

# Proline Advantage Bulletin on Insurance

We are preparing information bulletins for complicated items and issues that we believe are of importance for owners and council members in the strata corporations that we manage. If there are items that you believe would provide valuable information to strata owners, please let us know at [proline@prolinemanagement.com](mailto:proline@prolinemanagement.com) and we will consider addressing them in future bulletins.

## THE STRATA CORPORATION'S POLICY

### What must be covered?

- The Building & Exterior Property:** Section 149 of the *Strata Property Act* requires your strata corporation to obtain and maintain property insurance on the common property, common assets, any buildings shown on the strata plan and any originally installed fixtures. The insurance must be for the full replacement value of these items and must cover any perils set out in the regulations of the *Strata Property Act* or in the strata corporation's bylaws. "Major perils" are defined as "the perils of fire, lightning, smoke, windstorm, hail, explosion, water escape, strikes, riots or civil commotion, impact by aircraft and vehicles, vandalism and malicious acts." While sewer back-up, flood and earthquake are not explicitly defined as major perils, they are commonly covered by your insurance policy and should be included in your coverage if they are not already. You can review your current insurance coverage by reviewing the insurance summary that is included in your most recent Notice of Annual General Meeting. If you have a website for your strata corporation, you can view the most recent notice there.
- Underground Services:** If you are a townhouse project, it is important to have coverage under the general property coverage described above for underground services, since standard policies may not provide coverage for these items (which can include underground electrical conduit and water mains) once outside of the building foundations.
- Commercial General Liability:** This covers third party liability for property damage or bodily injury that occurs on common and limited common property at your complex. The *Strata Property Act* requires minimum coverage of \$2,000,000, though we recommend coverage of at least \$5,000,000 for most strata corporations.

### What should be covered?

- Directors & Officers Liability:** The *Strata Property Act* does not require this coverage, but it is prudent for a strata corporation to have this coverage to protect the strata council volunteers. This covers claims against strata council members, individually or collectively, for errors and omissions made in the exercise of their powers and performance of their duties as council members.

## THE IMPORTANCE OF A PROFESSIONAL BUILDING REPLACEMENT COST APPRAISAL

As mentioned above, the strata corporation is required to insure its property to full replacement value. Determining the full replacement cost can only be done professionally by having a replacement cost appraisal performed by a licensed appraiser. An initial replacement cost appraisal will cost between \$1,500 and \$2,500 before taxes, with the cost dependent on the size and complexity of your complex. Once the initial appraisal has been completed, annual updates average \$250 plus taxes and are invaluable in ensuring that your complex is fully covered.

In addition to meeting legal requirements, a replacement cost appraisal has a practical benefit from an insurance perspective. Most commercial insurance policies include a 90% co-insurance clause, which states the strata corporation must insure the building to at least 90% of the actual reconstruction value or they may suffer a financial penalty in the event of a partial loss. For example, if the building is insured for \$1,000,000 but it would actually cost \$2,000,000 to rebuild, the building is 50% under-insured. If a partial fire caused \$400,000 in damage, the strata corporation would only receive \$222,000 for repairs as they are roughly 55% under-insured, which means the strata corporation will be left paying the \$178,000 difference. A professional building replacement cost appraisal will give peace of mind and will avoid paying large financial penalties. In addition, depending on the underwriter for your complex, a current replacement cost appraisal may qualify you for guaranteed replacement cost, which will ensure you are fully covered in the event of a major loss, even if construction or other costs have risen dramatically since your insurance renewal date.

## RECOMMENDED ADDITIONAL COVERAGE

- **Equipment Breakdown:** Mechanical breakdown coverage for telephone systems, heating and cooling systems, electrical panel, elevators, etc. This is covered in most standard strata corporation insurance policies for complexes within our portfolio.
- **Volunteer Coverage:** This covers injury to resident or council volunteers that do work on the property, such as gardening, gutter cleaning and other minor maintenance items. This will not cover injury to any contractors that are on the property, as they are covered by WorkSafe BC.
- **Blanket glass coverage:** This coverage provides a lower deductible for broken glass that must be replaced and is standard coverage for most insurance policies for complexes within our portfolio.
- **Lost Key Coverage:** This provides coverage in the event a common area or master key is lost or stolen. This is covered for most insurance policies for complexes within our portfolio.
- **Extra Expenses:** This covers additional costs when policy limits are exhausted and can provide funds for additional items that might be required to maintain certain systems in a building after significant damage, such as an emergency generator.

## COMMON EXCLUSIONS FROM THE STRATA CORPORATION'S POLICY

1. Individual unit owners' personal property.
2. The improvement and betterments made to the interior of each strata unit.
3. Wear and tear.
4. Leakage or seepage, unless caused by a specific occurrence.

Please note that in the event of significant damage to your unit, whether caused by a common asset or an item for which you or another owner are responsible, the strata corporation's insurance will not provide funds for alternative accommodation for you or your tenant. In addition, the strata corporation's policy will not provide coverage to you for loss of rental income in the event your tenant is required to find an alternative location while repairs are undertaken after a significant loss.

## LOSS ASSESSMENTS

The *Strata Property Act* states that a strata corporation has the right to recover any deductibles from the owner responsible for the loss. Recent jurisprudence, such as the *Mari* case have set out a very broad definition of responsibility, noting that owners are responsible if the cause of damage emanates from their strata lot, even in instances where the owner is not negligent.

For example, if water damage originates from a unit and the strata corporation incurs costs such as payment of an insurance deductible or amounts up to the deductible as a result, the strata corporation has the right to charge any such amounts back to the unit owner. Water damage is the most common example, and the most common strata corporation claim, so the deductible can be very high. It is important to ensure that your personal policy covers the full value of any deductibles that may be charged back to you by the strata corporation.

The highest deductible that a strata corporation will pay is the earthquake deductible, which is generally 10% or more of the replacement cost of the complex. This means that if the "Big One" happens, the strata corporation must pay 10% of the total insured value of the building to utilize the earthquake coverage. In other words, should a claim be made as a result of an earthquake, the strata corporation would have to levy a special assessment against unit owners to recover the deductible, which it has the right to do without the need for the  $\frac{3}{4}$  vote at a general meeting that is required for other special assessments.

By way of example, a strata corporation has 20 units of similar size, and an insurance policy with a building limit of \$5,000,000. If the earthquake deductible is 10%, or \$500,000, each unit owner would be responsible to pay their proportionate share in accordance with unit entitlement. If unit entitlements were all equal, there would be a special assessment of \$25,000 each.

Loss Assessment coverage covers unit owners for deductibles that are charged back to them by special levy or for deductibles for which the owner is responsible under the *Strata Property Act*. Some insurance companies limit the amount payable on a condominium policy to a percentage of the property value limit or to specific amounts for different types of damage. Owners must make their loss assessment limit high enough to cover these amounts. The Notice of Annual General Meeting includes a summary of your insurance coverage together with the deductible amounts for the main types of damage.

## PERSONAL INSURANCE POLICIES

### What should be covered?

1. **Personal Property:** The policy limit should reflect the replacement cost for all personal items, including appliances, clothing, furniture, kitchenware, linens, etc.
2. **Unit Improvements & Betterments:** Your homeowner's insurance should cover upgrades that you make to your unit or fixtures. For example, the strata corporation's insurance policy will not cover new flooring, upgraded cabinetry, lighting and any other such items.
3. **Loss Assessments:** As mentioned above, assessments for insurance deductibles from the strata corporation, whether as a result of special assessment or by your responsibility for reimbursement of a deductible under the *Strata Property Act*, should be covered by your homeowner's policy.
4. **Additional Living Expenses:** This covers additional expenses required to maintain your standard cost of living after a loss. This coverage can also include loss of rental income, which is the fair rental value of that part of the premises that is rented or held for rental by you. As mentioned above, if there is a catastrophic loss that requires you to move out of your unit for any period of time, the strata corporation's insurance policy will not cover those costs. You will only receive compensation for such expenses if you have coverage under your homeowner's insurance policy.
5. **Personal Liability:** This covers you for third party liability claims that occur inside your strata lot, specifically, and that you may cause elsewhere, generally (subject to the specific terms of your policy). In addition, if your guests cause a loss that is covered by the strata corporation's liability insurance, the underwriter may try to recover damages from your guests directly. Liability coverage may help protect you in that instance. We recommend liability coverage of at least \$2,000,000.

## FREQUENTLY ASKED QUESTIONS

### **Q: The strata corporation has insurance. Why do the individuals need to buy it?**

**A:** While the strata corporation's master policy protects common property and the basic walls and floors of each unit, the personal contents, improvements and betterments made to a strata lot are not covered. Owners may also be held responsible for strata corporation deductibles, which are generally significantly higher than the deductibles that are charged under a homeowner's insurance policy. In the event of significant damage, an owner may be forced to relocate temporarily, and there is no coverage of those types of expenses (or rental revenues if a tenant is forced to relocate) under the strata corporation's policy.

### **Q: What are unit improvements and betterments and why do I need to insure them?**

**A:** Strata corporations are required to insure the building, including the basic and standard units. This normally includes the original floor coverings, walls and ceilings of the building. However, the strata corporation's insurance policy explicitly excludes any upgrades or improvements to the original features made by any owner of the unit, including previous owners. This would include hardwood floors, expensive carpets, new kitchen cabinets, etc.

### **Q: Who's responsible for damages that originate inside a unit and spread to other units or to the common property of the strata corporation?**

**A:** The unit owner's insurance policy would respond to pay for damages caused to the contents and any improvement or betterments made by the unit owner in that owner's suite or for any claims that another neighbor may make in the event the damage was caused by the owner's negligence as determined by a court of law. Damages caused to the building would be covered under the strata corporation's insurance policy. However, the strata corporation may assess the unit owner for the policy deductible or for any amounts that don't exceed the deductible.

### **Q: What should I do in the event of a claim?**

**A:** The strata unit owner should do whatever is required to prevent further damage to the property and then contact their property manager. The property manager will contact the broker or insurance company with the details of the loss, including date of loss, cause of loss and contact information. The owner should also call his or her own broker if there is any damage to his or her strata lot or if he or she suspects that an event occurring in that strata lot may have caused damage to another strata lot or the common property. If a significant event occurs outside of business hours, the owner should contact Proline Management Ltd.'s emergency phone service, which can be reached by calling our main office number at 250.475.6440.

### **Q: Who should I contact with questions about the resolution of my claim or the status of restoration work?**

**A:** Once an insurance claim is commenced, an adjuster will be appointed by the insurance company to manage the claim on its behalf. The adjuster is responsible for obtaining quotes, where required, and overseeing the work of the restoration contractor. If you have questions about the status of your claim or the restoration work, you may contact the adjuster. You may also contact your property manager in the event that you are having a difficult time reaching the adjuster or do not have the contact information for the adjuster. However, please note that your property manager has no authority to manage the claim on behalf of the insurance company or to dictate how the restoration contractor must fulfill their duties. Once a claim is filed, the insurance company has ultimate oversight of your claim.