

NOW THAT WE'VE RECEIVED THIS CHECK FROM THE INSURANCE COMPANY

Who's going to be responsible for the Master Policy Deductible?

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By Tim Cline, CIRMS, Timothy Cline Insurance Agency, Inc., Santa Monica, CA

Many associations are carrying Master Policy deductibles of \$1,000, \$2,500, \$5,000 and even \$10,000 per occurrence. With these large deductibles, it's very important that a procedure be established to determine who will be responsible for the deductible in the event of a loss.

Most Board of Directors feel that the CC&Rs would provide the guidelines for determining how the deductible should be handled, but routinely CC&Rs are silent on this issue. Nearly all governing documents do address the fact that the individual unit owner is responsible for the maintenance of the interior of the unit. Using the CC&Rs as a guide, most Boards hold the owner responsible for the Master Policy's deductible for those losses that occur: (1) due to the negligence of the owner; or (2) due to the failure of a portion of the unit that is within the unit owner's "care, custody and control." (i.e. a failed water heater that furnishes his/her unit solely.)

Conversely, most Boards agree that the Association should be responsible for losses in those circumstances where the loss occurred due to the negligence of the Association or due to the failure of a Common Area element.

Does this put the unit owner in a vulnerable position? Not necessarily. Some additional protection is available for the individual unit owner should they be held responsible for the Master Policy deductible*. Some individual insurance carriers will now allow a unit owner to submit the Master Policy deductible under his/her individual unit owner policy, thus only being responsible for the smaller deductible that is carried on that policy. (*This coverage is not available from all carriers, the individual unit owner should be encouraged to contact his/her insurance agent to determine if such coverage exists.)

A procedure should also be established regarding small claims. Time and time again, we see claims being submitted that are only \$50 or \$75 above the deductible. The insurance industry refers to these as "nickel and dime" claims. Keep in mind that insurance carriers really "pay" a lot more than the dollar figure represented on the loss report. In fact, in the case of these smaller claims, the salary for the adjusters to handle the loss and the administrative costs to set the claim up may exceed the payment to the policyholder.

Submitting claims that only barely exceed the Master Policy deductible is considered irresponsible since it can quickly generate negative loss picture and it may cause more than \$50 or \$75 worth of damage when it comes to purchasing competitively priced insurance at renewal. In most cases, it may make sense for the Association to absorb those smaller claims that are only slightly above the deductible rather than have them appear on the Association's loss record.

In any event, establishing a "deductible handling procedure" and "small claims" guideline is really only the first step. It's equally important to disclose those procedures/guidelines to the individual unit owners within the association... particularly the amount of the deductible and how it is to be handled. Once the unit owner is informed, he/she can take steps to him/herself. Not only is disclosing this information helpful to the unit owner, but it make the enforcement of such a procedure much easier should a loss occur due to the negligence of the owner.

About the Author: Tim Cline, CIRMS, is President of Timothy Cline Insurance Agency, Inc. of Santa Monica. Tim is a past President of the Greater Los Angeles Chapter of Community Associations Institute, a former Chair of the CAI National Insurance and Risk Manager Professionals Networking Committee and currently on the Board of Directors of the Los Angeles Chapter of the Insurance Brokers and Agents Association of the West.

This letter contains only a general description of coverage and is not a statement of contract. For a more detailed description of the policy conditions and exclusions, please consult the policy itself.

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ABC CONDOMINIUM ASSOCIATION Proposed Deductible Handling Procedure

Responsible	Circumstances
Individual Unit Owner	If the loss occurs as a result of the negligence of the individual unit owner.
	If the loss occurs as a result of a failure of a portion of the unit that is within the unit owner’s care, custody and control (according to the governing documents.)
Condominium Association	If the loss occurs as a result of the negligence of the Association.
	If the loss occurs as a result of a failure of a portion of the project that is within the Association’s care, custody and control.