



August 2022 Newsletter

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What is a Per Unit Deductible?

Because of the rise in claim damage throughout condominium and homeowner communities, insurance companies are becoming strategic in how they structure property deductibles in order to reduce overall claim payouts and balance risk between owners. In the last few years, insurance carriers have experienced record-breaking claims damage. Many losses occurred due to human error, lack of maintenance, or faulty installation and sudden failure of a unit component. The dollar amount in claim damage, primarily caused by claims due to water damage, is rising due to increased labor and supply costs. When owners leave their units unattended for an extended time and a water leak occurs, the damage can be extensive. This also contributes to repair costs.

To reduce the risk of carriers paying thousands of dollars on these water claims, insurance carriers are structuring the deductibles based on a per unit method instead of the traditional per occurrence structure. When an Association has a per occurrence deductible, the Association's policy could be triggered for coverage when damage among all units collectively reaches the deductible threshold.

With a per unit deductible, damage to each unit needs to reach the Association's deductible threshold to trigger potential insurance coverage on the master policy. To fully understand the risk transfer to benefit the Association, let's look at two claim scenarios:

Scenario #1 – The Per Occurrence Deductible

A washing machine overflows and causes damage to three units. The damage is considered an insurable loss. The per occurrence deductible is \$25,000. Damage incurred in each unit includes:

- ♦ Unit 1 – \$18,000 in damages
- ♦ Unit 2 – \$45,000 in damages
- ♦ Unit 3 – \$21,000 in damages

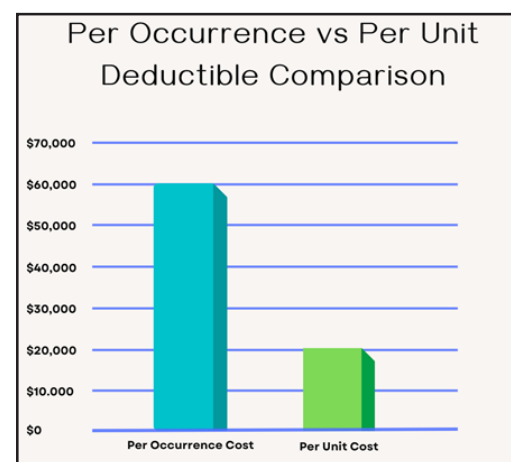
Total damages for this occurrence are \$84,000 less the per occurrence deductible of \$25,000 ($\$84k - \$25k = \$59k$). In this per occurrence example, the master insurance carrier would cover \$59,000 in repairs.

Scenario #2 – The Per Unit Deductible

In the example of a per unit deductible, again, a washing machine overflows and causes damage to three units. The damage is considered an insurable loss and the per unit deductible is \$25,000. Damage incurred in each unit includes:

- ♦ Unit 1 – \$18,000 in damages
- ♦ Unit 2 – \$45,000 in damages
- ♦ Unit 3 – \$21,000 in damages

Total damage for this occurrence is still \$84,000 and the deductible for each unit is \$25,000. Because damage to Unit 2 surpassed the deductible with \$45,000 in damages and the other two units fell below the deductible, the owner for Unit 2 will receive \$20,000 for repairs from the insurance carrier ($\$45k - \$25k = \$20k$). The owners for Unit 1 and Unit 3 will not have any coverage within the Association's policy because the deductible has not been met.



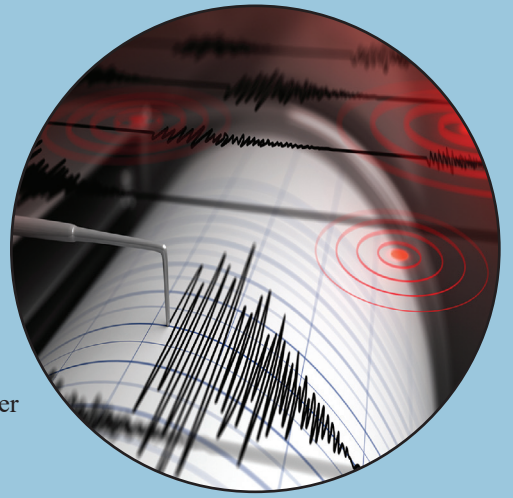
Insurance carriers must find ways to transfer the risk because at some point the premium collected will be less than what is paid out in claims, and this will not be sustainable. As a proactive step, I encourage Associations to actively consider the policy deductible when structuring the Association's policy.

An Owner's Burning Question

Question: How do I know if my association has earthquake coverage?

Answer: Many Associations in the Pacific Northwest tend to purchase earthquake coverage for the entire Association. The practice of purchasing the coverage "in bulk" is more cost effective and ensures the Association will have insurance in the event of a loss. However, the possibility of all owners purchasing enough coverage to rebuild is unlikely.

If your Association has earthquake coverage, the coverage will be listed on the Association's certificate of insurance. Reach out to the Association's insurance agent to request the certificate. The insurance agent's information can be found on the top left corner of the certificate of insurance document. It is important to understand the Association's coverage and deductibles so you can equate your approximate responsibility as an owner.



Leaks over 14 Days with Mold Growth as Common Indicator

Unit owners can benefit from pipe inspections in both visible and hidden areas. Leaks often hide in out-of-sight areas such as crawlspaces, attics, or closets. Insurance policies frequently define a specific period when losses will no longer be covered. Most carriers have a 14-day limitation written into the policy like the example below:

f. Continuous or repeated seepage or leakage of water, or the presence or condensation of humidity, moisture or vapor, that occurs over a period of 14 days or more.

An important tip for owners to remember is this can happen while away on a vacation or business trip. Failing dishwashers, washing machines, HVAC systems, and other plumbing devices can suddenly leak continuously without detection. Regular documented inspections can identify problems and reduce the risk of loss. This forward-thinking approach can help avoid potential damage.

Update of the Month: Grout

Grout is common in bathrooms, kitchens, and showers and is used to fill space between tiles. Grout maintenance is important. To keep water out and prevent grout deterioration, grout must be sealed about every six months. Usually grout lasts eight to sixteen years depending on usage and maintenance. You may not know when grout was installed in your home. The unknown age of grout is something to factor into the maintenance and replacement planning process. Water damage claims due to faulty grout or caulking are typically an excluded event. With proper maintenance and care, damage can be prevented.

Join the party!



We Want Your Input!

Have a question or want to see a specific topic highlighted in next month's newsletter?

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