VGHOA Insurance and Risk Management

Background
With the Board's recent review of the Covenants, it's clear we need to revise our thinking on the joint topics of HOA insurance and risk management. Here are some of the reasons why:

1. Article XI of the Covenants has contradictory language.

    Section 4, Rebuilding and Repair, paragraph 2: … If the proceeds received from the insurer by the Association are insufficient, it shall be the duty of the Owners to share with the Association any deficiency required to accomplish the rebuilding or repair.

    Section 12, Insurance Obtained by Owners: …Each Owner shall be liable for up to $10,000 as defined in Article XI, Insurance, Section 4, Rebuilding.

    Section 8, Claims, clause (a): The Association shall pay or absorb the deductible for any work, repairs, or reconstruction for damage incurred to areas for which the Association has a maintenance responsibility…

2. The nature of insurance coverage and deductible carve-outs has changed within the past several years.
    - 2.1. Years ago, there was a single deductible amount for any peril. Now there are exclusions for certain perils, such as hail, which have higher deductibles.
    - 2.2. Years ago, loss assessment coverage was not discussed as part of a homeowner's policy. Now it's either included or highly recommended for homeowners within an HOA.

3. The Insurance Reserve Fund was set up at a time when there was a single deductible amount for the entire policy.

HOA Risk Management Recommendations
1. Revise the Covenants to make any remaining amounts to rebuild and/or repair following a loss and after HOA insurance adjudication, the responsibility of the Owner(s). This appears to be the original intention of the Covenants prior to the formation of the Insurance Reserve Fund.
2. Merge the Insurance Reserve Fund into the Replacement Reserve Fund and eliminate the concept of an Insurance Reserve.
3. Impress upon homeowners the potential liability from possible perils and continue steering them to get Loss Assessment coverage up to a certain dollar amount determined upon each insurance policy renewal.

Loss Assessment Recommendation for Homeowners
Dale asked each of us verify the following text with our insurance agent or insurance company. Here is the text Dale posted on the website:

Loss assessment and HOA insurance deductibles (1-29-21)
The HOA Board recommends that you have loss assessment coverage in your homeowner's policy. For most or all of us, this policy is actually for condominium

units (often called an HO6 policy). Loss assessment may be automatically part of the policy. If so, its default coverage often is $10,000. We recommend that you raise coverage to at least $30,000 “per occurrence.”

It is important that you discuss loss assessment with your insurance agent and/or, if appropriate, someone more knowledgeable working for your insurance carrier. Verify that your policy will protect you when our HOA makes charges to you as explained below. The policy language differs from one insurer to another, and it is your responsibility to verify that you will be protected when damage occurs. When you have these discussions, include the language of our HOA covenants on insurance (Article XI, pages 13-16, of the last version of the covenants, April 12, 2017).

....

The reason for recommending at least $30,000 is to protect you from charges that come about because of the deductibles in our HOA property insurance policy. Our HOA Covenants state that you, as an individual owner, will be charged for repair costs up to the entire deductible amount on any insurable damage that occurs to your unit.

The most expensive deductible occurs with hail or wind damage. HOA insurers in recent years have gone to a formula for the deductible on hail/damage that is based on the replacement value of the building that suffers the damage. All carriers who gave us quotes this year (and last year) calculate the deductible at 5% of the building replacement value. Because our buildings (the duplexes) are currently assessed at $470,000 to $540,000 replacement value each, the damage, even if confined to your unit of the duplex, must exceed 5% of that value (up to $27,000 this year) before the insurance pays anything.

The upshot is that the deductible in our HOA insurance for wind/hail damage is up to $27,000 per occurrence per building. For “all other perils” (for example, fire or lightning), the deductible is $10,000. That was true last year and remains the case this year.

Scenarios of how loss-assessment protection might work:

Suppose the replacement value of your particular duplex is $540,000.

Scenario 1: A hail storm badly damages the roofs of both units of the duplex and both roofs must be replaced entirely. The HOA would charge you and the other owner the entire costs of the repairs, which let us suppose is $6,000 for your unit.

Scenario 2: A tornado almost completely destroys your unit and the other unit of the duplex. You and the owner of the other unit would each be charged $13,500 (together paying the $27,000 deductible). The HOA’s insurance and your homeowner’s insurance would share the remainder of the repair costs. Scenario 3: Your unit is severely damaged in a wind event and the other unit of the duplex is not. The damage to your unit amounts to $25,000. You will be responsible for the entire $25,000 repair because the cost of the repair is less than the HOA master policy deductible ($27,000) and no claim will be made. Your costs in these scenarios: If you have adequate loss assessment coverage, your homeowner insurance company would pay, on your behalf, the charges assessed to you by the HOA, and you would pay nothing out of pocket. If you do not have this coverage, you would pay the HOA from your own bank account $6,000 in case 1,$13,500 in case 2, and $25,000 in case 3.

Other comments about loss assessment coverage:

The term “loss assessment” is not the same as “special assessment.” (Technically, it is one type of special assessment.) The HOA might charge all unit owners a “special assessment” for maintenance purposes, if we were unexpectedly confronted with an urgent need for maintenance that overwhelmed the current funds. Such an assessment would not be covered by loss assessment coverage, because loss assessments apply only to actual physical loss due an event caused by an insurable “peril” such as wind, hail, fire, lightning, etc.

In the foregoing, the protection from loss assessment coverage dealt with assessments due to damage to your unit. However, loss assessment coverage also protects from assessments due to damage to common areas such as our road and the shared landscape property.

Please refer to your homeowner’s policy and your insurance agent for exactly what your insurance covers.