



# V N E W S O F V A L U E

---

## DEDUCTIBLE INCREASES: HOW TO PROTECT UNIT OWNERS

In the months since the terrorist attacks on America September 11, the insurance market has been undergoing unprecedented changes. Although the ultimate impact of these attacks is unsure, one thing is certain: Community associations will be paying higher premiums, and the deductibles on their master policies will likely increase. Since individual unit owners are often responsible for paying the deductible on the master policy, they should be informed of the potential increases and of ways to cover themselves should they become responsible for paying a deductible.

### Why should unit owners be concerned about master policy deductibles?

In many community associations, individual unit owners are responsible for paying entirely or a portion of the master policy deductible. Although a \$1,000 deductible has been the industry standard for several years, many community associations can expect to see higher deductibles of \$2,500; \$5,000; \$10,000 or even more in the immediate future.

### Who should pay the deductible?

It is important for community associations 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) The association pays the deductible out of common funds. 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.

In many cases, responsibility for the master policy deductible is defined within an association's bylaws and/or is mandated by statute. Every community association should have a clear written policy concerning responsibility for payment of the deductible and should inform residents accordingly. Legal counsel should be consulted to develop such a policy.

### 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. Many of these policies offer "building or dwelling coverage" that can cover the master policy deductible. Every reasonable effort should be made to advise unit owners of any responsibility they might have for the master policy deductible and encourage them to purchase the appropriate personal insurance coverage.

Be aware, however, that in the past year, some insurance companies homeowners' (HO-6) policies have changed so that the master policy deductible is not covered. That means should a unit owner be responsible for paying a master policy deductible, he will have to pay the full amount out of pocket. Unit owners should check with their HO-6 agent or the company to determine if the deductible is covered.

### Questions or concerns?

If you have any questions or need further information, please contact Steve Dickerson (703-739-2346 or [sdickerson@usisoutheast.com](mailto:sdickerson@usisoutheast.com)) or Doug Thompson (703-739-2341 or [dthompson@usisoutheast.com](mailto:dthompson@usisoutheast.com)).

December 2001

