Condominium Home Owners Association of British Columbia
Leadership, Education and Resources for Strata Owners Across BC
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Condo Smarts

Headline: Best pricing insurance terms
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Dear Tony: Will the recent changes to the insurance industry mean we will be paying less for insurance in coming years, or the dramatic increases will slow down? Our 78-unit townhouse complex in the interior renewed its policy in November with no claims for the last 5 years and our deductible went to $100,000 and our policy has gone from $55,000 a year to $129,000. Our broker told us in October with the hard market and the best pricing policies this was beyond their control. So how does best pricing apply to strata corporation policies?

Janet W.

Dear Janet: Due to the high replacement cost values, and the earthquake exposure that exists in BC, most strata corporation insurance is written on what is called a subscription property policy. A subscription policy can have anywhere from two to twenty different insurance companies involved. Each different insurance company takes a percentage of the property risk, a percentage of the property premium and in turn each of those insurers pays their same percentage of any insured loss that occurs.

An example of a subscription property policy might be as follows: Insurance Company A insures 45%, Insurance Company B insures 25%, Insurance Company C insures 20%, and Insurance Company D insurers 10%. So how does this get negotiated with a best terms clause?

Traditionally when insurers quote to subscribe on a property policy for a percentage less than 100%, their quote has always been subject to a best terms clause. The best terms clause typically states that if their capacity is used that they must get at minimum the same rates and deductible as any of the other subscribing insurer. If insurance company D comes in at a rate 50% higher than the other insurers, that rates applies to all the insurers.

Best terms clauses are mandated by insurance companies not insurance brokers. According to Steve Storrey at BFL Insurance, *"the insurance broker first started trying to negotiate best terms clauses out of insurance contracts for strata corporations back in September 2019 when rates between subscribing insurers started to vary drastically. Several companies have been successful in getting the majority of insurers subscribing to their strata / condo and apartment protect programs to agree to remove the best term clauses from their quotes."* For the BFL program this took effect on June 1, 2020 and it applies to all quotes moving forward.

As of January 1, 2021, the insurers authorized to provide insurance in BC have reached an agreement with BC's Financial Services Authority to cease applying best pricing practices. While the alternative and impact of how pricing will be applied is not yet known, the agreement is a good start to a competitive process for consumers.

The other side of insurance that still has many strata corporations and owners struggling to manage, is the dramatic increase in deductible rates for water and fire. At $100,000 to $250,000 per claim and higher, these amounts have the potential to bankrupt many owners if they are responsible for a claim.

Brent Pavan from Hub International, a BC Insurance Broker, has provided an alternative for high deductibles and strata corporations may want to consider the option to reduce the liability. Their office has developed a water and sewer buy-down product that is applicable to the entire strata, not just the individual unit owner. It is possible to buy-down a deductible up to $125,000. The strata corporation absorbs the first $25,000 of any claim and the insurer will pay the rest. For example: $200,000 insured water damage claim with a $150,000 water deductible. The strata corporation will pay the first $25,000 and the insurer pays the remaining $125,000. There is a cost for this product but for many strata corporations, regardless of who you are insured with, this may be affordable method of managing the higher deductible risks.