STRATA INSURANCE

What you need to know to protect your strata-property investment

IBABC

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Strata Insurance is a publication of the Insurance Brokers Association of British Columbia. Our goal is to provide timely information for customers of B.C.'s property and casualty insurance brokers so they can prevent losses where possible and recover quickly. We believe that the best way to manage risk is to purchase insurance through an insurance broker.

IBABC

Insurance Brokers Association of British Columbia
Suite 1600, 543 Granville St., Vancouver BC V6C 1X8
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PUBLISHER
Chuck Byrne · cbyrne@ibabc.org

PROJECT EDITOR
Trudy Lancelyn ABC · tlancelyn@ibabc.org

DESIGN
Arno Apeldoorn · New Collider Creative

PHOTOS
istockphoto.com

STRATA INSURANCE

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WELCOME TO STRATA LIVING

More than 1.5 million British Columbians live in strata properties. In some urban neighbourhoods, most residents are in strata buildings.

Strata property ownership is often marketed as offering 'carefree living', but in fact, the shared ownership of the common property brings an added layer of complexity. Higher density and shared ownership require specific rules and practices so that residents can live in harmony with each other. The rules that impose a democratic process in management and decision-making have often been likened to an added layer of government. Nearly every aspect of strata ownership – and this includes insurance – involves considerations for the shared property and for the individual strata unit.

GETTING DOWN TO BUSINESS

Think of a strata property like a business. All the owners are shareholders in the strata corporation and as such own a proportionate share of the total building. And just like shareholders in a business, owners must meet legal responsibilities and maintain a proper governance structure. Those responsibilities are outlined in the *Strata Property Act* and its regulations:

- **Strata owners** must comply with strata bylaws, hold general meetings, vote and pay strata fees.
- **Strata councils** are owners who volunteer to manage the strata in a manner similar to a corporate board of directors. They must hold strata council meetings, enforce bylaws and avoid conflicts of interest. In addition, they have a responsibility to act reasonably, in good faith, and in the strata's best interest, placing the strata's interest before their own.
- **Strata property managers** are advisors, providing services and guidance. They must meet licensing requirements and supply the services outlined in the strata management contract.
- **Strata corporations must insure the common property to full replacement cost except in prescribed circumstances.** Because of the shared ownership structure and the commercial-grade systems and equipment within many strata buildings, a commercial general liability (CGL) policy provides the third-party, property-damage portion of the coverage. The CGL policy is designed to be tailored to the wide-ranging needs of commercial enterprises.

This publication provides general information to assist strata owners in making wise insurance decisions. For information regarding their specific needs, owners and strata councils should always obtain the advice of a licensed **insurance broker**.

Strata owners each own a proportionate share of the total property that may be valued in the millions of dollars and which, in many respects, operates like a commercial building, with commercial-grade systems and equipment. The *Strata Property Act* provides a democratic system of governance and standards for strata corporations that helps ensure the rights of owners and their responsibilities to manage their asset well to protect their investment.

What is a strata property?

When lawyers and real estate professionals talk about **title**, they are referring to who has legal ownership and the legal right to use a property. Historically, real estate title included land. In 1966 the B.C. government passed legislation creating a strata-title classification that allowed real estate properties to be stacked one on top of another and/or to share walls.

There are now more than 32,000 strata complexes within B.C.'s strata property classification and they range from duplexes to major developments that include retail, to 'bare land' stratas. All these iterations are alike in that they include shared assets such as walls, roofs, driveways and parking areas, amenity rooms, and surrounding land; as such they are subject to the provisions of the *Strata Property Act.*

You can't tell by looking whether a building or development is strata-titled. A single-family home in a bare land strata subdivision can look identical to single-family homes nearby that are **fee simple**. A townhouse in a strata development may look identical to a row house that is privately owned and rented to tenants.

It's not the size or type of buildings that makes a **strata corporation**; instead, it's their legal definition. If the development is legally created by a **strata plan**, it's a strata corporation. A strata corporation is created when a developer files a strata plan at the Land Title Office. A strata property's defining elements are:

1. The division of a property into units, which are individually owned, and common elements, which are collectively owned by the unit owners; and
2. A system of democratic governance that allows the owners to manage the property collectively.

The strata plan, which is filed with the Land Title and Survey Authority of B.C., defines which components of the property are included in common property – that is, owned by the strata corporation, of which all owners have a proportionate share – and which components are part of the strata units that are individually owned.

What's common property and what's privately owned?

The **common property** is any area that is available for use by all unit owners. Some examples may include the lobby, elevators, gardens, fitness facilities, and amenity rooms. Unit owners share the expense of maintaining common property by paying monthly maintenance fees. Some common property, such as storage lockers and parking stalls, is typically designated for the exclusive use of specific owners. The common property is listed and defined in the strata plan which is filed with the Land Title office.

Townhouses, apartments, condominiums – what's the difference?

The residential units in strata developments are usually described as townhouses, condominiums (condos) or apartments.

A townhouse is a housing style where there are multiple independent and similar housing units in a row, attached by shared walls. Townhouses usually have front doors directly accessible to the street and some private outdoor space in the form of a patio, terrace, or rear yard.

Apartments are living units that are accessed through a main lobby, and their front doors are accessible from a hallway that's part of the common area. The term 'condominium' or 'condo' is used in Ontario and other jurisdictions and means the same as 'strata' in B.C.

Other variations within stratas

Small stratas

Duplexes, triplexes, and fourplexes (strata corporations of two, three or four units) have some latitude in governing their shared property. The Standard Bylaws, included in the *Strata Property Act,* provide that if there are fewer than four strata lots or owners, then all owners must sit on the strata council. However, these small stratas are not exempt from the insurance provisions of the *Strata Property Act.* They must insure their common property with a building policy just as other strata corporations do.

Bare land stratas

Bare land strata corporations differ from conventional townhouse- or apartment-style condos because the strata lot is not the boundary of the walls or ceilings of the units, but rather the property line of the specific parcel of land.

A bare land strata might look like a typical street of single-family detached homes, but the owners may share common elements like the street, street lights, and amenities like a clubhouse, equestrian facility, or marina. The strata corporation's policy insures these common elements, and the owners' homes are insured by conventional homeowners' policies.

There are some variations in bare land stratas in which the strata corporation has taken responsibility by bylaw for maintaining the building exteriors and maintaining insurance on the replacement of the structures and fixtures. This is done to ensure a neighbouring property owner would not suffer financially from any negligent owners' unwillingness to insure their property.

Air space parcels

A strata corporation may have rights to air spaces above and around the strata, sometimes in conjunction with neighbouring properties. If this is the case, the strata council and property manager should review the contract agreements that establish how properties share liability, costs, obligations for maintenance, repair and inspections, and who has the authority and responsibility to administer those areas of shared property.

The *Strata Property Act* does not apply to air space parcel agreements. The relationship is purely contractual as it defines a relationship between multiple property owners, some of which may be strata corporations or commercial property owners such as hotels and shopping malls.

Stratas are advised to check if they have air space agreements, and if so, what insurance needs to be considered.

New strata developments

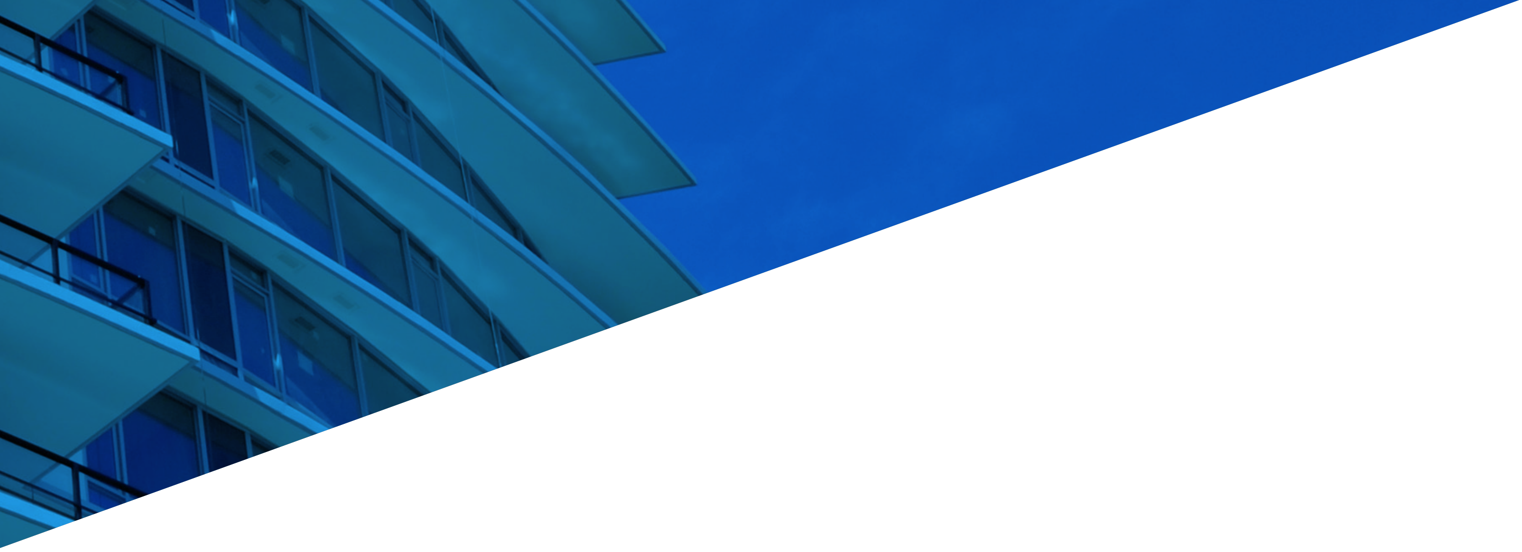
In order to give new owners time to purchase the necessary insurance, an owner-developer must insure a new strata development for at least four weeks after the first annual general meeting to allow for coverage to continue during the transfer of ownership from developer/builder to strata corporation. This means, of course, that the strata corporation should not delay in purchasing insurance.

Sections

Under Part 11 of the *Strata Property Act,* different types of strata lots can be organized into formal groups, which are called **sections**. The sections represent the interests of the strata lot owners in the section. Residential strata lots can only be divided into sections for the following types of strata lots: apartment style; townhouse style; and detached houses. In multi-use stratas, the residential and retail spaces may be managed under separate sections.

A strata corporation with sections will have two distinct levels of administration: one level related to the strata corporation as a whole, and the other level related to the different sections alone. If strata lots in a strata corporation are divided into sections, the strata corporation still retains its powers and duties with respect to matters relating to the strata corporation as a whole.

A section may obtain insurance only against perils that are not insured by the strata corporation or for amounts that are in excess of amounts insured by the strata corporation.



THE STRATA BUILDING POLICY

B.C.'s *Strata Property Act* sets the foundation for strata properties to be insured through a combination of at least two insurance policies:

- one for the **buildings** and **common amenities**, and
- one obtained by individual owners for their own property. (Additional coverage may be provided in warranty insurance for new homes, or tenants' insurance.)

To adequately protect the owners' shared assets, the *Strata Property Act* makes it mandatory for strata corporations to insure the common property to full **replacement cost** except in prescribed circumstances.[1] Unit owners insure their own units and contents.

The *Strata Property Act* requires that the strata corporation obtain and maintain property insurance and liability insurance. There are no exceptions. All strata corporations – including bare land strata corporations and duplexes – must obtain insurance coverage for the common property.

The strata corporation's insurance is a common expense; it usually occurs annually and is part of the strata's operating budget. Budgets are approved by majority vote at the annual general meeting (AGM).

Strata corporations are required to inform all strata owners of the specifics of the insurance coverage on the buildings and common property, and to inform owners of changes, including increasing deductibles, when they occur. This allows strata owners to purchase, as part of their unit coverage, additional coverage should they be assessed for a share of the building policy's deductible in the event of a loss to the common property.

Insurance brokers and landlord associations also recommend that strata owners who rent their units to tenants include in their rental agreements the requirement that their tenants purchase tenants' insurance.

1 *Those exceptions have been provided for in Bill 14 2020, Municipal Affairs and Housing Statutes Amendment Act (No. 2), but at time of publication have yet to be defined in regulation.*

What the building policy typically covers

The strata corporation must repair and maintain common property and common assets.[2] In addition, the strata property must be insured for full replacement value against the major **perils** set out in regulation and any other perils specified in the bylaws.[3] The building policy includes buildings shown on the strata plan, common property, common assets, original fixtures, and liability.

2 *Strata Property Act, s 72*
3 *Strata Property Act s. 149*

The buildings and structures shown on the strata plan must be insured to levels prescribed in legislation and regulation. The insurance valuation, deductibles, and **exclusions** should be carefully discussed and reviewed each year with a knowledgeable insurance broker.

The strata corporation must review the adequacy of the strata corporation's insurance policy annually and report on the insurance coverage at each AGM. The adequacy of the insurance coverage is ideally based on a recent insurance appraisal that measures the cost of repairing or rebuilding with like kind and quality materials at current construction costs, including the cost of debris removal and the increased costs that may result from changes to building code or municipal bylaws. The appraisal provides an estimate of the limit of insurance required to satisfy regulatory requirements.

Common property is everything on a strata plan that is not part of a strata lot, such as hallways, stairs, storage lockers roof, pools, garages, driveways, parking spaces, pipes and wires outside a strata lot.

INSURABLE INTEREST – WHAT IT MEANS FOR STRATAS

Property insurance is intended to indemnify (compensate) the property owner for a loss. It restores the owner to the financial position he or she was in before the loss occurred. The term insurable interest refers to a person's financial interest in an insured property. Property insurance law is based on the premise a person may receive payment for the damage or destruction of insured property only if she or he has an insurable interest in the property. Consequently, a person can only purchase an insurance policy for property if she or he has an ownership stake in it. Since all the owners collectively have title to the common property, they are all 'named insureds' on the building policy. Each owner's unit can be insured with a 'condo' policy.

Common assets are items such as lobby furniture, building maintenance equipment, vacuum cleaners, lawn mowers, and garden tools.

Fixtures are built or installed as part of the original or standard construction such as floor and wall coverings, and electrical and plumbing fixtures – some corporations have specific definitions for what is considered an original or **standard unit**. Fixtures are anything built or installed in a strata unit such as cabinets, carpeting, counters, counter-top stoves and the like. Items that are removable without damage to the building, such as refrigerators and stand-alone stoves that can be unplugged and carried away are not fixtures.

It may be up to the owner to insure replacement fixtures such as new cabinets, counter-top stoves, floor coverings and the like. See "betterments and improvements" on page 8.

Appliances are typically not included in the strata corporation's property insurance coverage. However, some insurance policies issued to strata corporations will include removable heavy appliances or the strata corporation can choose to purchase insurance to cover these items.

Strata corporations must carry **liability insurance** against property damage or bodily injury.[4] The minimum required liability insurance is set by regulation and is currently $2 million.

Liability insurance must cover the strata corporation, strata owners and tenants and anyone else normally occupying strata lots for third-party liability claims alleging property damage and personal injury. Those covered by the liability insurance are termed the **named insured** and are protected whether or not they are listed in the strata corporation's insurance policy.[5]

The building policy will list and describe the coverages (property, equipment breakdown, general liability, and so on) along with a **limit of liability** and the amount of the **deductibles**. In the event of a loss and a **claim**, the deductible is the insured's portion of the loss that must be paid before repair and reconstruction can commence. Deductibles vary according to the risk being covered by the policy.

4 *Strata Property Act*, s. 150
5 *Strata Property Act*, s. 155

THE STRATA UNIT POL

What the unit policy typically covers

The insurance policy that's arranged by the strata corporation to cover the building and common areas does not provide coverage for your furniture and other personal belongings. You need a strata unit insurance policy, often referred to as a "condo" policy, to cover your belongings, upgrades that have been made to the unit since original construction, third-party liability coverage, and – this coverage can't be stressed enough in our current marketplace – building deductible assessment coverage. Your unit policy can provide coverage for losses that occur in your unit and cause damage to common property or other owners' units. And it can provide additional coverage in case the strata corporation's insurance coverage is inadequate.

The condo policy is tailored to provide crucial protection strata unit owners need:

- **Personal property**, that is, household contents such as furniture, clothing, household goods, electronics, etc. It's advisable to take an inventory of your belongings and the upgrades that have been made to your unit since it was first built so that you don't under-insure them.
- **Appliances** (fridge, stove, dishwasher, and clothes washer and dryer)
- **Betterments and improvements**. If a unit has been renovated, even by a previous owner, it is the current owner's responsibility to insure the upgrades.
- Your personal **property stored in common areas** such as a storage locker.
- The policy also provides **personal liability coverage** for any bodily injury or property damage unintentionally caused to others.
- **Damage to other property**: An owner might be held responsible for the strata corporation's deductible if an accident in their suite damages common property or another suite's *original* fixtures. If an insurance claim for a strata corporation originates in an owner's unit then the strata corporation can sue the strata lot owner for the deductible. Landmark court cases have determined that responsibility for an insurance claim does not mean that the strata owner must be negligent, careless, or legally liable (i.e., at fault) in order to be responsible for paying the corporation's deductible.

  If a neighbouring unit is damaged, its owners will claim against their own unit insurance policy, and their insurer will determine if it wishes to seek compensation from the insurer of the unit where the damage originated.
- **Additional living expenses**: This insures any additional living expenses you incur as a result of insured loss or damage to your unit. This could include short-term or long-term rental of accommodations, and restaurant meals.
- **Contingency coverage**: Insures your unit in the event your strata corporation's insurance is insufficient or ineffective.
- **Loss assessment coverage**: This pays your share to cover major property and liability losses on common property that exceed the strata's policy limits. You may also be assessed a deductible under the strata corporation's insurance if you were deemed "responsible".

Limits and sublimits

Limits are one of the most important things to consider when buying an insurance policy. An insurance coverage limit determines the maximum amount of money an insurance company will pay for a covered claim. These limits of liability are listed on the declarations page, which summarizes the coverages contained in the policy.

Within some of the limits listed in the policy are **sublimits**. These are limits for certain categories of items such as jewellery, recreational equipment, art or collections, and other valuables. You may have $100,000 coverage on your belongings, but within that may be a sublimit on jewellery of $2,500. If, for example, a break-in occurs and only your jewellery is stolen, the maximum **settlement** would be $2,500, even if the stolen jewellery was of a much higher value. If you own items that are valued higher than the sublimits, you'll want to increase those sublimits so that those items are fully covered in the event of a loss.

When buying a policy

Carefully review the coverages and their

HOW MUCH INSURANCE SHOULD YOU PURCHASE?

People who have lived in single-family detached homes and are insuring their new strata unit may be surprised when they are asked to provide a dollar value for their contents. It's common to underestimate what it could cost to replace everything in their strata unit.

A homeowner's policy determines the insurance valuation of the house and then provides contents coverage to a percentage of that figure. For example, if the house is valued at $1 million, the contents may be covered for 80% of that figure, or $800,000. The condo policy insures for the value of the unit's contents without the reference point of the home's structure.

To ensure adequate protection, take the time to do a general inventory of your contents. Be sure to include your appliances and the upgrades made to the unit since it was new.

LICY

deductibles, and the limits and sublimits in your condo policy. For example, you can have a different limit on water damage whether it damages your own unit or whether it causes damage to common areas and other units. These distinctions are critically important when assessing one's risk exposure.

Provide your insurance broker with a copy of your unit entitlement and total building entitlement, along with the summary of insurance for the strata building. In tailoring your unit policy, your broker will review the strata building's water-damage deductible and earthquake deductible to determine the level of deductible assessment coverage you need should an event occur.

Discuss your options with your insurance broker.

Coverage for landlords and hosts

Owners of strata units that they rent to others should have a landlord's policy and should have their tenants agree to purchase tenants' insurance.

Before renting a unit to tenants or short-term guests, owners should check the strata bylaws for possible restrictions.

Landlords are advised to include in the rental agreement at the outset a requirement that the tenant obtain tenant's insurance. It is difficult for landlords to retroactively add requirements to the rental agreement.

Similarly, owners who plan to rent their unit to short-term guests (for example, on *www.airbnb.com* or *www.vrbo.com*) should review coverage options with their insurance broker. Coverage can be tailored to your rental or home-exchange activities.

Tenants' insurance

Tenants (renters) are responsible for damage they may cause to any part of the building or common property in which they or others live. Losses suffered by, or incurred by, tenants or their visitors are not covered by the insurance policies of the strata corporation or the landlord.

Tenants are advised to purchase insurance to cover their needs. Tenant insurance can be purchased for:

- Personal property, e.g., household contents such as furniture, clothing, etc.
- Liability
- Additional living expenses over and above the normal cost of living in the event of an insured loss

Insurance for the tenant, and exclusions, should be carefully discussed and reviewed each year with a knowledgeable insurance broker. Coverage may also be purchased for: a home-based business, water damage, earthquake, and high-value belongings.

MANAGING THE BUILDING

The strata council's role is to:

- manage the strata corporation. The council can hire a strata property manager, but the council is still responsible for complying with the *Strata Property Act*,
- act reasonably and in good faith when making decisions for the smooth functioning of the strata,
- enforce the strata corporation's bylaws and abide by the decisions of the owners.

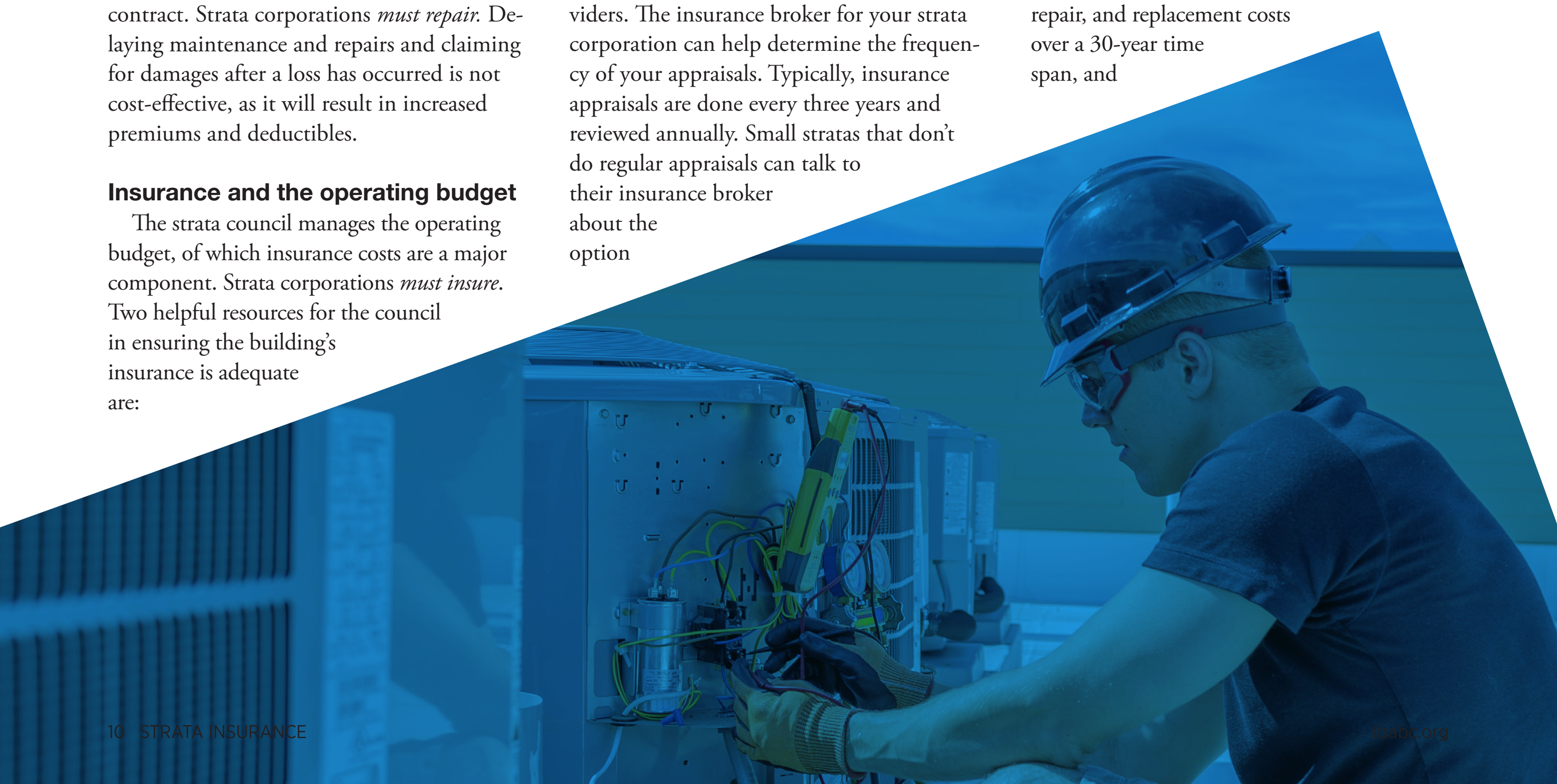
An insurance policy is not a maintenance contract. Strata corporations *must repair.* Delaying maintenance and repairs and claiming for damages after a loss has occurred is not cost-effective, as it will result in increased premiums and deductibles.

Insurance and the operating budget

The strata council manages the operating budget, of which insurance costs are a major component. Strata corporations *must insure.* Two helpful resources for the council in ensuring the building's insurance is adequate are:

Insurance appraisal: A licensed insurance appraiser can conduct an appraisal to establish the full replacement value of the property. Appraisers determine the cost of replacing the insured components at the current construction value and cost at the time the report is issued. The appraisal is provided to the insurance broker who uses the values to place your insurance with insurance providers. The insurance broker for your strata corporation can help determine the frequency of your appraisals. Typically, insurance appraisals are done every three years and reviewed annually. Small stratas that don't do regular appraisals can talk to their insurance broker about the option of **co-insurance**, whereby their loss recovery is limited to a specified percentage of the value of the insured property.

Depreciation report: Depreciation reports are long-term planning tools for maintenance and renewal of the strata's common property and assets. A depreciation report includes a physical inventory of commonly owned assets, estimates the projected maintenance, repair, and replacement costs over a 30-year time span, and



provides three financing scenarios for those costs. It allows owners to choose to start early to accumulate reserves for future repairs or raise funds with an assessment closer to the time those funds are needed.

The information in a depreciation report is also useful for prospective purchasers and mortgage and insurance providers. The repair timeline, along with the information in meeting minutes, indicate how proactively owners are planning for imminent or future upgrades.

By being proactive in making upgrades, strata corporations can avoid losses like pinhole leaks in pipes that occur over time that can lead to claims and increased insurance premiums and deductibles.

Since 2011 depreciation reports have been required for strata corporations with five or more strata lots and must be updated every three years. Because of the wide spectrum of strata properties in B.C., there is some latitude in who can prepare a depreciation report. It's good practice to look for a professional who has completed courses offered by the Real Estate Institute of Canada for Certified Reserve Fund Planners or equivalent training and who carries errors and omissions insurance.

In the summer of 2020 the provincial government indicated that it intends to strengthen depreciation reporting requirements and limit stratas' ability to avoid completing depreciation reports.[1] Strata corporations that were deferring obtaining or updating their depreciation report by passing an annual 3/4 vote should ensure they are still complying with current legislation and regulation.

Paying premiums and deductibles

The annual operating budget and the strata fees necessary to cover operating costs are approved by a majority vote each year at the AGM. The strata council must prepare an annual budget for the strata corporation's upcoming year, and distribute it with the notice of the AGM at least two weeks before the AGM.

As part of the budget preparation, contact your insurance broker to get an estimate of what the insurance costs will be for the coming year.

Under the *Strata Property Act*,[2] strata corporations and sections must have **contingency reserve funds** (CRFs) to pay for common expenses – including insurance deductibles – that occur infrequently.

Owners' approval is not required for a special levy (or assessment) for an expenditure from the CRF to pay an insurance deductible to repair or replace damaged property. The strata corporation may use cash reserves or the CRF when necessary to pay for unexpected premium increases as well.

Summary of coverages

The summary of coverages, also referred to as a summary page or information certificate, of an insurance policy contains a brief description of the terms of the policy, and *is required to be provided to all owners.* The "All Property" insured amount which appears on the declaration page should be the strata property's replacement cost as determined by a licensed insurance appraiser. No matter what the loss, an insurance policy will never pay more than the limit of insurance.

The summary page outlines the coverage and the deductibles for specific losses covered by the policy – the information owners need when obtaining insurance on their individual units, and when making plans as a group for the building.

Take note of deductibles – this is the strata corporation's portion of the loss that must be paid before repair and reconstruction can commence.

The unit-owner's policy can provide important coverage for the owner's portion (up to a limit) of assessment for the building's deductible in the event of a loss. It's imperative that owners provide their insurance broker with the building policy declaration so that the broker can offer options for deductible assessment coverage.

Other coverages to consider

Errors and omissions insurance

The *Strata Property Act*[3] makes it optional for stratas to have liability insurance that protects council members from lawsuits. The act refers to errors and omissions insurance, but commercial insurance policies may refer to it as directors' and officers' insurance. Given the responsibilities of the strata council, the risks inherent in volunteer service, and the relatively low cost of this coverage, it's prudent to purchase it.

A typical directors' and officers' **endorsement** policy reads: "To pay on behalf of any director or officer all loss which such director or officer shall become legally obligated to pay because of any civil claim arising from a wrongful act as defined."

Owners volunteering to serve on strata councils should ensure there is directors' and officers' insurance coverage in place.

New Home Warranty

New and newly renovated strata developments in B.C. may have additional insurance coverage in the form of home warranty insurance.

In 1999, in response to the crisis in consumer confidence that resulted from the years of "leaky condo" problems, government enacted the *Homeowner Protection Act,* providing one of the strongest construction-defect insurance coverages in Canada.

Residential builders and renovators must be licensed and offer mandatory, third-party home warranty insurance.[4] As a minimum, this coverage includes two years on labour and materials (some limits apply), five years on the building envelope and 10 years on structure. The warranty is attached to the home, not to the owner of the home, and remains in effect upon the resale of the home until the coverage expires.

KNOW YOUR COVERAGES

The insurance policies and warranties in effect on the building play a vital role in protecting owners' investments, and as such, when owners decide to sell their units, they will be important considerations for prospective buyers. Owners have a right to information about the details of all insurance policies and warranties in effect on the building, and if it hasn't been provided, should insist on obtaining that information so that they can a) tailor their unit policies accordingly, b) manage their investment and participate in the management of the building, and c) provide information to prospective buyers.

1 https://news.gov.bc.ca/22478

2 Strata Property Act, s. 92-96 and 98; Reg 3.4, 6.1, 6.3, 6.11

3 Strata Property Act, s. 151

4 www.bchousing.org/licensing-consumer-services/new-homes/home-warranty-insurance-new-homes

THE BIG RISKS

Insurance is a contract in which the insurance company commits to pay for damage that results from specified events or **perils**. A peril is a hazard or chance event that is unexpected and accidental. Perils listed, or named, in the insurance contract are covered. If a peril is excluded, then you would not have coverage for it. A major peril is one that has the potential to cause large-scale damage.

Because the loss that would result from a major peril would be financially devastating for most owners, the *Strata Property Act* regulations require the building policy to insure losses from: “fire, lightning, smoke, windstorm, hail, explosion, water escape, strikes, riots or civil commotion, impact by aircraft and vehicles, vandalism, and malicious acts.” The *Strata Property Act* allows strata corporations to adopt bylaws making it mandatory to insure for specific additional perils, such as earthquake, overland flooding, and sewer back-up. This bylaw ensures that future strata councils will keep the coverage in place for the protection of owners.

Earthquake

We’re hearing more about the earthquake threat than we did even a few years ago because there have been significant advances in the past decade on predictive modelling of earthquakes. Unfortunately, this new information has revealed that the risk is much greater than we had previously thought to be the case. Experts are now predicting that for the Pacific Northwest, there is a one in three chance of a major[1] earthquake happening within the next 50 years.

Earthquake insurance is expensive, and deductibles are high to reduce this cost as much as possible. Earthquakes historically result in large-scale losses; for example, not just one damaged building here and there, but all infrastructure in a given area. For those types of losses, insurance companies buy insurance capacity from global **reinsurance** companies. The earthquake premiums reflect the added costs that insurance companies must bear.

Earthquake is not listed by the regulation and is not required as mandatory strata corporation property insurance. However, strata corporations in the earthquake-prone areas of southwest British Columbia are strongly advised to purchase earthquake insurance.

Earthquake deductibles are typically shown as *a percentage of the insured value of the property,* which can range from 5% to 20% of the building value. Here’s an example: the deductible for a fire loss might be $5,000. The deductible for an earthquake loss might be 10%. Assuming an insured value of the strata is $15 million, the earthquake deductible would be $1.5 million.

In the event of an earthquake loss, the owners would have to pay the building’s earthquake deductible before reconstruction could begin. In the likely event that the amount of the earthquake deductible is more than the strata corporation has in reserve funds, the owners would be assessed their proportionate amount to come up with the deductible. Stratas can purchase an earthquake deductible buy-down policy to reduce this collective deductible. And unit owners can purchase earthquake deductible buy-back coverage to reduce their exposure in this situation; please see page 13 for more details.

Earthquake coverage for the building should cover loss due to the original earthquake plus aftershocks occurring within 72 hours, as well as snow slide, landslide or other earth movements occurring concurrently with and directly resulting from an earthquake shock.

Discuss earthquake coverage and deductibles with your insurance broker.

Water escape

The building policy may show three types of water-escape coverage: water damage, sewer backup, and overland flood. The first two coverages respond to damage caused when water escapes from pipes. Overland flood occurs when water outside the building flows overland and seeps into buildings through windows, doors and cracks. Overland flooding commonly occurs:

- when the volume of water in a river or

1 The way the tectonic plates in the Pacific Northwest are locked lead seismologists to believe that when they release, it will probably be a major quake – 7 to 9M; a small earthquake is unlikely.

OWNERS' CHECKLIST FOR MAJOR-PERIL COVERAGE

The insurance policy for unit owners can provide coverage for major perils as well. If the strata corporation has not purchased buy-down coverage for the earthquake deductible, the unit owners can purchase their own buy-down policies. The Condominium Home Owners Association of B.C. offers a checklist of key questions to ask your broker when buying condo insurance:

- What is the limit of coverage provided to me for the improvements in my unit?
- If my unit is uninhabitable due to an insured loss, what amount of coverage is provided for the additional living expenses I incur?
- If the strata suffers a loss that originates from my unit, what amount of coverage does my policy provide if I am charged back the strata's deductible? (Take a copy of the strata's insurance coverage with you so your broker can see the strata's policy deductibles.)
- If there is damage in my unit, to original strata property (floors, ceilings, walls, but not improvements and betterments or personal property), and the damage falls below the strata corporation's deductible, what amount of coverage does my policy provide to repair this damage?
- What is my limit of coverage provided for assessments made necessary by the strata's earthquake deductible?

WHAT STRATA OWNERS NEED TO KNOW ABOUT EARTHQUAKE

- Strata high-rises may be particularly susceptible to earthquake damage. Be sure your strata building has an emergency plan.
- Your insurance policy for your strata building should include earthquake. In fact, it's a good idea to pass a bylaw making earthquake coverage mandatory for the building.
- Discuss the cost of earthquake deductibles with your insurance broker as earthquake deductibles are typically shown as a percentage of the value of the property (which can range from 5% to 20% of the building value) – not the amount of the loss.
- Factor the payment of the earthquake deductible into your building's long-range planning.
- Your strata unit policy should include earthquake coverage as well. It can cover your unit owner's portion of the building deductible to certain limits. And it would also pay for living expenses while you are out of your home.

stream exceeds the capacity of the channel,
- after heavy rainfall, especially in the spring, when the ground is still frozen or already saturated from previous storms,
- following rapid melting of snow and ice jams.

Overland flood is not listed as a major peril in *Strata Property Act* regulation and is not required as mandatory strata corporation property insurance. However, the increased frequency and severity of weather-related events in Canada have made it an important coverage to add on to insurance contracts. For more information, talk to your insurance broker.

WHEN STRATA INSURANCE RATES INC

Why are strata building insurance premiums increasing, and why are the increases so large?

For any business, when cost increases threaten to cause deficits, remedial action is needed. That is especially true for insurance: the federal regulator, the Office of the Superintendent of Financial Institutions (OSFI), requires insurance companies to maintain reserves to meet the demands of future claims, and to report financial information regularly.

As with other financial instruments like mortgages, insurance rates are subject to market forces. Some of the factors that contribute to rising strata insurance premiums include:

- ***Increasing claims frequency***. When a plumbing system fails or a fire occurs in a large strata complex, a number of units are often impacted, and the overall loss is large. The increasing growth in the number of strata developments, the aging of strata buildings (many date back to the 1970s and '80s), and the natural reluctance of strata owners to undertake major system upgrades until problems occur with more frequency – these are all factors that have contributed to increased insurance claims and repair costs over recent years.

  If your building has a history of claims relating to water escape from system failures and/or resident activities, or it has an aging building system with a poor record of maintenance, its increased risk profile will also add pressure to the costs and levels of deductibles.
- ***Increasing construction costs***. An overheated construction industry has driven up renovation and construction costs across B.C. The insurance industry is not immune to these cost pressures as reconstruction and repair costs have increased each year.
- ***Catastrophic losses***. In Canada, eight of the 10 costliest years for extreme-weather losses occurred between 2010 and 2019. With major weather-related payouts occurring annually, companies are incorporating that risk into pricing because it's now the new norm. OSFI revises its minimum requirements for reserves that insurance companies must maintain based on these real-world losses.
- ***Insurance is a global market***. Recent advances in technology and predictive modelling are making more information available about areas that may be at higher risk of fire, flood and earthquake. This modelling technology, plus the actual insured costs of recent major Canadian losses, has allowed insurance companies to make more accurate evaluations of how much insurance should cost in a given area.

  Instead of having to maintain reserves for catastrophic losses (those over $25 million) insurers can transfer the financial risk to other insurance companies known

CANADA'S TOP-10 HIGHEST INSURANCE LOSS YEARS ON RECORD[1]

Rank	Year	Total loss ($ billion)	Notable severe weather event
1	2016	5.261	Fort McMurray, Alberta, fire
2	2013	3.418	Southern Alberta and Greater Toronto Area floods
3	1998	2.494	Quebec ice storm
4	2018	2.113	Multiple events including Ontario and Quebec rainstorms and windstorms
5	2011	1.740	Slave Lake, Alberta, fire and windstorm
6	2012	1.456	Calgary rainstorm
7	2019	1.334	Multiple events
8	2005	1.299	Ontario rainstorm
9	2017	1.255	Multiple events
10	2010	1.226	Calgary rainstorm

The natural disasters that had occurred by mid-2020, including thunderstorms in southern Alberta in June, cost an estimated $2 billion, putting the year on track to rank 3rd or 4th on this list.

1 Insurance Bureau of Canada

CREASE

as reinsurers. While this has the benefit of keeping premiums lower, it also makes local insurance rates vulnerable to catastrophic losses that occur elsewhere in the world. And, the higher the catastrophic loss insurers must prepare for, the more **reinsurance** they need to purchase.

- ***Tightening market capacity***. The potential for large-scale losses of strata properties – even with reinsurers sharing the risk – is compelling smaller, regional insurers to leave the strata-building market to the larger, national insurers. With some insurers pulling back or leaving the strata class completely, a shortage of capacity has resulted in B.C. The remaining insurers are scrambling to fill the void; however, they are limited in their ability to do so.

  The multi-million-dollar strata towers in the Metro Vancouver area often require more than one insurer to participate in order to reach the required capacity to insure the building. With fewer insurers willing or able to do so, the options for strata corporations have been reduced. In this restricted market, insurers can choose which strata properties they wish to insure, and that leaves the other less desirable stratas in a bind.
- ***Insurance companies' investment income has decreased***. Insurance companies must maintain reserves to pay future claims, but they are allowed to invest those reserves within conservative parameters.

  Insurers have two sources of income: (1) profits on the insurance policies they sell, and (2) interest income from their investments. From the 1970s until the late 1990s insurers averaged a nearly 10% return on their investments. This allowed them to operate with little or no underwriting profits and still remain profitable. In the current low interest-rate environment, returns on these investments have plummeted and insurers don't have this additional source of income to offset the rates that they must charge their customers.
- ***Market cycles***. Along with housing prices and financial instruments – interest rates, for example – insurance rates are constantly being revised in reaction to market forces. Such is the case with commercial insurance in general and strata building insurance in particular. The years of growth in B.C.'s strata-housing market created a protracted and highly competitive market where normal-level premiums were unduly suppressed.

BEST PRACTICES FOR INSURING BUILDINGS

- **Provide owners with copies of all insurance policies and warranties in effect.**
- **Advise owners immediately of any change in coverage** in the building policy that could affect the coverage they have in their unit policy.
- **Keep insurance appraisals up to date.** In times of rapidly increasing construction costs, insurance companies may require annual insurance appraisals or reviews.
- **Discuss your building coverage each year with your licensed insurance broker.** Invite your broker to attend the annual general meeting to answer owners' questions directly.
- **Keep the building's depreciation report updated** and use the information it provides to make long-range plans for upgrades and maintenance.
- **Pass bylaws** that ensure continued coverage over the long term. For example, consider a bylaw that makes earthquake insurance mandatory for the building.
- **Educate owners,** especially those who volunteer to serve on the strata council. Join the Condominium Home Owners Association of B.C., the Vancouver Island Strata Owners Association, and/or the Canadian Condominium Institute, Vancouver Chapter, and share the information they provide.

What does this mean for strata councils and unit owners?

Strata owners should be aware of the impact of insurance costs on the building's financial management and on their unit policy.

Operating budget

Every year, the strata council revises the operating budget and, at the annual general meeting, presents it to fellow members for approval along with a schedule of monthly maintenance fees. Your insurance broker may be able to provide an estimate for the building policy premium for the coming year, but depending on the renewal date of the insurance policy in relation to the building's fiscal year, and the possible volatility in the insurance market, that may not always be possible.

When faced with a substantial increase in insurance premium for the building, it's typical for strata councils to seek competitive quotations; indeed, strata council members are owners, too, and are well aware of their fellow owners' expectation that the expenses be managed well. However, council members often find that competitive quotations for insurance are either not available or recommended. Here's why: The number of insurance companies providing strata building insurance is small in relation to either residential insurance or business insurance.

Your insurance broker has already gone to the insurance market and found the best coverage and price. In doing so, he or she often arranges for more than one insurance company to take a portion of the coverage. So it may be that the best markets available to the strata corporation are already participating in the overall coverage of the building.

Once the building's operating budget is approved, it cannot be amended mid-term. This is because the integrity of disclosure on a Form B Information Certificate (which informs buyers of the strata fees for the current year) would be affected. If budgets were to change throughout the year, it would create unpredictable financial reporting for buyers, financial institutions, and taxation filing.

In the short term the insurance premium must be paid. The strata corporation may use cash reserves or the contingency reserve fund (CRF) without approval from owners if payment is required before there is time to convene a general meeting.

It's good management for a strata corporation to have sufficient funds in reserve to be able to pay for a higher-than-anticipated insurance premium on renewal, or a deductible should a loss occur, or an unforeseen repair.

The Strata Property Regulations require that the CRF must have a minimum level of funding equivalent to 25% of the annual operating fund. However, this is just a guideline. It is the depreciation report, not the operating fund, that provides information about the amount of money the strata corporation should be accruing for longer-term repair, maintenance, and replacement costs. Future insurance deductible costs, should a loss occur, should also be a factor when determining the target levels for the CRF.

Paying for repairs after a loss

The strata corporation *must repair* after a loss. If the loss is insured, before a claim is made, it's necessary to determine if the cost of repair is below or above the deductible. If the deductible is, for example, $100,000 (which is common) it means any claims under $100,000 are not covered by the strata corporation's insurance.

If the loss was caused by an element of common property (for example, the sprinkler system in the underground parking area), the strata corporation will be fully responsible for the payment of the deductible or cost of the repair. If there are not sufficient funds to cover those costs in the contingency reserve fund, owners will be assessed for the balance of the costs.

If the loss originated in, and is limited to, a unit, the owner will want to initiate a claim against their unit policy.

If the loss originated in a unit and extends to other units and/or common property, the insurance policies of any one or more of the affected owners and/or the building may be called upon to respond.

Although the *Strata Property Act* establishes

building insurance deductibles as a common expense, it permits the strata corporation to sue an owner to recover the deductible or the cost of repairs if the owner was responsible for the loss.[1]

To save the potential legal costs of suing an owner to prove that their negligence caused the loss, many stratas have passed bylaws making owners "strictly liable" for any losses that originated from their units. For example, if an owner's washing-machine hose fails, and escaping water causes damage to other units and common areas, the owner could be deemed responsible for the building policy deductible or the full cost of repair if it is less than the deductible.

1 *Strata Property Act s. 158*

This makes insurance coverage for individual strata unit owners more important than ever. Unit owners' policies can include a level of coverage for deductible assessments or the cost of repairs to property beyond their own unit. In summer 2020 legislation was proposed that would limit the amount of the owner's liability if the owner is responsible for the loss or damage that gave rise to the insurance claim *but not as a result of any act or omission by the owner.* Your insurance broker can explain your risk exposures and coverage options.

How you can limit the risk

1. Work closely with your insurance broker. Brokers are working tirelessly to place coverage for all strata corporations, but in some circumstances because of values and claims history, there may also be a limit to coverage. Invite your insurance broker to attend your annual general meeting to explain the changes to the building's insurance.
2. Be aware that being able to demonstrate long-term stability and a proactive approach to building maintenance will put your building in the best light and the best position for risk assessment. In these current market conditions, switching insurance brokerages or insurers may not be in your strata's long-term best interests.
3. Review your strata's depreciation report to ensure your strata is meeting regulatory requirements, and that the report's

BEST PRACTICES FOR INSURING STRATA UNITS

- **Keep your strata unit well insured.** Ask your insurance broker about unit coverage for earthquake, sewer backup, and building deductible assessments.
- **Obtain copies** of all insurance policies and warranties in effect on the building. After each renewal of the building policy, make note of changes in deductibles that could affect the amount of coverage you need on your unit.
- **Provide your insurance broker** with a copy of the building policy declaration and your unit entitlement and the total building entitlement. The insurance broker will take into account the deductibles on the building policy when making recommendations for the unit policy.
- **Take an inventory** of your unit contents so that you purchase sufficient coverage.
- **Educate yourself about strata ownership, governance, and insurance.** As a strata unit owner, you own a share in a valuable property. Know your bylaws and building rules. The better informed you are, the better positioned you are to manage your asset.
- **Take your turn** serving on the strata council. It's the best way to get to know your neighbours, learn about the condition and management of the strata building, and influence change if there are problems or challenges.

recommendations are reflected in the building's maintenance and repair plan for items that pose a risk such as roofing, water lines, and drainage systems.

4. If the strata corporation is faced with a change in insurance, dramatic increases in cost and deductibles, or the possibility of no coverage, immediately give notice to all owners regarding the changes. Early disclosure will help owners understand the situation, work together toward a solution, and obtain the best unit coverage.
5. If your building fails to obtain insurance, contact a lawyer to identify the potential liabilities and risks for owners and council members and what next steps you should consider.
6. Repair access or building issues that may risk an injury. Address broken sidewalks, or security issues.
7. Work with owners to manage risks:
    a) Ensure that all owners have access to the water shut-off to their units so they can quickly shut the water off themselves in the event of a leak.
    b) Verify that all units with washing machines have upgraded their hoses to braided steel. Failed rubber hoses in cramped closets and spaces are a chronic cause of water damages.
    c) Remind owners that thanks to the soft water in the Lower Mainland they can reduce the amount of soap they use in dishwashers or washers. For later model appliances, use the high-efficiency soap that is recommended. Excess soap suds can build up and temporarily block pipes.
    d) Owner activities, such as smoking, barbeques on balconies, balcony gas heaters, in-suite hot water tanks, and storage of flammable materials increase the risk of a fire or flood.
8. Update your bylaws: Bylaws that present a risk of human rights complaints also increase your risk. Comply with the *Strata Property Act* and enforce your bylaws. Failure to properly enforce bylaws or comply with any enactments of law can result in claims with the Civil Resolution Tribunal, the B.C. Supreme Court, or the B.C. Human Rights Tribunal. All of these increase your risk and ultimately the cost.

Get professional advice

It's prudent for strata homeowners to coordinate their unit insurance policy with their strata corporation's policy in order to avoid gaps in coverage. Provide your insurance broker with a copy of your unit entitlement, total building entitlement, and declaration of insurance for the strata building. Your broker will consider the deductibles on the building policy when making recommendations for the unit policy.

(The insurance declaration is typically included in the annual general meeting package, along with the annual operating budget, and is part of the Form B Information Certificate provided to unit purchasers. If you do not have a copy of the building policy declaration, request if from your property manager. Strata owners have a right to information about all insurance policies and warranties in effect on the strata.)

Strata owners are also advised to discuss other insurance coverage needs such as for a home-based business or if the unit is to be occupied by a tenant or left vacant for periods of time.

Strata owners should consider purchasing earthquake coverage for their units. Remember to discuss the cost of the deductible for both owner's earthquake insurance and the strata corporation's earthquake insurance with an insurance broker.

AFTER A LOSS – MAKING A CLAIM

If a loss occurs, the first concern, of course, is the health and safety of all concerned. The next priority is to prevent further damage to property. As soon as possible, call your insurance broker, who will commence remedial action and provide guidance on next steps.

When a loss occurs in a unit

Unit owners are responsible for repairing the damage should a loss occur in their unit. When a loss occurs that involves damage to walls, floors, windows or balconies (i.e., "limited common property") contact your insurance broker for advice regarding your unit insurance policy and report the loss to your strata property manager or council, as claims may have to be opened on both policies for repair.

If the damage extends beyond your unit to common property (hallways, for example) or to other units, you may be held responsible for those repairs as well. Your unit policy provides coverage for losses to your unit, and neighbouring units or common areas for which you would be held responsible. Your unit policy would pay the strata corporation's insurance deductible (certain restrictions may apply) or repair costs, whichever is the lesser amount. This could be a significant expense as building-policy deductibles of $25,000 are common and can range up to $100,000 or more.

When a loss involves the common property

When a strata corporation is awarded an insurance claim the proceeds must be paid into a trust account and the repair or replacement completed without delay.

The strata corporation may decide, by passing 3/4 vote of the owners, not to repair or replace the damaged property. In this case the funds must be distributed to the owners in proportion to entitlement (*Strata Property Act* s. 156). Sections 159 and 160 of the act should be reviewed before making such a distribution. If these sections reveal any complicating factors relating to the distribution, it would be prudent to seek legal advice.

The strata corporation can pay for a strata corporation's insurance deductible from the contingency reserve fund or by special levy; neither course of action requires a vote of approval by owners. This allows the strata corporation to quickly obtain insurance payouts to repair and replace common property and other assets.

A strata corporation can sue an owner to recover the strata corporation's insurance deductible, if the owner is responsible for the loss or damage that gave rise to the claim.

Insurance companies often investigate claims when they are filed to be sure that all the facts relating to the loss are as reported. If they are not, the claim may be denied. Some conditions that may void insurance claims are:

- Misrepresentation of facts in an insurance application;
- Alteration of the insured property in any way that might increase the risk such as installing materials or machinery, or altering or removing fire safety equipment without notifying the insurer;

WHEN LEAKS OCCUR IN A STRATA BUILDING

- A leak can be particularly damaging in a strata apartment or townhouse because of the potential for the water to spread to other units or to the common areas.
- Know where the water shut-off for your unit is located so that you can shut your water off yourself should a leak occur, or if you need to call a plumber.
- The water that comes out of household taps in Metro Vancouver and other parts of B.C. comes from pristine mountain reservoirs and is acknowledged to be among the best in the world. Naturally low in mineral content, the water is characteristically 'soft', which has many benefits: It's soft on skin, hair, and laundry. And it makes household cleaning easier because less soap, shampoo, and detergent are needed. Soft water has two considerations for strata residents:
  – First, use less soap so that suds don't temporarily block pipes and cause water backups.
  – Second, because soft water is low in mineral content, it's naturally acidic, which accelerates the corrosion in pipes. When pinhole leaks start to become a regular occurrence, get a professional assessment of the building's piping system. It may be time for major repiping repairs.
- If a leak originates in your unit and water spreads to other units or common areas, you could be liable for the cost of repair. That's one of the many good reasons why it's important to have your own insurance for your strata unit – whether you live in it or are renting it to tenants.

- Illegal activities such as "grow ops";
- Failure to report a loss promptly and properly as directed in the policy; and
- Misrepresentation in a claim for loss.

Start the claim process

- Call your insurance representative or company. Most insurers have a 24-hour claims service. Be as detailed as possible when providing information.
- Ask your insurance broker what additional living expenses you're entitled to and for what period of time. If it appears that your evacuation order is likely to extend beyond the timeframe covered by your insurance policy, talk to your insurance broker.
- List all damaged or destroyed items. Taking photos can be helpful. If possible, assemble proofs of purchase, inventories, receipts and warranties.
- Once you have reported a loss, you will be assigned a claims adjuster, who will investigate the circumstances of your loss, examine the documents you provide and explain the process. Take notes during the conversations and don't be afraid to ask questions.
- Keep all receipts related to cleanup and living expenses if you've been displaced. Ask your insurance broker about what expenses you may be entitled to and for what period.
- You will be provided with a blank Proof of Loss form, in which to list the property and/or items that have been damaged or destroyed, with the corresponding value or cost of the damage or loss. You must sign and swear that the statements you make in the Proof of Loss form are true. Ask your insurance broker or claims adjuster to clarify anything you are unsure about.

Handling disputes

Insurance policies are contracts and are subject to contract law. When a loss occurs, the performance obligations of both parties to the contract – the insurer and the insured – are activated. When a loss involves several parties – for example, the unit owners and their insurance policy, the strata corporation and the building policy, and potentially, other unit owners and their insurance policies – it can get complicated. Occasionally disputes may arise.

When confronted with a potential conflict or dispute, contact your insurance broker. Do not admit responsibility for anything until you have discussed it with your insurance broker; to do so may void your insurance.

Keep these steps in mind:

1. Review bylaws and rules; some of them may apply to your situation and may dictate how you should proceed.
2. Document all correspondence. If you have a face-to-face or phone conversation with the property manager, member of the strata council adjuster or broker, keep a log of the date of the conversation, who else participated in the conversation and what was said. If you haven't logged this information since the beginning, start now. Take some time to write down everything that has happened to date. The key here is to keep emotion out of the situation, and instead keep a record of everything pertaining to the situation so that, for example, an adjudicator or mediator, should one get involved, can put together a chronology of events. The better prepared you are, the better your chances of success.
3. Communicate formally (in writing) with relevant parties such as the strata council. State the facts as you know them, your position and the rationale for your position.
4. Educate yourself on what the other parties' obligations are.
5. If the communication from other parties confirms that there indeed a dispute, consider initiating dispute resolution.

Dispute resolution

If the dispute is between you as an insured and your insurance company, the B.C. *Insurance Act,* s. 12, provides for an insured to demand a dispute resolution process. Most disputes arise from a breakdown in communication; dispute resolution brings the parties together to discuss a solution and avoid legal costs. Either the insured or the insurer may demand in writing the other's participation in a dispute resolution process after proof of loss has been delivered to the insurer. Within seven days after receiving or giving a demand, the insured and the insurer must each appoint a dispute resolution representative and, within 15 days after their appointment, the two representatives must appoint an umpire.

Further resources are available at the General Insurance OmbudService, *www.giocanada.org,* and Mediate BC, *www.mediatebc.com.*

If the dispute is between a unit owner and the strata corporation, the Civil Resolution Tribunal provides an easy-to-use resolution mechanism: *https://civilresolutionbc.ca*. You can browse through previous insurance-related decisions to get some perspective on how the Tribunal works and potentially how similar disputes have been resolved.

Keep your insurance broker informed so that he or she can assist.

If your dispute is with your insurance broker, first, let the manager at the brokerage know about your problem. In many cases it may have been due to a lack of communication and can be easily rectified. Give the brokerage manager the opportunity to correct the problem.

Insurance brokers are licensed and regulated by the Insurance Council of B.C., under the mandate of the *Financial Institutions Act.* All licensees must meet pre-licensing and on-going educational standards and adhere to a Code of Conduct. If you believe your insurance broker has failed to meet his or her duty of care to you, you can file a complaint with the Insurance Council of BC: *www.insurancecouncilofbc.com.*

TALK TO YOUR INSURANCE BROKER

Strata properties come in an almost infinite variety of shapes, sizes and complexities. Consequently, there isn't a one-size-fits-all insurance policy for a strata property. Nearly all the insurance options for residential properties can come into play: The strata corporation's common property will require a commercial general liability policy. Strata unit owners need a condo unit-owner's policy, and tenants need their own policy. Free-standing homes in bare land stratas are insured by standard homeowner's policies.

Insurance plays an important role in the health of strata properties and communities because it makes it possible for owners to be made financially whole again after a loss. You have a friend, ally, and trusted advisor to help ensure you have adequate insurance: your insurance broker, who often is just right down the street.

Helpful links

- BC Strata Housing
  www2.gov.bc.ca/gov/content/housing-tenancy/strata-housing/operating-a-strata/finances-and-insurance
- Insurance Bureau of Canada
  www.ibc.ca/bc/home/types-of-coverage/condominium-or-strata-coverage
- Insurance Brokers Association of BC
  www.bcbroker.ca
- Condominium Home Owners Association of BC
  www.choa.bc.ca
- Vancouver Island Strata Owners Association
  www.visoa.bc.ca
- Canadian Condominium Institute, Vancouver Chapter
  www.ccivancouver.ca

DEFINITIONS

Agent: See insurance broker.

Bare land strata: Governed by the Bare Land Strata Regulations[1] these strata developments subdivide the land into strata lots and common property. In a conventional strata development, all the lots share land and walls, as well as common property. In bare land strata, the owners' individual assets typically include a single-family detached home, which is insured by a homeowners' insurance policy.

Betterments and improvements: Fixtures that have been installed by an owner to replace the original fixtures installed by the developer.

Broker: See insurance broker.

Building: The building described on the policy declaration page including:

- Fixed structures pertaining to the building(s) and located on the premises (premises is defined as the entire area within the property lines and areas under adjoining sidewalks and driveways). Fixed structures can include permanently erected pole signs, yard lights, and perimeter fencing constructed on the premises.
- Additions and extensions in contact with the building(s).
- Additions and extensions can include lean-to structures, or an enclosed walkway between buildings on the premises.
- Permanent fittings and fixtures attached to and forming part of the building: heating, plumbing and air conditioning systems, lighting fixtures, wall to wall carpeting, burglar and fire alarm systems, and other permanently installed fittings and fixtures.
- Materials, equipment and supplies on the premises for maintenance of, and normal repairs to the building. Such as lumber, roofing shingles, and glass.
- Growing plants, trees, shrubs, or flowers inside the building used for decorative purposes.

Claim: A formal request by a policyholder to an insurance company for coverage or compensation for a covered loss or policy event.

Co-insurance: Co-insurance refers to the joint assumption of risk between the insurance company and the strata corporation.

Common amenities: Amenity facilities are generally common property for which the strata corporation is responsible to repair and maintain under s.72 of the *Strata Property Act.* They often contain "common assets" (i.e. equipment and furniture) which the strata corporation is also required to keep in good condition.

1 *http://www.bclaws.ca/EPLibraries/bclaws_new/document/ID/freeside/11_75_78*

Common assets: (a) Personal property held by or on behalf of a strata corporation, and (b) land held in the name of or on behalf of a strata corporation, that is. The *Strata Property Act,* s. 149, requires strata corporations to obtain and maintain property insurance on common assets.

Common property: Any part of the land and buildings shown on the strata plan that is not a part of a strata lot. Generally, this means things like hallways, external walls, amenities, roofs, elevators, and any sort of recreation ground or shared green space. The *Strata Property Act,* s. 149, requires strata corporations to obtain and maintain property insurance on common property.

Contingency reserve fund: Under the *Strata Property Act,* strata corporations and sections must maintain a reserve fund to pay for common expenses that usually occur less often than once a year; or do not usually occur. The act sets guidelines for how much money should be set aside in a CRF.

Deductible: The portion of a loss that you are required to pay before your insurance coverage will respond. Deductibles can be used to reduce your physical damage premiums. For example, if you owned a policy with a $200 deductible and you suffered a covered loss totalling $1,000, you would pay the first $200 and the insurance company would pay the remaining $800. If the loss were only $200, you would pay the entire amount and the insurance company would pay nothing.

Depreciation report: An analysis, usually prepared by an engineer or other licensed professional, of the condition of the strata corporation's common property and assets, and a projection of what the maintenance, repair and replacement costs will be over a 30-year time span. strata corporations with five or more strata lots must obtain depreciation reports. The content and frequency of depreciation reports is mandated by the *Strata Property Act* and regulations. [2]

Endorsement: A written form attached to an insurance policy that alters the policy's coverage, terms, or conditions. Sometimes called a rider.

Extensions of coverage: Extends the insurance policy to cover certain listed losses. Fixtures: anything attached inside a strata unit such as counters, counter tops, wall and floor coverings, cupboards, and the like. Does not include: Refrigerators, stoves, dishwashers, microwaves, washers, dryers or any other item that can be removed without damage to the building. Regulation (s9.1)

2 *https://www2.gov.bc.ca/gov/content/housing-tenancy/strata-housing/operating-a-strata/repairs-and-maintenance/depreciation-reports/depreciation-report-requirements*

Fee simple: A term that refers to real estate or land ownership. The owner of the property has full and irrevocable ownership of the land and any buildings on that land.

Fixtures: The *Strata Property Act,* s. 9.1. defines "fixtures" as items attached to a building, including floor and wall coverings and electrical and plumbing fixtures, but does not include, if they can be removed without damage to the building, refrigerators, stoves, dishwashers, microwaves, washers, dryers or other items. s. 149, requires strata corporations to obtain and maintain property insurance on common fixtures.

Flood loss: While the term may be used to refer to water damage in general, insurance policies define coverage according to specific causes of water damage. Damage caused by water is often referred to generally as a flood, but insurance policies provide coverage for specific causes of water damage. Be sure you're covered for all aspects of water escape in both the building policy and the unit policy.

Hazard: A specific situation that increases the probability of the occurrence of loss arising from a peril, or that may influence the extent of the loss. For example, accident, sickness, fire, flood, liability, burglary, and explosion are perils. Slippery floors, unsanitary conditions, shingled roofs, congested traffic, unguarded premises, and uninspected boilers are also hazards.

Improvements and betterments: Fixtures that have been installed by an owner to replace the original fixtures installed by the developer.

Insurability: Acceptability of an applicant for insurance to the insurance company.

Insurable interest: An interest by the insured person in the value of the subject of insurance, including any legal or financial relationship. Insurable interest usually results from property rights, contract rights, and potential legal liability. For example, a person has an insurable interest in their house, car, spouse, and children but one does not have an insurable interest in the house, car, and members of a family down the street. Strata corporations have an insurable interest in the common property, common assets and buildings shown on a strata plan and other than bare land stratas, the original fixtures. These must be insured against liability and perils to full replacement cost except in prescribed circumstances.[3]

Insurance: A formal contract (policy) for reducing risk by transferring specified risks to an insurer. The insurer agrees, for a consideration (premium), to assume, to a specified extent, the losses suffered by the insured. In this publication we are referring to property and casualty (P&C) insurance, also known as general

3 *Strata Property Act s. 149, 152, and 153*

insurance. P&C insurance covers property (homes, vehicles, businesses) and is regulated separately from life and health insurance.

Insurance broker: A licensed person or firm who acts on behalf of the insured in issuing contracts of insurance on behalf of the insurance companies they represent. Brokers (also known as agents or intermediaries) are licensed and regulated provincially (in B.C. the Insurance Council of B.C.) to conduct insurance business and provide insurance advice to consumers. Insurance brokers must meet the Insurance Council's annual requirements for continuing education and adherence to a Code of Conduct that puts the interests of the customer first. The P&C insurance industry operates on the principle of utmost good faith which applies equally to customers, insurance companies and brokers. Insurance brokers rely on you to provide fair and honest information about your P&C insurance needs. You can then rely on your insurance broker to act in your best interests to meet those needs.

Insurance policy: Legal document issued to the insured setting out the terms of the contract of insurance.

Insured: The person (or persons) whose risk of financial loss from an insured peril is protected by the policy. Sometimes call the "policyholder".

Insurance company: A company, which may be for-profit, non-profit, or government-owned, that sells the promise to pay policyholders for losses and damage that result from specific occurrences (fire, water damage, theft, etc.), in return for payment of a premium. An insurance company holds premiums in reserve to pay future claims. Insurance companies are regulated federally by the Office of the Superintendent of Financial Institutions; some regional insurance companies are regulated provincially by the B.C. Financial Services Authority.

Insurer: See "insurance company".

Liability insurance: Insurance that protects against claims for accidental damage to other people or their property.

Limit of liability: Maximum amount a policy will pay either overall or under a particular coverage.

Named insureds: Persons named as covered by an insurance policy. Section 54 of the *Strata Property Act* makes the strata corporation, strata owners and tenants and anyone else normally occupying strata lots named insureds whether or not they are listed as such in the strata's insurance policy.

Occurrence: Loss due to a specific incident but which may be defined to include continuous or repeated exposure to substantially the same general harmful conditions.

Overland flood: The result of the level of water outside a building rising and entering the building, causing water damage. The two most likely causes of overland flooding include snowmelt and rainstorms.

Peril: A potential cause of loss that may be covered by an insurance policy. The *Strata Property Act* Regulations lists the major perils, for which strata corporations must insure: fire, lightning, smoke, windstorm, hail, explosion, water escape, strikes, riots or civil commotion, impact by aircraft and vehicles, vandalism and malicious acts. Earthquake is not included in the regulation because it is considered to have a lesser level of risk in some inland portions of British Columbia' however, insurance brokers strongly recommend to their strata clients in southwest B.C. that they obtain earthquake insurance.

Policy exclusions: Perils that are excluded from coverage by an insurance policy. Exclusions are often listed in the policy under a special heading. Damage due to war or insurrection is often listed as an exclusion. Some policies exclude theft when a door is left unlocked.

Premium: The amount of money an insurance company charges for insurance coverage. Some factors that may help determine the premiums you pay are: value of the property insured, exposure to specific risks, previous claims and loss record.

Reinsurance: Insurance for insurance companies. In exchange for a share of insurance premiums, a reinsurance company will take on part of the insurance risk. Reinsurance companies typically cover catastrophic losses when the total losses exceed a specified amount.

Replacement cost: The cost of replacing, repairing, or rebuilding the damaged property without depreciation.

Settlement: Usually, a policy benefit or claim payment. It connotes an agreement between both parties to the policy contract as to the amount and method of payment.

Sewer backup: The resulting water escape when water comes up or is pushed into the dwelling through the pipes from a sewer, sump, septic tank, eavestrough, downspout or drain. Sewer backup coverage is an extremely important additional coverage to consider, given the aging infrastructure in many municipalities.

Standard unit: Some provinces, such as Alberta and Ontario, have passed legislation requiring strata corporations to include in their strata bylaws a standard insurable unit description (SIUD). In the event of a loss, the SIUD helps insurance adjusters determine which components are covered by the building policy and which would be covered by the unit owner's policy. In Alberta, for example, the SIUD should include at a minimum: floor coverings, wall coverings, and ceiling coverings; electrical lines and fixtures, including lighting fixtures; plumbing lines and fixtures; natural gas lines and fixtures; fixtures with respect to air exchange and temperature control; walls that do not form the unit's boundaries, and any windows and doors located in those walls; cabinets and counter tops, and non-chattel appliances. Alberta puts responsibility on the strata corporation to obtain insurance covering the unimproved or 'standard' unit based on this description. Insurance for any improvements to the unit is the responsibility of the owner unless clearly stated otherwise in existing strata bylaws.

Strata corporation: A strata corporation is a legal entity with all the powers of a natural person who has full capacity. This means that it can sue or be sued, enter into contracts and hire employees. The owners of the strata lots are the members of the strata corporation.

Strata plan: A strata development can be buildings or land, divided into separate units, called strata lots. This allows for individual ownership of a strata lot. A strata plan is a full description of the buildings and land in the development. The strata plan filed with the Land Title Office.

Strata sections: The *Strata Property Act* allows some specific types of strata lots to be formally organized into sections. The sections represent the interests of the strata lot owners in the section. Sections are common in multi-use buildings that include residential and retail space. Both the strata corporation and the sections hold annual general meetings, pass budgets, and create and enforce bylaws and rules within their area of administration.

Sublimit: A liability limit in an insurance policy for a particular risk (as loss of jewelry by theft) that is below the aggregate liability limit of the policy.

Title: A legal term meaning registered ownership to a piece of property and the legal right to use it.

Total loss: A loss of sufficient size that it can be said there is nothing left of value. The complete destruction of the property. The term is also used to mean a loss requiring the maximum amount a policy will pay. In some instances of major losses, a municipal building inspector may declare the building a "substantive total loss", in other words, there isn't enough left of the undamaged structure to safely rebuild; the undamaged portion of the building must also be demolished.

Valuation: Estimation of the value of an item, usually by appraisal.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