Condominium Home Owners' Association
Serving BC's Strata Property Owners since 1976
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Condo Smarts
Headline: Who makes insurance decisions?
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Dear Condo Smarts: At our strata corporation AGM last week, our owners defeated the annual budget. The reason they defeated the budget is that they did not want to accept the insurance report and approve the insurance. Our strata council renegotiated the insurance policy with another company and saved us $2,500.00. Several of our owners compared the policy that was sent with notice and while the rate for the policy was reduced by $2,500.00, our deductible for water escape increased from $5,000 to $10,000, and our earthquake deductible increased from 10%-15%. Once the owners at the meeting understood the changes, and the increase of risk in the event of a claim, almost everyone agreed to defeat the budget. Our question: Who has the authority to negotiate the insurance policy? Can the strata council negotiate the policy with owners exposed to higher deductible claims without their knowledge? Every owner and council should be aware of what they are doing before they change policies.

Margaret Kavanaugh, Abbotsford

Dear Margaret: By approving the annual budget, the strata corporation conveys the authority and the responsibility of the operations of the strata corporation to the strata council. Unless a matter is required to be addressed at a general meeting as provided for in the Strata Property Act (the Act) , Regulations or Bylaws of the strata, the powers and duties of the strata corporation must be exercised and performed by the council. So yes, unless your bylaws otherwise require, and subject to directions given by the corporation at a general meeting, the strata council are responsible to negotiate and place the insurance. The requirements for insurance are mandatory provisions under the Act. The deductible values and limitations on coverage that are not prescribed in the Act will be part of the decision making of the strata council. In the event there is an unreported increased risk, there may be a question as to whether there was any negligent liability on the part of the person(s) who placed the policy, if they were aware of material changes that were not disclosed to the other parties or approved by the council, but it's a catch 22. If there was a claim of negligent liability, that cannot be claimed on the Director's & Officer's section of the policy as the policy does not insure for errors in placing insurance or underinsurance. The costs of increasing deductibles are substantial. For example, the general insurance deductible for earthquake losses is 10% of the appraised value of the insured strata property. Margaret's building has an appraised value of 13 million dollars. The deductible is 1.3 million in the event of insured damages from an earthquake, which would be $21,000 per unit for a claim. Increase the deductible to 15% and that increases to almost $31,500 per unit on average. The increase of the water escape deductible from $5,000 to $10,000 will also be an additional $5,000 cost either to the corporation or an owner in the event they are responsible for the claim. The $2,500 savings is of little benefit if there are any claims. In many ways it comes down to the amount of risk a strata corporation and its owners are prepared to carry. The strata may accept higher deductible rates to offset cost, but it only takes a single event to erase any of those benefits. Before you renegotiate your policy, have the insurance broker disclose if there are any differences between the current and new policy, any material changes or any exemptions not previously included, or any terms and conditions that may limit the amount payable in the event of a claim. If your policy changes during your fiscal year, notify the owners of the new policy if there are any changes. Owners can only insure for their increased risks if they are aware of the changes to the policy.