

Condo Smarts

Headline: Rising Insurance Costs

Topic: Insurance

Publication date: Sept 29, 2013

Publication: The Province

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Dear Condo Smarts: Our strata council on Vancouver island is faced with a 20% increase in strata fees this year and owners are very unhappy. Most of the increase is entirely due to the rising cost of insurance which has increased this year. We have been told by a group of owners that we are not permitted to have an increase that is any greater than 10% per year, but we cannot find anything in the Strata Act that sets that limit. Is there any way to compare our strata fees against other strata corporations? We are concerned that high strata fees will make it impossible to sell units, but at the same time we want to make sure we have enough funds to meet our operating expenses.

Marian Maguire

Dear Marian: There is no limit on the rate of increase in strata fees. The fees are established by the approval of the annual operating budget that includes the contingency reserve fund (CRF) contribution. The amount of the budget and CRF contribution are whatever the owners approve by majority vote at the annual general meeting (AGM). Those amounts then are used to calculate the strata fee for operating and the CRF contribution based on the unit entitlement. It is possible that the owners are confusing the past legislation with the limit on CRF contributions where the fund exceeded the operating balance; however, that limitation no longer exists, and at the AGM the strata corporation may contribute any amount, determined by majority vote as part of the budget approval process.

Insurance costs have definitely been on the rise. No one is happy about the increases, but a private market industry manages costs based on actual risks and business plans. While insurance is important to us to protect our assets and property, it is simply a commodity that is traded much in the same fashion as bank stocks or public companies.

Insurance companies base cost of the product on world wide risks, claims histories, regional risks such as high risk seismic areas or flood zones, reserve estimates, legislated requirements, and profit.

I did a comparison of a townhouse unit and a single family home based on comparable coverage, actual values and risks, and the costs of insurance are almost identical when you factor in replacement costs of assets and fixtures, liability, and personal property and betterments. Condo owners have had the convenience of economic insurance coverage, but in the event of a fire or flood, townhouses and apartments generally are exposed to much higher claims because of the collateral or compound damage to multiple units. One fire alone this summer resulted in compound damages to over 50 condo units in the same building. This exposes the insurers to much higher claims for strata properties than they are for single family detached homes. Strata corporations do have one significant benefit over single family detached. The nature of the commercial strata policy also includes over land flood insurance. As a townhouse owner or ground level apartment owner, this has been a relief on a number of occasions, especially on Vancouver Island and in flood plain areas, when we been exposed to rainfall that resulted in salmon swimming up our streets. The best method to manage your cost and risks is to ensure your buildings are well maintained, address risks associated with liability, and prepare well in advance of your renewal of your policy each year to shop around for comparable policies.

Many of us have often incorrectly associated care free condo living as cost free condo living. The cost of property operations and insurance will vary greatly depending the design and facilities and condition of your property. While it won't be cost free, make it cost manageable.

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