

Condo Smarts

Headline: How do strata corporations and owners manage the dramatic increase in Insurance Rates?

Topic: Insurance

Publication / Date: The Province, Dec 5, 2019

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Over the past few months across BC, there has been an industry struggle to renew strata corporation insurance policies. With renewals, the cost of the insurance has increased anywhere from 50-300% and the deductibles to cover claims have also increased substantially, from manageable rates of \$25,000 per claim to as high as \$250,000 and \$500,000. While not all regions of the province have been affected in the same manner, there have been targeted building types or large strata communities across BC that have seen the dramatic increase.

British Columbia currently has over 30,000 strata corporations. They vary in size from a duplex to over 1,000 units in a single strata community. Many conventional strata corporations are low-rise wood frame apartment buildings, townhouses or high-rise buildings. When a water failure or fire occurs in multi-unit buildings multiple units are often affected. The result is an increased risk of cost for damages and losses by the insurance industry. Under the *Strata Property Act* a strata corporation must insure for full replacement value of all common property, common assets and fixtures. This basically means in a duplex, town house, low rise or highrise community, the original construction including finishing attached to the building is covered under the strata corporation insurance policy.

What is the cause of the dramatic increases? In addition to worldwide catastrophes, we live in a high-risk earthquake zone, and with several major building claims in the province, there are a reduced number of insurance companies who are covering strata insurance in BC. The hardest hit regions are the high-density metro areas, but resort properties and communities with large developments of more than 250 units are also feeling the crunch as they have the highest

compound risks when there is a claim. In addition, with a limited number of insurers, increase in claims, higher property and construction values and a high demand for insurance, a supply/demand imbalance has been created where the insurers have imposed much higher costs and deductibles to manage risks.

How does this impact owners of strata units in BC? If your strata is faced with a substantial increase in insurance rates, the cost will be reflected in your annual budget which determines your annual strata fees. If the deductible is dramatically increased to \$100,000 for example, it means any claims under 100,000K are not covered by insurance, and subject to your bylaws, each owner is likely responsible for damages to their strata lot and the corporation is responsible for the cost to repair common property. The result is many of the past insurance costs will now be downloaded onto the affected owners in the event of a claim.

If an owner is responsible for a claim, for example their washing machine hose fails flooding out the building, the owner could be responsible for the \$100,000 deductible. This time more than ever home owners need to consider condo home owner insurance to cover their liability in the event of a claim for damages to their unit, the cost of a deductible or the risk of being sued by other owners if they cause a claim. If there is a claim from a failed pipe and the amount of the claim is over \$100,000 resulting in an insurance claim, the \$100,000 deductible becomes a common expense of the strata and the council may pay it from the contingency fund or directly levy owners without the need for a 3/4 vote at a general meeting.

What can our strata do to limit the risk? Work closely with your broker. If the strata corporation is faced with a change in insurance or the possibility of no coverage,

immediately give notice to owners. If you fail to obtain insurance, contact your lawyer to determine the liabilities for owners and council members and what next steps you should consider. Maintain your buildings. Work with your owners to manage risks. Verifying that all units with washing machines have upgraded their hoses to braided steel. Failed rubber hoses in cramped closets and spaces are a chronic cause of water damages. Address risks that may result in a claim. Owner activities such as smoking, barbeques on balconies, balcony gas heaters and in suite hot water tanks all present a higher risk. Repair access or building issues that may risk an injury. Update your bylaws: Bylaws that present a risk of Human Rights complaints or court actions also increase your risk.

What should buyers consider: Before you purchase, obtain a copy of the strata insurance and confirm the insurance cost, deductibles for water escape, and the renewal dates. Over the coming year the increases will likely continue.