

Condo Smarts

Headline: Insurance Deductibles

Topic: Insurance

Publication date: November 21, 2010

Publication: The Province

Written by: Tony Gioventu

Dear Condo Smarts: We live in a 28-unit townhouse complex on Vancouver Island. Our region is subject to significant rainfalls, and our complex is located in a mountainside region 100 metres above the flood plain. As a result, our strata has flood insurance, with a \$100,000 deductible. We would have never expected to have used this, but in one of the recent heavy rain cycles, a local drainage ditch diverted through our complex and the result was four units flooded, with significant damage to the units. Our strata council of three owners acted immediately and within 24 hours we had a restoration company on site and the insurance adjustor. Other than a few minor rain delays, our complex was very satisfied with the outcome. Paying for the bill has created a controversy in our complex. We have been saving for five years for new roofing in our complex, and rather than consult the owners on how to pay the \$100,000 deductible, the council paid it from our contingency reserve fund leaving us with \$5,072.00. What our owners want to know, were there any other alternatives to paying this amount? What's the point of carrying homeowner insurance in addition to strata insurance when we are left with such large deductibles?

Garth C. MacKay

Dear Garth: In every strata corporation there are at least two layers of insurance coverage. The strata corporation policy and the homeowner policy. The insurance that covers strata corporations for flood and water escape is likely the most frequently filed policy claim in any strata. The deductible amounts, depending on the historic losses and size and number of strata lots in the strata corporation can range anywhere from \$1,000 for water escape to \$250,000 for water escape or flood. Whenever a strata corporation is subject to an insurance deductible claim there are several payment/collection options available.

If an owner is responsible for a claim, such as a flooded bath tub, the owner is responsible for the amount of the insurance deductible or a portion below the deductible. The strata corporation pays the deductible amount and then may claim that portion against the owner/strata lot. If the owner is then responsible to pay the amount to the strata corporation, they may claim that deductible amount on their own homeowner insurance policy. The homeowner policy has a much smaller deductible and will in most cases cover the amount of the strata deductible. However, there are limitations to the amounts that a homeowner policy will cover. It is the responsibility of homeowners to verify each year that their homeowner policy matches the same deductible rates if they want to guarantee full coverage.

For more information on CHOA resources and benefits visit www.choa.bc.ca
or contact the office at 1-877-353-2462 or email office@choa.bc.ca.

No part of this publication may be reproduced without the prior written permission of CHOA

This publication contains general information only and is not intended as legal advice. Use of this publication is at your own risk. CHOA will not be liable to you or any other person for any loss or damage arising from, connected with or relating to the use of this publication or any information contained herein by you or any other person.

In the event a homeowner is not responsible, as in Garth's strata with the \$100,000 flood deductible, the strata has three options. They may pay the amount from the operating fund or the contingency reserve fund, if the funds are available. They may also, without the need for a 3/4 vote, issue a special levy to each of the strata lots based on the filed or amended unit entitlement. The strata council would be required to convene a council meeting, pass a special levy with a specific due date and showing the amounts calculated for each strata lot and the purpose of the special levy, and send notice of that levy to each strata lot owner. In Garth's strata that have equal unit entitlement. That would calculate to \$3,571.43 for each strata lot. By creating a special levy, it would have avoided using up the planned reserve funds, eliminated the need for a future 3/4 vote special levy for the roofing, and more important, each owner could have decided whether to simply pay the amount, or file a claim with their own home owner policy to cover the amount of \$3,571 for a much smaller deductible. In most cases that would have been \$250 or \$500 dollars. It may still be possible for the strata corporation to special levy the owners for the insurance deductible amount as there may be limitations on the time period of claims.

The strata council should speak to their insurance broker and their lawyer before they proceed, as the Strata Act and Regulations did not necessarily contemplate a delayed claim for special levy.

The strata corporation must maintain property insurance on the common property, the common assets, buildings shown on the strata plan and fixtures built or installed on a strata lot, if they were built or installed by the owner developer as part of the original

For more information on CHOA resources, and member benefits, please visit the website at www.choa.bc.ca. Questions may be directed to the Advisor by phone at 1-877-353-2462 or email your questions to advisor@choa.bc.ca.

No part of this publication may be reproduced without the prior written permission of CHOA

This publication contains general information only and is not intended as legal advice. Use of this publication is at your own risk. CHOA will not be liable to you or any other person for any loss or damage arising from, connected with or relating to the use of this publication or any information contained herein by you or any other person.

construction. For these assets, they must be covered on the basis of full replacement value, and insured against major perils set out in the regulations. The perils include: fire, lightning, smoke, windstorm, hail, explosion, water escape, strikes, riots or civil commotion, impact by aircraft or vehicles, vandalism and malicious acts. You will notice there are two perils not specifically included. Flood and earthquake. These are options that are not available to every property in every location of the province; however, they are a recommended coverage if they are available to a strata corporation at a reasonable cost and reasonable deductible rate. At some point the costs or deductible rates could be so high the strata corporation could basically be self insuring. In the event a strata corporation chooses not to insure for additional perils, the council should consider taking that decision to the owners at their Annual General Meeting for a decision. It is always the owners who end up paying the bills.