



CHOOSING STRATA INSURANCE: A GUIDE FOR STRATA COUNCILS



INSURANCE FOR STRATA CORPORATIONS IS MUCH MORE COMPLEX THAN INSURANCE FOR SINGLE-FAMILY DWELLINGS. THIS GUIDE WILL GIVE YOU THE BASIC INFORMATION YOU NEED TO MAKE A WISE INSURANCE DECISION, WHETHER YOUR STRATA CORPORATION IS PROFESSIONALLY MANAGED OR SELF-MANAGED, NEW OR EXISTING.

Here in British Columbia, strata properties are an increasingly popular form of ownership. There are nearly half a million residential strata lots, and that figure doesn't include the growing number of commercial and mixed-use stratas.

The approximately 29,000 strata corporations each consist of an elected Board of Directors who makes decisions under the provincial Strata Property Act. Strata corporations are responsible for the day-to-day operations of the complex and have many responsibilities, but none are as important as choosing the proper strata insurance.

Obtaining the right level of strata insurance from a reputable company is the key to running a successful complex. It's important to your strata property's overall financial health, and assures buyers that the building is well-managed and prepared for whatever life throws its way.

WHAT DOES STRATA INSURANCE COVER?

Strata insurance is complicated by the fact that there are two parties involved: the strata corporation and the unit owners. That said, it's important to note the fundamental difference between the strata building policy (also known as the master strata policy) and the unit owner's policy. This ebook focuses on strata building policy.

WHAT'S COVERED?

The strata corporation's policy typically covers:



Buildings shown on the strata plan



Fixtures built or installed on the strata lot as part of the original construction



Common assets such as furniture, equipment, etc.



Equipment attached to the building, including air conditioning systems and elevators



Common property such as hallways, stairs, parkade, roof and recreational facilities



Liability for property damage and bodily injury on common property

The strata unit owner's policy typically covers:

- See [Insurance Guide for Condominium Owners](#)

TYPES OF STRATA INSURANCE

Every strata property is unique and comes with its own set of risk exposures. Your strata insurance package should be tailored to your specific requirements so you know you're getting the right coverage at the right price.

However, the Strata Property Act does state that certain coverages are required, regardless of your property's usage or size. When it comes to strata insurance, there's no difference between a commercial, residential or mixed-use strata property!

ALL STRATA PROPERTIES MUST OBTAIN:

Property Insurance: for common property; common assets; buildings shown on the strata plan; and fixtures built or installed on a strata lot as part of the original construction

Liability Insurance: to insure the strata corporation against liability for property damage and bodily injury

OPTIONAL STRATA INSURANCE:

Errors & Omissions Insurance: For council members against their liability and expenses for errors and omissions made in the exercise of their powers and performance of their duties as council members

Boiler & Machinery Breakdown: Coverage for sudden and accidental breakdown of mechanical or electrical equipment (standard property insurance only covers damages to your equipment from perils such as fire, flood or earthquake)

Volunteer Accident Coverage: Coverage for bodily injury (including death) of a unit owner while they are providing voluntary services on behalf of the Strata. For example, minor repairs, landscaping, etc.

WHY ARE MY STRATA INSURANCE PREMIUMS RISING?

Strata insurance premiums in Victoria are low compared to current rates in Vancouver and the Lower Mainland. But rates are on the rise, and that can be a frustrating reality for strata corporations and strata unit owners. After all, as premiums rise, so do strata fees!

There are several reasons behind these increasing rates. And the more you know about the factors affecting your premiums, the more able you'll be to make a wise and informed insurance decision.

Here are a few of the major culprits:

BETTER COMPUTER MODELS

With major improvements in technology and more sophisticated computer models, we are now better able to predict the outcome of catastrophes, such as earthquakes. We also have collected valuable data from earthquakes in other parts of the world that can be applied to the new models to give a more accurate estimate of potential damage. As you know, Victoria is an earthquake-prone region, and RMS, one of the companies that specialize in earthquake modelling for insurance companies, is applying the models to Vancouver Island and is able to paint a more accurate picture of potential earthquake losses.

This means that insurance companies now have a better understanding of the risks of an earthquake and a more accurate evaluation of how much insurance should cost in Victoria. These models put pressure on current rates, forcing them to substantially increase pricing on the strata complexes.

CHANGES IN REGULATIONS

The recent amendment of [OSFI regulations](#) essentially gave insurance companies two options:

1. They could purchase more [Reinsurance](#) to cover their own reimbursements to clients in case of natural disaster.
2. They could reduce their earthquake accumulations to a point where their existing reserves were adequate to cover what they had in their portfolios.

Both of these options have lead to increased premiums.

INCREASED DEDUCTIBLES

Another way to increase cash reserves from strata insurance is to increase the deductible for earthquake damage. Remember, the deductible is the amount of money that the strata corporation must pay before the insurance company begins reimbursing for damages. For example, if a \$10,000,000 building complex with 50 units has a 15% earthquake deductible (or \$1,500,000), each owner will be responsible for \$30,000 for their portion of the deductible. In the past, deductibles were kept at 10%; they are now rising to 15% and even 20%.

TIP FOR STRATA UNIT POLICY

Condo and other strata owners may have the possibility to purchase loss assessment coverage under their individual insurance policies to cover their portion of this deductible.

As always, insurance is a risk-benefit calculation; the “big one” might come tomorrow or in 50 years.

Currently, insurers consider the Victoria market “in transition.” Insurance companies currently absorb the information from computer models, adapt to the new OFSI regulations, and try to find ways to lower their risk and still maintain their profitability. This transition in getting rates to the desired levels is so insurance companies will be able to continue to offer earthquake insurance for years to come.

THE MOST COMMON TYPE OF STRATA CLAIM AND HOW TO PREVENT IT

Water damage is the number one reason stratas in BC make an insurance claim. A burst pipe, overflowing bathtub, leaky washing machine or clogged drain—whatever the cause, the leak can quickly escalate into a serious problem for both residents and strata council members.

While not all water damage is preventable, there are many things you can do to lower the risks of an expensive (and inconvenient) water damage claim.

CHECKLIST

- Ensure that your plumbing (both common and individual) is regularly checked by a certified professional
- Never leave your washing machine or dishwasher running if you're not home. You should also make sure your toilet isn't running
- Check your toilet tank for leaks by placing a few drops of food colouring into it. If the colour seeps into the bowl, you have a leak
- Don't dispose of items such as cat litter, pills or grease in your toilet
- Check your washing machine hoses regularly for leaks and make sure your discharge hose is secured firmly in place. To be extra safe, replace your rubber washing machine hoses with stainless steel
- If you're going to be away for more than a few days, have a trusted friend or neighbour check on your home. Not only will this help prevent major water damage, it's often a condition of your insurance coverage

IF WATER DAMAGE OCCURS, WHO'S RESPONSIBLE?

When it comes to insurance claims within a strata property, there are always two things to consider: the strata building insurance and the individual owners' insurance. Claims that arise from damage to not only an individual unit, but also to the building itself, require involvement from both parties. This type of situation can become quite complicated, which is why it's important to choose an insurance company that has a dedicated strata insurance specialist.

WHEN AN OWNER IS AT FAULT

Sometimes an individual condo owner can cause damage to his own unit, another unit and/or the building itself. Although each party will make a claim to his or her own insurance, it's the insurance of the party at fault that will have to pay out the two others.

WHEN THE STRATA CORPORATION IS LIABLE

Whether it's water damage from burst pipes or an earthquake, sometimes no particular strata owner is responsible for damage to strata properties. In this case, the strata corporation would file a claim and the deductible would be distributed among all owners in the building (based on the existing agreement in the strata regulations).

Here are a couple of common examples:

Q: A strata unit owner has a refrigerator leak water on his hardwood floor, causing enough damage that a potential claim must be filed. The owner purchased the unit 2 years ago and he is the third owner of this unit in the 15-year-old building. The floor was not original to his unit and was installed by a previous owner. There is no damage to any other units. What policy is responsible for the claim?

A: Since the floor is not original to the building, the strata insurance policy would not respond. The unit owner policy would respond under the Improvements and Betterments section. Even if the current owner did not pay for the improvement, he is responsible for insuring it now that he is the unit owner.

Q: A 5-storey, residential strata building has 100 units and has had significant water damage problems. Due to the number of losses incurred, the water damage deductible is now \$50,000. If my dishwasher leaks and causes damage to other strata units, who will pay the deductible?

A: Recent court cases have set precedents that if water damage to the strata building emanates from a specific unit, then that unit owner is responsible for the strata deductible—in this case \$50,000. The unit owner does not have to be negligent and, in fact, the damage could be caused by broken pipes behind his wall and he would still be responsible. The unit owner's policy contains coverage called Loss Assessment that MAY provide coverage for this deductible. Each insurance company treats Loss Assessment coverage differently so you must read your policy carefully to be sure you have adequate limits of coverage.

SHOPPING AROUND FOR QUOTES

If your master strata insurance has increased significantly, you're going to want to shop around for quotes. There are only a few insurance companies on Vancouver Island that will write strata insurance policies, so it may seem like a simple task.

Not entirely so. Because the strata insurance market is so competitive here, it's possible for brokers to "block" insurance companies from providing quotes to competitors. How can this happen, you ask? Well, some insurance companies will just provide a quote to the first broker that approaches them with a risk. Some brokers use this knowledge to block competitors from accessing the insurance companies even when they have no intention of quoting terms from that insurer.

THE SEAFIRST ADVANTAGE

SeaFirst Insurance has a great advantage because we have access to most of the domestic insurance companies. Even better, we also have exclusive access to Lloyds of London and therefore, we cannot be blocked from quoting. Lloyds is also usually much more competitive than the domestic insurance companies, enabling us to provide excellent terms on most risks.

WHETHER YOU'RE A BRAND-NEW STRATA COUNCIL OR AN EXISTING ONE LOOKING TO SWITCH BROKERS, WE HOPE THIS GUIDE HAS TAKEN SOME OF THE MYSTERY OUT OF STRATA INSURANCE.



SeaFirst Insurance is the largest independent insurance brokerage on the Saanich Peninsula and Gulf Islands. With 7 locations to serve you, we're experts in all things strata insurance and will provide you with the professional advice you need to make a sound insurance decision.

If you have any questions or would like to receive a quick and simple insurance quote, don't hesitate to [contact us](#) or [request a quote](#) online.