

# Unit Owners: Setting The Building Limit

---

*By Phyllis Van Wyhe, CPCU, CIC, CSP*  
*www.insurancecece.com*

The condominium is a unique form of ownership that creates challenges for agents writing insurance to cover it. With a condominium, the individual owns the unit; the association owns the building in which the unit is found. The association buys building coverage; and, the insurance policy written to cover the unit owner includes it also.

The building coverage of the association will cover the building itself and all the common areas. But, who is responsible for insuring those building items inside the unit? One must look to the documents of the association – the declarations and bylaws – to determine the insurance responsibilities. These documents will tell which building items are to be insured under the association policy and which are the responsibility of the unit owner.

The documents of some associations were written by very good attorneys who understand the unique challenges created by this unusual form of property ownership. Other condominium documents were written by a truck driver in Des Moines and are difficult to decipher. In addition, there is no standard wording for the insurance specifications in these documents. As a result, you will find significant variations. The following are some of the more common types of provisions.

- **Bare Walls**  
The association insures the building up to the interior bare walls of the unit. It is the unit owner's responsibility to insure any building items inside the unit. This would include all interior walls, wall coverings, light fixtures, plumbing fixtures, kitchen cabinetry, etc.
- **Single Entity Concept**  
The association insures the building, including any building items within the unit. The unit owner has little need for building coverage and the \$1000 usually provided automatically under the unit owner's policy is probably adequate.
- **Original Specifications**  
The association insures those building items that were in the unit on the date the unit was first sold. If the carpeting is original, the association insures it. When the original carpeting is replaced, it becomes the responsibility of the unit owner to insure it from that day forward.

These are only three of the possible types of insurance specifications to be found in the condominium association documents; there are many more variations. Some even require the unit owner to insure the windows that are in the unit.

## SETTING LIMITS

When writing a unit owner's policy, a limit must be set to cover those building items that are the responsibility of the unit owner to insure. Setting the correct building limits for the unit owner policy is a three-step process:

1. **Determine Responsibility**

Review the condominium documents and determine which building items, within the unit, are the responsibility of the association to insure. Which are the responsibility of the unit owner?

2. **Make a List**

Make an itemized list of all the building items that are the responsibility of the unit owner to insure.

3. **Place a Value on Each Item**

Determine the replacement cost of each of these items by talking to contractors who would be available to provide the replacement.

These are the steps that are required to adequately determine the amount of building coverage that should be included on the unit owner's policy. Many people will not go through the work required to do this. After they have completed the first step, they simply estimate the value. In this case, the estimate should be generous; construction projects always end up costing more than originally anticipated.

### **THE RESPONSIBILITY:**

Determining the building limit on the unit owner's policy is not an easy project. The insured has little knowledge or experience in the area and usually looks to the insurance agent to make the determination. Unfortunately, the agent has not been trained to do it either; and, the underwriter is not a good resource.

Setting a building limit that will be adequate to replace the structure is always the responsibility of the insured. Those agents who do not understand that and accept the responsibility themselves are creating a significant additional E&O exposure. An agent should not be asking "How do I set this limit?" The question to ask is "How do I explain this issue to the insured so he/she can choose an adequate limit?"