

Condominium and Homeowner Association Insuring Agreements – PRO’s and CON’s

Agreement Type / Definition	PROS	CONS
<p>Bare Walls Agreement*</p> <p>Unit Owners are responsible for insuring the Units, from either the “bare” (or unfinished) walls, or studs inward. The Association insures the exterior of the building and any other Common Elements as described in the governing documents.</p> <p>*This type of agreement is not allowed for associations with “stacked” units.</p>	<ul style="list-style-type: none"> • Association is responsible for insurance for the exterior of buildings, resulting in less board/Association involvement in Unit Owner claims. • Unit Owners have more control over the claims process within their Units since they are typically only dealing with their own insurance company. • Association is less likely to have to submit claims against the Master Policy for damages caused by Unit Owners’ negligence, errors, or omissions. • Provides for a more equitable distribution of insurance proceeds amongst Unit Owners (i.e., you do not receive a larger share of a claim compared to neighbors who pay the same monthly dues as you). 	<ul style="list-style-type: none"> • If a Unit Owner does not purchase proper insurance, a damaged Unit may not be rebuilt. The community may face lower property values either by the existence of an unrepaired Unit or the Unit being sold damaged. • Where does the “bare wall” begin? Must be well defined in the governing documents. • Even if a failure of a Common Element or Limited Common Element occurs (i.e., roof, sewer, etc.), the Unit Owner is typically responsible for all repairs within the interior of the Unit. Unit Owners may feel this is unfair. • Not allowed in condominium associations with stacked units.

Original Specifications Agreement

The Association insures the Common Elements and Units, but Unit Owners are responsible for insuring any betterments and improvements made to the Unit after transfer from the Declarant (Builder/developer) to the first, original Unit Owner.

- For condominium associations with 4 or more Units and having horizontal boundaries between Units (i.e., “stacked units”), this is the type of agreement set forth by the Missouri Uniform Condominium Act. With a basis in statute, there is potentially less legal issues for complicated claims. (Though, in practice, there is still ample room for interpretation!)
- For newer communities or those with little variance between Units when the community was first completed, there is an easier delineation between the Association’s and Unit Owners’ insurance responsibilities.
- Potentially provides for a more equitable distribution of insurance proceeds amongst Unit Owners compared to an “All In” agreement.
- If Units are sold multiple times, it’s often confusing for the current Unit Owner to know what is a betterment and improvement, and what is original.
- Unit Owners are often confused about the amount of building/dwelling coverage they need.
- The claims process is complicated by the need to determine a baseline for the original specifications. If architectural or sales records don’t exist, there may be a drawn out negotiation between the Association’s insurance company and the Unit Owners’ insurance companies.
- Even if damage is caused by a Unit Owner’s negligence, error, or omission, the Association’s insurance company may have to pay for damages to the Common Elements and Units, with little recourse against the Unit Owner, other than charging them the deductible. *It’s important for the Association documents to contain provisions allowing for the allocation of deductibles.*
- To provide certainty, many Unit Owners may over-insure their Unit and personal belongings because of the lack of knowledge as to what would be covered under the association’s master policy and what would not be covered.

All In Agreement

The Association insures the Common Elements and Units, *inclusive* of any improvements and betterments made to the Unit. The Unit Owners remain responsible for insuring their personal belongings, additional living expenses, and any allocation of the association's master property policy deductible.

- Claims process is simplified since there is little to no negotiation between the Association's insurance company and the Unit Owners' personal insurance carriers.
- Eliminates the "Is it original or betterment or improvement?" question of the Original Specifications agreement.
- Typically creates economies of scale, reducing the total insurance cost for Unit Owners since they are only insuring personal belongings and coverage for allocation of the association's master property policy.
- In condominium associations where many Units have been sold multiple times, simplifies the insurance purchasing process for Unit Owners.
- More "concierge" type of service provided by the Association to Unit Owners. This is often attractive to some communities or those where residents only live part-time (seasonal/vacation communities).
- It's critical for the Association to establish proper building values OR add a Guaranteed Replacement Cost endorsement to the Association's master insurance policy.
- The Board/Trustees and Property Manager become project managers for claims within Units.
- Claim payments are typically made to the Association, with funds distributed by trustees to the Unit Owner for payment of claims.
- Unit Owners may lose some control over the contractors they use for repairs.
- Higher deductibles are strongly recommended to prevent Unit Owners from forcing the Association to submit smaller claims. Typically, Unit Owners will be responsible for claims under the Association deductible, and they should carry proper personal insurance to cover claims that fall under the Association deductible.