. We (the Board of Trustees and I) have been discussing changing the Association's deductible. Unfortunately, this will require a vote of the unit owners. While I continue to look into this matter and obtain quotes in every way possible, our fear is that our annual insurance premiums will continue to escalate making it nearly impossible to obtain coverage, and our loss history will continue to grow, making us too high of a risk to even quote coverage. The reason we urge our Boards to raise the deductible from \$1,000 to \$5,000 whenever possible, is not only to help lower premiums, but also to limit claims making us less of a risk in the eye of the carrier.

Claims since July, 2000 were as follows:

- July 26, 2000 we settled a claim in the amount of \$4,327.50 due to water damage at 3A Griswold Drive. No claim would have been filed with a \$5,000 deductible.
- June 14, 2000 – Water damage to kitchen, dining room and bedroom in the amount of \$6,935.98 on Hart Way. While a claim would have been filed through the master policy with a \$5,000 deductible, the Insurance Company would have only paid \$1,935.98 and the homeowner policy would pick up the rest.
- December 16, 2000 – Water damage to bathroom, kitchen, basement hall, and storage area in the amount of \$6,260.22 on Dewey Drive. Again, a claim would have been filed through the master policy with a \$5,000 deductible, but the Insurance Company would have only paid \$1,260.22 and the homeowner policy would pick up the rest.
- January 30, 2001 a claim was filed in the amount of \$2,800.00 from Fillmore Road. No claim would have been filed with a \$5,000 deductible.
- March 13, 2001 a roof leak caused damage to the entryway and living room in another unit on Fillmore Road. This claim totaled \$2,675. No Claim would have been filed with a \$5,000 deductible.
- March 22, 2001 – Water damage to living room, foyer, and kitchen also on Fillmore Road, totaling \$2,815.55. No claim would have been filed with a \$5,000 deductible.
- April 10, 2001 – Water damage (from a water heater) caused damage to two units on Halsey Way. This claim totaled \$4,095.32. No claim would have been filed with a \$5,000 deductible.

- One September 30, 2001 – Water damage from a dishwasher pipe damaged several rooms in a unit on Halsey Way causing \$2,274.26 in damages. No claim would have been filed with a \$5,000 deductible.
- On August 2, 2002 - A Roof leak on Fillmore Road caused \$1,150 in damage to this unit. No claim would have been filed through the Master Policy with a \$5,000 deductible.
- February 20, 2003 – Water damage from a Water Heater caused significant damage to two units on Griswold Drive. This claim has not yet been settled, but is in the approximate range of \$9,900. So far, it appears that one unit has approximately \$6,659 in damages while the other has approximately \$3,200. With a \$5,000 per unit per occurrence deductible, one unit would need to file through their homeowner policy and the other could file through the Master Policy but the Company would pay out only \$1,659.

Ten claims have been filed in the past 2 ½ years totaling approximately \$43,000. This loss ratio adversely affects our premiums, but more importantly, our ability to obtain coverage in the future. With a \$5,000 per unit deductible, we would have filed only 3 claims in the past 2 ½ years, and the insurance companies would have paid out approximately \$4,850 (only 11% of what was actually paid).

We will be looking to pass an amendment to allow the board the option to raise the deductible and we need unit owner's support. If you educate yourself on this matter, you will see the need for this. You should also remember that your Board of Trustees are also unit owners within your development. They will be subject to the same coverage (or lack of coverage) as all owners and they strongly recommend an amendment. Our Insurance Agents have been asking for this for years and we now fear we are coming to the point of becoming uninsurable. **We are also now required to install drainage pans under the water heaters when they are being replaced.**

Please give the enclosed information careful consideration. We urge you to check with your individual homeowner's agent to get cost comparisons. If we are unable to obtain coverage in the future, not only will it affect your own personal insurance costs, but it will have adverse affects on your resale value as well. You will probably find that you either A). Have too much coverage, or B). You do not need to change your coverage to "dovetail" with the Master Policy if the deductible is raised to \$5,000. Most standard HO6 policies come with \$5,000 in dwelling coverage.

If you have any questions or concerns, please feel free to call me directly at (781)932-9229.