Condo Smarts
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With the increasing number of world wide natural and human disasters, insurance companies and investors are closely assessing the real costs of insurance and the impact of a major disaster on their portfolios and their reserves. From the point of view of an insurance company, they sell insurance policies, much in the same manner as stocks and investments are sold, in the hope that eventually they will turn a profit for their investors. In turn, the collective insurance industry provides a limited shared safety net accessible to the public based on risks, limitations and exemptions.

There are several interests and conditions associated with insurance policies for strata corporations, all types of home owners, landlords and tenants, lease holders, and commercial investors. The Strata Property Act (the Act) mandates minimum insurance coverage for the collective interests of strata lot owners, but does not mandate insurance coverage for the personal interests of owners, landlords, tenants and occupants. The Act & Regulations set out minimum requirements for coverage and the establishment of value. Strata Corporations must maintain full replacement value on all common property, common assets and fixtures of the strata corporation. Essentially this requires the strata corporation to routinely obtain appraisals to estimate what the current cost of replacing the building and the fixtures would be in the event of damages or a loss. This is how full replacement value is established. Common property is that property which is not part of a strata lot and set out as common property on the registered strata plan and through the definitions set out in the Act. Common assets will be those items such as lounge furniture, pool tables, or lawn mowers. Fixtures are those items that are attached to the building which cannot be removed without damages to the building. Basically think of everything installed by the owner developer the day before the owners take possession. Except for removable appliances and removable decoration, it is all part of the strata coverage.

Strata corporations are obligated to insure for basic perils, such as fire, lightning, smoke, windstorm, hail, explosion, water escape, strikes, riots or civil commotion, impact by aircraft and vehicles, vandalism and malicious acts. They are also required to maintain a minimum of 2 million in liability insurance. So where do strata corporations get into trouble? They rely on other parties to place their insurance, they do not work directly with their broker and they do not understand the implication of exclusions. Earlier this year a strata lot owner experienced sewer back up into their unit. Most owners assume that water escape covers these types of damages, but this is not mandatory coverage for a strata corporation and it is not basic coverage under many strata lot policies unless specifically requested. The owner did not have sewer back up coverage on their policy to cover their upgraded hardwood floors or renovated kitchen.

There have been many inquiries about potential flooding in strata properties after the devastating effects in Alberta. 2013 is looking like the worst weather year for Canadian Insurance and with that we will likely see significant pressure on costs of insurance and deductibles. Gareth McDonell from BFL Canada in Vancouver, points out that there are differences between strata corporations and personal insurance. "Strata corporations have one privilege in that many are covered by flood insurance, but it is critical to review the policies. Personal lines of insurance for homeowners and unit owners personal assets are not covered under flood insurance. It is also critical that owners take steps to limit risks. Identify the location of your water shut off, change laundry lines to braided lines, identify gas shut off valves, flush drains & gutters annually, add sprinkler head cages, and maintain an updated emergency plan for your building."

For British Columbia, the costly risks lie in the event of a major earthquake and for remote smaller communities, forest fires. Earthquake insurance is an option. It is not mandatory and every strata corporation makes decisions annually based on costs and coverage. Earthquake coverage is also set with a different formula for a deductible. If you live in a 50 unit apartment building, it may have an appraised insurance replacement value of 13 million dollars. At current policy conditions, the deductible in the event of a loss and claim is 10% of the total replacement value. Unlike the water escape deductible or fire deductible at a fixed cost around $5,000-25,000 for most strata corporations, the earthquake deductible in this case would be 1.3 million dollars. That converts into an average assessment owing by each unit at $26,000. Has anyone contemplated how this amount will be paid by each owner? Strata corporations hardly have enough reserves to meet basic emergencies, and many owners do not carry homeowner insurance or sufficient additional earthquake coverage to pay their deductible share in the event of a loss. Levies will be issued, and many home owners will not be able to pay them. The underlying impact of this scenario is that even court ordered sales will be likely impossible until the units are repaired, and the repairs won't commence until the strata corporation can somehow come up with the deductible cost. Consider the recent New Zealand earthquake where they have recently demolished their 3,000th building that was not repairable. Convert that into 20,000 strata buildings in the lower mainland and Vancouver Island, and it is easy to understand the concerns of the insurers, but rather than dwell on a potential crisis, consider what strata corporations, owners, landlords, tenants and occupants can do to protect themselves or at least manage their risks

Strata corporations and home owners must work directly with their brokers. Annually, they must confirm what is included in the policy, what is excluded from the policy, how they may obtain additional insurance coverage for the risks, and what are the associated costs. Only then is it possible for the strata corporation to make decisions based on what the owners are prepared to pay, and what risks they are prepared to accept. Strata councils should be extremely cautious about accepting changes to policies that limit coverage without the consent of the owners of the corporation. Under insurance, is not a covered claim under Director's & Officers liability insurance and as a council member you could be sued for errors or omissions in placing the insurance. Strata lot owners, tenants and occupants must consider insurance for their living expenses in the event they cannot occupy their homes, perhaps for long periods of time. If you do not have a homeowner/tenant policy, you will be assuming the losses and risks at your own peril. No one can predict when or where the next event will occur. Recent events however indicate we are not immune. The best reactive plan to a crisis, was the proactive plan long before the event occurred.