

What You Won't Know





Your Association Carries Master Policy
Coverage, But Are You Covered?

Can Hurt You

By Robin Manougian

I received the call from the community manager about 4 p.m. on a Sunday in January: A fire, and apparently a bad one. Six units were ablaze, and the fire chief had yet to determine the cause. I got in my car and drove to the scene. By the time I arrived, the fire had been extinguished and the worst was over. Or was it?

I stood outside the charred building with the community manager, a representative from the restoration company, and members of the fire department, including the chief who explained in great detail the extent of the damage. Along with us were a mix of some of the condominium's unit owners and renters, those affected, and concerned neighbors who'd come to lend support, and in some cases, clothing and shoes.

As time passed, and the manager introduced me as the insurance agent, a number of the residents asked the question that as an insurance agent you never want to hear: "Where do I go now?" And with that, it became painfully clear that most of the owners and renters didn't have their own insurance. Several admitted they didn't know they needed to carry it—in fact, most were under the impression that the community's insurance policies would pay for them to live somewhere else until their homes were rebuilt. The Red Cross arrived later, but the damage to this building would take three months to repair. Where would these people go after the first few nights?

Sad But True

The sad fact is, these owners and renters (especially renters) represent the norm. Owners and renters alike either fail to purchase homeowners or renters insurance to protect themselves citing reasons such as cost, or "I didn't think it would happen to me," or like the people I spoke to, are under the mistaken belief that the condominium's master policy will extend to insure them individually.

If as an insurance agent I could go door to door preaching one thing and one thing only, it would be to purchase homeowners or renters insurance. You may never need it, but you don't want to find out you should've had it the hard way, though many do just that. A survey by the Independent Insurance Agents and Brokers of America (IIABA) indicates that nearly two-thirds of those living in U.S. rental properties currently are risking severe financial loss by going without renters insurance. Further, a national consumer telephone survey asked 1,000 people living in rental properties whether they had renters insurance, and the results were staggering: 64.4 percent said "no" and 2.2 percent responded that they "didn't know." And while condominium associations obviously have a greater ratio of owners to renters, owning a condominium or cooperative unit doesn't seem to change the belief that following a loss someone other than the unit owner is responsible for replacing personal assets that have taken years of hard work to accumulate, as well as paying for them to stay somewhere else until their units are repaired. →



What's Covered?

The plain truth is that an association's master policy is designed to cover the building structure(s) and common areas, and depending on how the policy is written, floor coverings, fixtures, cabinets, and appliances (most policies today are written on a single-entity basis, which means that the policy will cover everything deeded to a unit as it was originally conveyed by the developer). The master policy will not, nor was it ever intended to, protect an owner's or renter's personal property, his or her liability within the unit, or any improvements he or she might make to the unit or that previous owners may have made (unless the policy is written on an all-in basis).

The master policy also won't pay for a displaced owner or renter to live somewhere else during the period of restoration following a loss. Properly written HO-6 policies (for condominium and cooperative owners) and HO-4 policies (for renters) can have additional living expense coverage included that allows for the insured to live elsewhere while his or her home is being rebuilt following a covered loss. Homeowners insurance for single-family owners, too, can provide this same, important coverage.

In addition, a well-written HO-6 policy includes loss assessment protection, which allows for coverage should the owner be assessed for certain kinds of loss. Owners can be assessed, for example, when major damage occurs to the building(s) or when a high liability claim takes place that isn't fully covered by insurance. Loss assessment coverage would pay the owner's share, up to the amount stated on the policy.

Homeowners policies also provide liability coverage for incidents that take place inside the unit for which you can be held re-

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THE PROPER INSURANCE AS
MANDATED BY STATE LAW?

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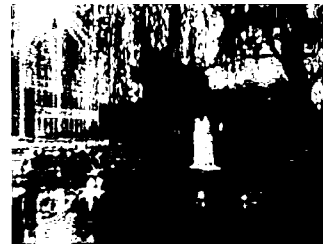
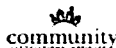
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sponsible (and these liability limits can be supplemented by personal umbrella protection). For example, if a guest were to trip and fall in your home and break an arm, you can be held personally liable for the injury. Because the association's liability policy extends only to common areas and not into the units, it's important that owners protect themselves from the possibility of liability suits that can happen in their homes (and for single family owners, on their property, as well). The liability section of your homeowner's policy pays medical expenses related to an injury to others on your property, or injury elsewhere resulting from an accident caused by you, a family member, a domestic employee, or your pet. Your agent can help you determine the best limits for you depending on your situation.

In addition, while the DC, Maryland, and Virginia Condominium Acts all require a waiver of subrogation against negligent unit owners whose actions or failure to maintain the unit result in a claim, the same is not true of renters in a condominium or cooperative association. If a renter is found to be at fault for damage, the association's master policy carrier is well within its rights to subrogate (go after/collect) against a negligent renter, and liability coverage within a renters' policy can protect renters who are found to be at fault.

Taking Stock

So how much do you really need? If disaster struck, could you list all of your personal belongings—the value of your furniture, clothing, china, silverware, televisions, stereos, sporting goods, lawn-care equipment, and so on? Before disaster happens, it's highly advisable to take inventory of everything you own. Make a list of your personal property with the price you paid, the purchase date, and the

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make and model numbers of appliances (especially if you've purchased upgrades), as well as entertainment center equipment, furniture, rugs, clothing, and other household items. Taking photographs of your belongings is also recommended and extremely helpful at the time of loss. Your inventory should be as exact as possible since the replacement of many "everyday" items can be very high. Remember to update your inventory annually, and keep the inventory in a safe place such as a fireproof or a safe-deposit box.

Things to Ask Your Agent

1. First, tell the agent whether you own or rent, and if you own, what type of dwelling you have, as there are a variety of policies to choose from, including:

- HO-3: for single family or homeowners association (not condominium) townhouse owners
- HO-4: for renters
- HO-6: for condominium and cooperative unit owners
- HO-8: for owners of older homes



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2. Tell the agent how much dwelling property coverage you want. If you live in a single family or non-condominium townhouse where you're responsible for insuring the entire dwelling, the agent can help you determine the replacement value of your home (which isn't the same as the fair market or sales value). Personal belongings and contents, again, should be inventoried for proper coverage limits.

3. Some personal property, such as furs, jewelry, coin collections, and fine art, for example, need to be scheduled separately with a replacement value determined by a professional appraisal. If you own such property, it's important to let your agent know so that these items can be properly insured.

4. If you own a condominium or a cooperative and have made improvements to your unit, or if a previous owner has made improvements, inform the agent that you will need "betterments and improvements" coverage included in your policy. Unless a master policy is written on an "all-in" basis where improvements and betterments are included, most master policies will pay to repair or replace only what the developer conveyed, and at time of loss, you will want your own policy to supplement the master policy so that your improvements are fully insured.

5. Let your agent know if you're responsible for paying a portion of the master policy's deductible. Many associations have amended their bylaws (and many new associations have included language in their original documents) making owners—where the loss originates—responsible for paying a portion of the master policy's deductible at the time of loss. It may be possible for your homeowners policy to pick up this deductible, less the homeowners' policy deductible.

6. Make sure your policy includes loss assessment coverage (described above).

7. Make sure your policy includes additional living expense coverage (described above).

Investing Wisely

Most renters and owners who choose not to purchase insurance because of what they perceive to be an unaffordable premium or a "waste of money" are surprised following an uninsured loss by how little money it would have cost to save years of accumulated possessions. Don't be one of them. The reality (and good news) is, homeowners policies are inexpensive. According to the IIABA, the average policy for \$30,000 of property or contents replacement coverage and \$100,000 of liability coverage is about \$240 a year. Premiums increase, obviously, depending on the liability limits you select and the property limits afforded, including scheduled property such as furs and jewelry.

You've worked hard for the things you own (and in many cases, you may still be paying them off). Even if you never end up using your insurance policy (and I hope you never have to), carrying homeowners insurance is worth its weight in gold.... and doesn't cost nearly as much. ☐

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