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INDUSTRY NEWS, TIPS, TRICKS, & RESOURCES

High-deductible Insights: Pros & Cons Explained

Associations need to consider various consequences when choosing their deductible amount. In particular, the deductible of your condominium association's property policy affects both the individual unit owner and the collective association. You may know that higher deductibles (\$25,000, \$50,000, or higher) for community associations have become commonplace, but what are the pros and cons of a high deductible?

Pros

High deductibles keep small claims from piling up on the association's loss history, keeping premiums lower for everyone.

- Claims-free associations have access to more competitive insurance carriers, whose coverage is more comprehensive, and premiums are more affordable. The cost to mitigate and repair damage from one small water damage incident can cost tens of thousands of dollars. Lower deductibles like \$5,000 or even \$10,000 often mean that small claims must be filed on the association's policy. This also makes it easier for a higher number of claims to stack up on an association's loss history. One large claim can put an association into the high-risk market, and a higher frequency of small claims can do the same.

The association and individual unit owners are incentivized to mitigate risk by keeping up on maintenance.

- To avoid paying a high deductible, unit owners and boards may feel motivated to take preventative measures to avoid property damage. Examples include keeping up on property and appliance maintenance or investing in a leak detection system.

Cons

The association must be prepared to pay the deductible in the event of damage to common elements.

- If common elements are damaged in a covered loss,

the association will be expected to meet the association's deductible before the policy provides coverage. If units are damaged in the same incident, the association may only pay a portion of the deductible and unit owners would be responsible for their portion. However, if only common areas sustain damage, the association must cover the deductible out of association funds. This means it is crucial to fund the full amount of the deductible in reserve, so the association is prepared in the event of a loss.

Unit owners may be underinsured for damage inside their unit if they do not carefully review coverage needs with their personal insurance agent.

- A higher deductible means unit owners must carry a higher corresponding building limit on their HO6 policy. Unit owners need to know the association's deductible and build their personal policy to complement it.

Your board should carefully consider the pros and cons of a high deductible. A high deductible can be an excellent strategy for avoiding disruptive property damage claims, as well as keeping premiums lower. Although there are drawbacks to consider, the cons may be easily addressed with communication and planning.



HAPPY
4TH OF JULY

We will be closed July 4th.

Know Your Association's Policy Exclusions

Insurance policies are sometimes described as covering "sudden and accidental" losses. Property damage caused by lack of maintenance or regular wear and tear is generally not covered by property insurance. For example, if a roof leaks causing water damage because it was not properly maintained, this may not be an insurable event.

Some policies exclude coverage for freezing water damage if the heat in a space is not maintained. Unit owners should never turn the heat off in their units, especially when leaving for an extended period when leaks are more likely to go undetected. Similarly, common areas like clubhouses must always be heated.

The association's general liability coverage does not extend to incidents that take place inside a unit. For example, if someone sustains a slip-and-fall injury on association property, the association's general liability insurance would respond. However, if a non-resident sustains a slip-and-fall injury while inside a unit, the unit owner's liability coverage would respond. For this reason, it is crucial for all unit owners to carry their own liability coverage.

If your association's policy is in the surplus lines (high-risk) market, more exclusions may apply. The current insurance market is challenging, and some associations are only finding coverage in the high-risk market. For this reason, it is increasingly important for associations to understand their policy's exclusions.

Any insured party is responsible for reading and reviewing their policy annually to make sure they understand their coverage, as well as the policy exclusions. If you have questions regarding your association's policy exclusions, please contact your agent.



Maintain Your AC Unit to Prevent Fires



Air conditioning units are essential for comfort, especially during scorching summer days. However, AC units require regular maintenance. Neglecting regular maintenance can lead to potential problems, including the risk of fires.

Here are five tips to prevent fires related to AC units:

- **Regular Maintenance** – Have your AC unit serviced at least once a year by a professional. The service should include cleaning the filters, checking the wiring, and ensuring all components are working correctly. Regular maintenance will prolong the life of your unit and help it run more efficiently.
- **Clear Debris** – Keep the area around your AC unit free of clutter, flammable materials, and any obstructions that could slow airflow or pose a fire risk.
- **Monitor Performance** – Unusual noises or odors could indicate a problem with your AC unit. These could be warning signs of an issue that needs immediate attention.
- **Use Proper Power Sources** – Ensure your AC unit is plugged into the appropriate power outlet. Don't use extension cords, which can overheat and cause fires.
- **Install Smoke Detectors** – Ensure smoke detectors are installed and functioning properly in your home.

If AC units are the responsibility of unit owners, we recommend that the association send a notification once a year to each owner. This reminder will inform owners to have a qualified vendor inspect AC units to ensure they are maintained properly.



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