



The Importance of Insurance Appraisals for Associations

By Associated Property Management

With the rapid rise in property values, associations are potentially putting themselves in danger if they have not had a recent Insurance Appraisal for their structures. Though an association is run by volunteers, the Board is still required to use good business judgment when covering the association's structures with proper insurance and accurate amounts.

Currently, these structures may be underinsured and the current replacement amounts could be inaccurate and if this is the case, this may be placing the Board of Directors in a precarious position. If the current replacement amount stated in the policy was inadequate and there was a loss that was not covered, the Board could be held liable for not having the proper insurance. Conversely, if the structures are over-insured, the association is wasting money by paying extra insurance premiums.

In order to avoid such problems, the Board of Directors can have an Insurance Appraisal performed at a nominal cost that will provide the Board and their insurance agent with guidelines for securing adequate and proper insurance coverage. In addition, the insurance underwriters are able to provide accurate costs when having this type of documentation. The appraisal determines the replacement cost as of a certain date (the date of the report when it is prepared) of all association structures and amenities that are required to be covered by the association documents, state laws and by good business judgment by the Board of Directors. In this manner, the Board is using sound business decision making to provide adequate coverage for the association and minimizing any potential risk and liability.

One way for an association to avoid any of this is to secure Guaranteed Replacement Cost coverage. This type of coverage pays whatever is needed to rebuild the structure(s). This covers the association in times of rapid inflation or in times of material shortages that drive up prices. We saw this happen when we had the hurricanes a few years ago. Suppliers took advantage of the situation as materials were limited and as a result, prices went up.

In the future, if your association added any new structures, these improvements need to have new values set and added to the existing insurance policy. We also suggest that the policy protect the association for any building code changes that will add to the cost of reconstruction.

In addition, if possible and without too many exclusions the Board should consider securing Mold Coverage for their buildings. The insurance industry has made this coverage difficult to get but there are still some carriers offering this type of policy.

Overall, an appraisal will guide the association in securing the right amount of insurance. We all hear about rising values of our homes but the property value usually does not equal the replacement cost. To be properly informed and protected, it makes great sense to have an appraisal on your association buildings and improvements.

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