

Condo Smarts

Headline: Strata Funds Insurance
Topic: Insurance
Publication date: May 2, 2010
Publication: The Province
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Dear Condo Smarts: I am on the strata council of a large development of over 250 units in Surrey. We are interviewing prospective management companies and a question has come up that no one seems to have the correct answer for. How much of our strata funds, that are held in trust by a strata manager, are insured? One company indicated that the trust funds are insured for \$200,000, another indicated it was \$100,000, and a third advertised that they were fully bonded and insured. This is an important issue for our strata as our operating account and contingency account usually carry over one million in actual cash, and we need to know what the real risks may be. Paula M.

Dear Paula: Your concerns are well justified. It is almost impossible to insure large amounts of money, so there is always going to be some level of risk; however, as the strata council, you need factual information so that you can assess the risks before you have to make a decision. I rarely, if ever take anyone's word for it.

A real estate brokerage, licensed for strata services, under the Real Estate Services Act, may be contracted to hold the strata funds in trust, and the company may be contracted to administer the collection of the funds, payment of invoices, accounting of the funds, and the administration of the investments and banking services. Under the Real Estate Services Act the strata brokerage is covered for total losses to a limit of \$500,000 and a maximum of \$100,000 per strata corporation. The implication of this limit is that each strata is covered to a maximum of \$100,000 in losses, but that could also be reduced if there are more than five strata corporations affected, as the \$500,000 limit would apply. Does your strata know that potentially only \$100,000 of your 1.2 million dollar reserve fund is insured? Is there a risk that a loss could occur? Absolutely, as there has already been a loss where the compensation fund has been called upon to cover claims for losses by a strata manager. There is also a risk where a strata corporation holds their own funds, as there

have also been losses where a treasurer has unlawfully used the strata funds to cover gambling debts, and losses where investments not permitted under the Act have resulted in losses.

What about the claim that a company is fully bonded or fully insured? If the claim is valid, then the broker should provide copies of current valid insurance certificates showing that your strata corporation and your strata funds are insured for specific amounts, specific types of losses such as, theft or fraud, and the specific period of time; however, it is virtually impossible to insure large sums of strata funds for theft or fraud. The CDIC, bank deposit insurance, which applies to funds deposited in Canadian financial institutions, insures an account for up to \$100,000 in losses. This does not include fraud, theft or misuse of the funds by an authorized party with access to the account. The best way to manage the risks is the full disclosure of all limitations of the insurance, and monthly transparent reporting to the strata council of bank statements and transactions. The licensed broker/strata manager is required to provide reconciled financial statements and bank statements to the strata corporation/council each month, and the same practice should apply to self managed strata corporations. Section 7-9(7) of the Real Estate Council Rules obliges the brokerage to provide the strata corporation with a copy of the bank statement and monthly reconciliation referred to in section 8-2(b) in relation to that bank statement. The strata can also add a provision to a service agreement to provide monthly financial statements. As the acting strata council, it is your duty to review the financial reports monthly and declare or report any errors or material changes in finances that are not within the scope of the operating budgets, contingency reserve funds or special levy funds. Audits are not yet mandatory; however, in a strata with a significant annual cash flow, they are a prudent action against fraud or misuse of funds.

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