Insurance Ballot Questions

One of your fellow homeowners, Kathy Witt, asked some constructive questions that show the differences in the offerings:

A few notes:

- The association's insurance covers the sheetrock outward (the shell) and the individual owner's insurance covers the finished surface inward, including all utilities and interior walls. The amount that you've insured your interior for will determine if the interior gets rebuilt.
- I cant imagine what peril other than fire, earthquake or flood would take down a major part or an entire building. So it would seem that full coverage for perils other than fire is less interesting.
- Note that the parametric policies distinguish coverage for a wildfire from any other fire.
- We do not have earthquake coverage.

1. It looks like 10M and 20 Layered options are providing the same coverage as Full + 10M Parametric. Yet the increase in cost is notable.

Not quite the same. The Full + 10M Parametric is full coverage for all perils except wildfire, where it is limited. The 10M and 20M options are limited for all perils to 10M or 20M.

2. What insurance company will provide the DIC in the CFP+DIC option.

We don't know the insurance companies involved.

3. The choices will be more clear if I give you scenarios and ask you to respond.
I live in the connected #148 to #155 units. Let's say that one of the units has a fire. What will need to be covered for that unit and what choice is the best for that scenario?

Up to the cash value of the individual buildings (the CFP limit), all the policies are the same. So damage to a single unit would likely be paid the same on all options.

Now let's say that unit's fire spread to the rest of our units (from #148 to #155). What will need to be covered for that group of units and what choice is the best for that scenario?

In this scenario, the CFP option would only pay about 60% of the rebuilding cost for the shell. Since no single building shell is probably more than $5M to rebuild, all the other options are the same and would pay the cost to rebuild the shell.

Now let's say that the whole area of CWs from #108 to #155 has fire, What will need to be covered for that group of units and what choice is the best for that scenario?

Here is where the differences show up.

That group of buildings is almost exactly 1/3 of the square footage of the units. It would then be about $16.6M to rebuild (assuming $50M replacement cost, so $50M/3).

CFP: I don't know the estimated cash value of that group of buildings, but if CFP would pay about 60% of the rebuild cost, then the payout would be about $10M. If this was not a fire but some other peril under the DIC policy with the same damage (don't know what that could be!), then the DIC policy would pay for the full rebuild.

Full + 5M or 10M parametric: These would be maxed out at their $5M or $10M if it were a wildfire. If it were some other origin for the fire or some other peril, then they would pay the full rebuild.

10M and 20M: The 10M would max out at 10M and the 20M would cover the full rebuild. These amounts apply to any peril, wildfire or other fire origin, or other peril.

Homeowner policies with a building in an HOA usually have an option for a Loss Assessment Rider. I've recommended that each owner have this before. This usually pays for an assessment levied by the HOA to rebuild after a loss. If every homeowner had $50K coverage (mine is maxed at $60.6K) then that would essentially add $5.9M ($50K * 118) to insurance coverage, i.e., a $50K/owner assessment would be paid by the individual homeowner's insurance for (likely) any peril, if the association decides to assess to rebuild. So CFP and the $10M options with everyone having $50K in Loss Assessment Riders would almost cover the rebuild costs. Not everyone has or can get that or that much coverage, so for those that don't have it, an assessment would be painful.

Given all of these scenarios, will the Board have to consider not rebuilding? And if so, do homeowners have any ability to sell the property that our units sit on? Or is there any monetary reimbursement for this scenario?

The CC&Rs have a full section on the process to decide to rebuild or not in the event of massive damage. I'd have to look it up, but it involves a homeowner vote. If it all burns down due to a wildfire and the owner decide not to rebuild, for each policy limit we'd each get about:

$5M limit, $42K
$10M, limit $83K
$20M, limit $167K
$30M, limit $250K

plus each owner's individual insurance, plus the land value (if the HOA sells it).

There are many concerns, but from the above questions there several considerations:
- can I afford to pay an assessment to rebuild if part of the development burns down?
- can I afford to pay an assessment to rebuild if all of the development burns down?
- can I pay off my loan with the insurance payouts if it all burns down and the association does not rebuild?
- what is the best way for me to manage the risk of a large loss this fire season, until we make new insurance choices next year?