



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.

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



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.



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.
- 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.
- 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 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.

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.



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.

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 by lowering the

majority of owners to pass the measure to 51%. 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.

In 2015, the District of Columbia adopted a law that states the following: "Each unit owner shall, to the extent reasonably available, purchase condominium owner's insurance coverage with dwelling (whether residential or commercial) property coverage at a minimum of \$10,000 and condominium owner personal liability insurance coverage at a minimum of \$300,000; provided,

that the executive board may increase the minimum amounts required under this subsection at a meeting properly noticed under this act."

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 one of the following:

- Theresa Melson (703-205-8753 or Theresa.Melson@usi.com)
- Jessica Knutsen (703-205-8722 or Jessica.Knutsen@usi.com).

TYPICAL HO-6 PLAN WITH APPROXIMATE COVERAGES/COST*

Coverage available in DC, MD, and VA

Building or Dwelling	\$25,000
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.



ASK THE EXPERT

“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 Lucia Anna “Pia” Trigiani, a principal in the law firm MercerTrigiani, located in Alexandria, VA. Ms. Trigiani is one of Virginia’s leading authorities on common interest ownership community associations. She was president of the Washington Metropolitan Chapter of Community Associations Institute in 2000. She was appointed by the Governor of Virginia to serve on the Common Interest Community Board in 2008; she was reappointed in 2011 and again in 2015. She has served as chair of the Board since 2008. She can be reached at 703-837-5008 or Pia.Trigiani@MercerTrigiani.com.

Q: When damage of a type covered by the master insurance policy occurs to a unit, but would be payable under the master policy, who should pay the deductible?

A: Although the question of who is responsible to pay the deductible is a frequent question for community associations, more recently the question has taken on new significance. With a challenging insurance market and the decision of association boards of directors to increase the deductible in order to hold down insurance costs, questions about responsibility for the deductible remain a hot topic.

As we very often do when looking for the answer to a question for a community association, we must first ask, “What do the documents say?” Although some states have enacted legislation to limit the amount that an owner might pay or to make an owner liable for the entire amount of any deductible, legislation is not the best or first place to look for the answer. The answer is most often found in the recorded governing documents for the community—for condominiums, we look to the association bylaws.

Typical language found in the bylaws of condominium unit owners associations (where insurance coverage questions most often arise) provides that the association is responsible for the deductible except where the damage was caused by the negligence or willful misconduct of the owner or resident. Some documents have the added requirement that the board make a determination that the damage resulted from owner negligence and for that reason, the

owner should be held responsible for the deductible. Other documents place responsibility for the deductible on the owner of the unit which is the source of the condition causing damage—without regard to owner negligence.

If the documents address responsibility for the insurance deductible, the board may find it helpful to adopt a resolution based on the document authority in order to allocate clear responsibility for the deductible. Such resolutions are helpful guidance to management and inform unit owners in advance of a damage causing incident that the unit owner may be expected to pay for damages not covered under the master policy. If the law and the community association documents do not address responsibility for the insurance deductible and the issue of paying the deductible is a recurring issue, the association may wish to consider amending the community association documents to address allocation of responsibility. A resolution without the foundation of authority in the recorded documents, however, will not be sufficient to shift responsibility in most instances.

In all cases, the issue of who pays the deductible can be minimized by encouraging unit owners to purchase individual coverage in amounts sufficient to cover the deductible. Unit owners and residents should be reminded periodically of the limitations of the master policy coverage—particularly when there is a change in the coverage to allow owners and residents the opportunity to fill the gap between personal responsibility and what may be covered by the master insurance policy.

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