Why Do Condominiums Need a Flood Insurance Appraisal?

by John R. Frazier

Insurance appraisals are the basis upon which community associations' insurance policies are issued. The insurance appraisal establishes the amount of property insurance needed to provide adequate insurance coverage. Under-insured association property will result in less than adequate insurance proceeds when a loss occurs. Over-insured association property means paying too much for insurance coverage.

It is critical for the association to maintain adequate insurance coverage amounts on community property. To do this, the board of directors must identify the association's liability exposures, the policy coverages and exclusions, and the amount of property insurance needed in order to properly insure the association.

Understanding the need for an insurance policy on community property means one must recognize the value of the property to be insured. There are two basic types of property insurance for condominium associations: the property hazard insurance policy and the property flood insurance policy. For the purposes of this article, we will discuss only the flood insurance policy and appraisal.

Almost all locations are subject to some kind of flooding depending upon the circumstances and the acts of Mother Nature. Some locations are more likely to flood based upon the federally designated flood zones established by the National Flood Insurance Program and FEMA. The most likely areas to flood are areas designated as flood hazard zones. These zones are indicated on the federal flood maps. Even in locations where flooding is not thought to be a hazard, local flooding from heavy rain is very possible.

Purchasing flood insurance is a wise decision no matter what flood zone the property is located in. For condominiums, the National Flood Insurance Program has a special program. The policy is referred to as The Residential Condominium Building Flood Insurance Policy.

This special condominium flood policy is sold to the association and its unit owners and includes much more coverage than the typical association hazard insurance policy. As a federal program, this flood policy does not follow any state insurance statutes for condominiums or any known condominium association documents. Therefore, it will be necessary to establish the proper amount of insurance needed to cover the insurable property as included in the flood insurance policy.

The Residential Condominium Building Flood Insurance Policy covers almost all property and components that are included in a standard hazard association policy plus a lot more. This is due mainly to coverage provided for the interior of the individual condominium units plus coverage for the building foundations.

Typically, Residential Condominium Building Flood Insurance Policy covers the condominium unit interior floor coverings, kitchen cabinetry, built-in kitchen

appliances, carpeting, bathroom cabinetry, bathroom fixtures, clothes washers and dryers, wall coverings, electrical fixtures, air conditioning equipment and duct work, water filtration systems, hot water heaters, window treatments, and built-in cabinetry.

Since the flood insurance policy contains a much broader coverage for condominiums, it is important to include the additional items and components replacement cost value in the amount of coverage purchased. Therefore, the flood insurance appraisal must include the covered portions of the individual condominium unit interiors as included under the flood insurance policy. If the coverage amount does not include the cost of the additional coverage for the unit owners' interiors and foundations, the association will be purchasing inadequate insurance.

When the association board of directors understands the difference in coverages between the standard association hazard insurance policy and the federal flood insurance policy, then they will discover the need for a flood insurance appraisal. Sometimes, it is difficult to accept that the flood insurance policy covers the unit owners' interiors, but everyone needs to recognize that Residential Condominium Building Flood Insurance Policy insures both the association common property and the interior of unit owners' individual condominiums.

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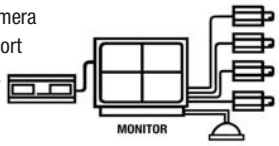

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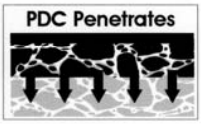

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