



How do Strata Corporations and Owners Manage the Dramatic Increase in Insurance Rates?

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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, high valued buildings or large strata communities across BC that have seen the dramatic increase.

British Columbia currently has over 30,000 strata corporations, varying 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 world wide 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 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. If your building also has a history of claims relating to water escape from system failures and/or resident activities, or you are an aging building system with a poor record of maintenance, your increased risk profile will also add pressure to the costs and levels of deductibles. Add to the identified risks of a claim very high property values and high costs for construction, and it creates a volatile cocktail for strata owners in BC.

How does this impact owners of strata units in BC? If your strata corporation 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 with the strata corporation responsible for the cost to repair common property. The result is many of the repair and replacement costs that have been covered by the policy of insurance taken out by the strata corporation will now be downloaded onto the affected owners in the event of a claim. Further, 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. Now, 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, as well as 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. However, even if an owner is responsible for the claim, the strata deductible is a common expense that must be paid by the corporation, which may in turn pursue a claim against an owner with the hopes of recovering the amount paid by the strata corporation, but there is a limit in the legislation when it comes to collections of insurance deductibles which may also affect owners. The strata corporation may start a legal proceeding through the Civil Resolution Tribunal or the courts, and may obtain a judgment for that amount, but it does not become a lienable amount and does not take priority over a mortgage or taxes owed by the owner who caused the claim. To compound this risk, an owner may not take out their own insurance coverage, and even if they do, available coverage may not cover the full amount of the deductible on the strata corporation's insurance policy (coverage for deductibles above \$50,000 may be difficult or impossible to achieve in the marketplace).

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, dramatic increases in cost and deductibles, or the possibility of no coverage, immediately give notice to all owners regarding the changes. If you fail to obtain insurance, contact your lawyer to identify determine the potential liabilities and risks for owners and council members and what next

steps you should consider. Brokers are working tirelessly to place coverage for all strata corporations, but in some circumstances because of values and claims history, there may also be a limit to coverage. 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. Plan for renewals of items that pose a risk such as, roofing, water lines, and drainage systems. 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. Address broken sidewalks, or security issues. Update your bylaws: Bylaws that present a risk of Human Rights complaints also increase your risk. Comply with the *Strata Property Act* and your bylaws. Failure to properly enforce bylaws or comply with any enactments of law now result in claims with the Civil Resolution Tribunal, the BC Supreme Court or the BC Human Rights Tribunal. All of these increase your risk and ultimately the cost.

What should buyers consider: Before you purchase, obtain a copy of the strata insurance and determine the premium cost, deductibles for water escape and the renewal dates. It is anticipated that, over the coming 6 months, the increases in premiums and deductibles, and the decreases in coverage, will likely continue.