



MASTER POLICY V. PERSONAL INSURANCE

Individuals who live in a community association may assume they and their possessions are covered against loss by the association's master policy. Usually, this is not the case. A community association must provide insurance coverage against typical hazards and perils that might affect an individual owner of a residence, but this coverage does not usually extend to unit owner's improvements and betterments, personal property, or personal liability.

What liability coverage does the master policy provide for owners?

The master policy is designed to protect owners against liability claims arising out of membership in the association. For example, if someone injures himself or herself in a common area, subject to the terms of the policy, the master insurance coverage would respond to indemnify and defend all owners against a claim. However, if anybody slips and falls or otherwise sustains bodily injury within an individual unit, the master policy will most likely not apply. Should a resident inadvertently leave the water running in his kitchen sink, allowing water to overflow, the master policy will not protect him against the claim from the resident in the unit below for damage to his personal property or the expensive wallpaper he installed.

What kinds of property insurance are available?

Community association property insurance is written under at least three concepts: "bare walls," "single entity," and "all in." It is up to the board of directors of a community association, with the assistance of a qualified insurance advisor, to purchase insurance that conforms and complies with all recorded association documents and statutory insurance requirements.

The most limited form of master policy insurance is called "bare walls" coverage. This means that general and limited common areas are covered—up to the bare perimeter walls, floor, and ceiling of individual units. What is not covered are all items within the interior of these walls, which include fixtures, appliances, interior partitions, wall coverings, floor coverings, cabinetry, and in multi-story units, even the floors, stairs, and ceilings between the lowest floor and highest ceiling.



The most common type of master property insurance purchased by community associations is "single entity" coverage, which like bare walls coverage, insures the general and limited common elements. However, this coverage also extends within individual units to fixtures, appliances, walls, floor coverings, and cabinetry, but only for like, kind, and quality to that conveyed by the developer to the original owner.

Regardless of the kind of policy a community association has, owners and tenants should purchase a personal policy to fully protect their interests.

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In other words, building coverage under the master policy in this type of policy is limited to the original plans and specifications. Any individual unit improvements made subsequent to the original conveyance, such as building a wall to divide a room, or upgrading carpeting or other floor coverings, wall treatments, appliances, cabinetry, etc., are not covered by the master policy. These improvements are the responsibility of the unit owner to insure.

A less common type of coverage is called "all in" because it not only provides for general and limited common areas and individual units, it also covers additions, alterations, improvements, and betterments made at the unit owner's expense.

Does the master policy cover anything else?

In addition to protecting the physical property of the community association, master policy coverage protects associations against sometimes arbitrary charges of negligence. Such allegations of negligence can result in claims for bodily injury, property damage, personal injury, or advertising injury. Bodily injury claims might be made by individuals who slip and fall on association property or who are the victims of crime.

Who should pay the deductible?

It is important for the community association to determine who is responsible for paying the deductible. For instance, if a fire starts in a unit, who pays: the association or the property owner? The question of who pays the deductible can be answered in at least five ways:

- 1) The property owner who suffers the damage incurs the cost of the master policy deductible.
- 2) If a negligent party causes the damage, the negligent party incurs the deductible cost.

- 4) The association will make a special assessment for all master policy deductible claims on an annual basis.
- 5) The owner of the unit from which the cause of loss originates pays the deductible.

If the cause of loss originates from the common elements, the association pays the deductible.

It is important to note that responsibility for the master policy deductible might be dictated by the association's bylaws or state statute in some cases.

What should residents do to protect themselves?

Residents must be aware of the type of coverage in effect through their community association. Regardless of the kind of policy a community association has, owners and tenants should purchase a personal policy to fully protect their interests.

Resident owners should consider purchasing an individual Community Association Unit Owners policy (HO-6). This policy

can provide coverage for personal property, unit improvements, betterments, additions and alterations, additional living expenses, personal liability, loss assessments, and

CRITICAL INFORMATION FOR RESIDENTS

- Determine what type of master policy your community association coverage policy is ("bare walls," "single entity," or "all in").
- Share this information with your insurance advisor to determine the most appropriate coverage and limits you should purchase.
- Keep community association documents in a safe location and pass along amendments and endorsements to the master policy to your agent to maintain adequate protection.

- 3) If the association must pay the deductible, it may be paid out of the operating account or an operating reserve account if the association has one set up.



damages less than the master policy deductible. Non-resident owners may not need coverage for personal property or additional living expenses; however, they do have all of the other insurable exposures of a resident owner. Additionally, non-resident owners can be insured for loss of rental income. Renters should purchase a Tenants Homeowner (HO-4) policy to provide coverage for personal property, additional living expenses, and personal liability.

Coverage can be arranged under some HO-6 policies to pay for damages to a unit over the personal policy deductible, usually \$500, up to the master policy deductible. This type of coverage is generally referred to as "building" or "dwelling" coverage under a personal homeowner's policy. Unit owners should check with their HO-6 policy agent or the insurance company to determine if they have appropriate "building" or "dwelling" insurance to cover damage to their unit up to the master policy deductible.

The master policy will not cover personal property, such as clothing and

furniture within individual units, nor will it provide coverage for personal liability or additional living expenses.

Homeowners must be aware of the type of coverage in effect through the association. They need to understand that deductibles have increased, which could result in a significant out-of-pocket expense without the appropriate personal insurance protection.

A law in Maryland makes it easier for community associations to pass a requirement for all owners to maintain condominium unit owner insurance (HO-6 policy) on their units. It also authorizes the bylaws of a condominium to require each unit owner to maintain a condominium owner insurance policy on the unit,

and it requires specified bylaws to require each unit owner to provide evidence of specified insurance coverage to the council of unit owners annually. DC is considering similar legislation this year.

Where should I go for more information?

Although many agents, brokers, and companies offer master insurance policy coverage, only a few specialize in the complex area of community association insurance.

If you have any questions or need further information, please contact Steve Dickerson (703-205-8788 or Steve.Dickerson@usi.biz) or Theresa Melson (703-205-8753 or Theresa.Melson@usi.biz).

TYPICAL HO-6 PLAN WITH APPROXIMATE COVERAGES/COST*

Coverage available in DC, MD, and VA

Building or Dwelling	\$10,000
Personal Property Coverage (With Replacement Cost).....	\$30,000
Additional Living Expenses.....	\$12,000
Personal Liability.....	\$500,000
Medical Payments to Others (Individual Limit).....	\$5,000
Loss Assessment	\$10,000
Deductible	\$500
Estimated Annual Premium	\$350

- * Higher limits are available; coverages and premium subject to change.
- * Water back-up, personal injury protection, and ID fraud coverage are all recommended, where available.
- * If you are interested in obtaining information or a quote on personal homeowners insurance, please contact Jill Vaz at 703-205-8774 or Jill.Vaz@usi.biz.

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USI Insurance Services LLC • 3190 Fairview Park Drive • Suite 400 • Falls Church, VA 22042
703-698-0788 • 610-362-8377 (fax) • www.usicondo.com



"Ask the Expert" is a regular column in *Insurance Focus*, featuring an interview with an expert about an important insurance issue facing community associations. This month our expert is Allen Warren, an attorney and shareholder in the law firm of Chadwick, Washington, Moriarty, Elmore & Bunn, P.C. He practices community association law in the firm's Fairfax, Virginia office. He joined the firm in July 2000, has been practicing law since 1995, and is admitted to practice in Virginia and the District of Columbia. His firm's website is www.chadwickwashington.com.

Q: When damage of a type covered by the condominium's master insurance policy occurs in a unit, who should be responsible for paying the amount of the master policy deductible?

A: In short, who "should" pay is usually the person or persons who most directly benefit from the insurance proceeds or who caused the damage to occur. In practice, though, the answer is not always that clear. Condominium associations and unit owners often have difficulty determining, or accepting, responsibility for the deductible. The answer can depend on state law (at least in some states), the condominium bylaws, and the circumstances that gave rise to the casualty event.

It is important, therefore, for condominium managers and board members to know whether or how the bylaws or state law address deductibles and to then educate the unit owner. This will help reduce disputes when a casualty loss occurs and enable owners to make a more informed decision over the sufficiency of their own insurance coverage.

Associations and owners can benefit from having clearly written laws or bylaw provisions that address responsibility for deductibles in a manner that eliminates or reduces the often subjective nature of determining responsibility in a given case. For instance, some bylaws and state laws

follow this approach by placing responsibility on the owner of the unit from where the damage originated, regardless of whether that owner was negligent in causing the damage. This provides a bright-line rule, helping avoid disputes over whether there is sufficient evidence of a unit owner's negligence.

In addition, there is an element of fairness in this approach, given that the deductible falls on the shoulders of the owner most responsible for the damage (or who directly benefits from having the damages insured), rather than falling on the shoulders of all unit owners.

Sometimes, though, statutes or bylaw provisions do not specifically address deductibles. In these cases, even if the deductible is paid from the association's funds, there may be bylaw provisions that give the association authority to specially assess the deductible against the owner whose unit was repaired or whose act or carelessness caused the damage. If a unit owner leaves a candle burning that starts a fire in the unit, it certainly makes sense for that owner to be held responsible for the deductible.

Bottom line—know how your condominium handles deductibles so you can be prepared (and preferably insured) for what may come.

USI Insurance Services LLC • 3190 Fairview Park Drive • Suite 400 • Falls Church, VA 22042
703-698-0788 • 610-362-8377 (fax) • www.usicondo.com
Editor: Shannon R. GaNun

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