Community Associations Monthly Newsletter

NEWS OF VALUE

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 com-munity 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.

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, but 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.

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.

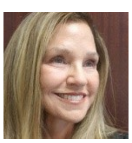
Homeowners must be aware of the type of coverage in effect through the association. They need to understand that deductibles have increased, which could result in a significant out-of-pocket expense without the appropriate personal insurance protection.

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:



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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.