Condominium Home Owners' Association
Serving BC's Strata Property Owners since 1976
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Condo Smarts
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Dear Condo Smarts: Our strata manager has recommended to our council that we move our insurance policy to a competing broker as it would save money and provide better service to our members. On his advice, we agreed to the change, but one of the conditions that has changed is that we now have a 90% co insurance clause in our policy. While our insurance is 5% less in cost this year, we are concerned about what the implications of co insurance mean and cannot get a straightforward answer from anyone. *Mrs. ME Ellis, Burnaby*

Dear Mrs Ellis: Co insurance is a method that is used by clients and insurers to calculate and manage diminished probable risks. The Strata Property Act requires that the strata corporation common property, fixtures and assets must be insured for full replacement value. The way full replacement value is determined is by commissioning a routine insurance appraisal for the purpose of meeting the full replacement value. There are limitations on co- insured policies to the extent of the co-insurance values and the appraised values at the time of a claim. A few examples are necessary to help understand the limitations of co-insurance.

If a building has a reconstruction value of $1,000,000, and the insurance policy has a 90% co-insurance clause, you would need to insure at least $900,000. If you insured only half of that amount, $450,000, then you are splitting the insurance between the strata and the insurer. So in the event of a full loss of $900,000, the insurance company would cover $450,000 and the strata corporation would cover $450,000, the insurer is basically left with a 50% liability for a claim. If you have a 90% co insurance policy and insured $900,000 against a $1,000,000 appraised value and there was a total loss, then you are only insured for $900,000. Additionally if it was discovered that the actual appraised replacement value had varied from the policy values, your insurance coverage could also be significantly limited, essentially leaving the strata corporation with a substantial uninsured amount. Even with a 90% co insurance value, your strata corporation, with a total loss could be faced with a minimum $100,000 uninsured plus the deductible. That amount would be left to the owners of the strata to pay by special levy. While some unit owner policies may provide coverage for the unit owner, in the event that the unit owners share of the common property is not fully insured by the strata corporation, if the appraisal amount is incorrect, your coverage can be compromised.

There is another underlying problem with co-insurance and that is determining who has the authority to basically make the decision to negotiate a co-insurance policy or under insure the strata corporation's full replacement obligations? The reduced coverage is an increased risk for the strata corporation and reduced risk for the insurance company. There are circumstances when the strata corporation has no choice but to negotiate a higher risk with a co insurance policy because of a history of claims, limitation on appraisals, or availability of a certain type of insurance in a region; however, if your strata corporation is assuming more risk because of a material change in your policy that converts risk into a co insurance policy or exemptions to the policy, your strata council and owners need to be clearly aware of these changes and understand the implications of the decisions. The Strata Property Act clearly requires full replacement value to protect the interests of all the owners. A routine appraisal and full replacement policy is the only way to ensure your full replacement values and protect your risks as a strata council, strata manager and strata owner. If you have questions regarding your policy the best solution is to obtain written verification of the terms, limitations and exemptions of the policy from your insurance broker.

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