



**Strata Insurance**

**A Guide For Strata  
Councils**

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# 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. As of March 31, 2023 there were 690,980 strata lots in 32,344 strata corporations in B.C.

Strata councils are responsible for management of the strata corporation and have many responsibilities under the *Strata Property Act*, but none are as important as choosing the proper strata insurance.

Obtaining the right level of strata insurance from a reputable company is important to your strata corporation'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 multiple parties involved: the strata corporation and the unit owners. That said, it's important to note the fundamental difference between the strata corporation's policy (also known as the master strata policy) and the unit owner's policy. This guide focuses on the strata corporation's policy.

*The Strata corporation's policy typically covers:*

- Buildings shown on the strata plan including common property such as hallways, stairs, parkades, carports, and recreational facilities
- The common property may include parking lots, roads, even street lights and water treatment facilities
- Common assets such as furniture and equipment
- Fixtures built or installed on the strata lots as part of the original construction, such as the original flooring and countertops
- Equipment attached to the building, including boilers, air handling systems and elevators
- Liability for property damage and bodily injury on common property
- Other optional coverages

## The strata unit owner's policy

Owners of condominiums, townhouses, and bare land strata lots can learn about the unit owner's insurance coverage in the [Insurance Guide for Condominium Owners](#).

# Types of strata insurance

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

The *Strata Property Act* requires certain coverages regardless of your property's usage or size. When it comes to strata insurance, there is no difference between a duplex, a condo tower, a commercial, or a mixed-use strata property!

## All strata properties must obtain:

**Property Insurance:** against major perils 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:** Coverage 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 corporation. For example, minor repairs and gardening.

**Earthquake Coverage:** While the *Strata Property Act* does not require strata corporations to have this coverage, it is an important consideration for stratas that are in earthquake-prone areas of B.C., such as Vancouver Island.

# Why are the strata's insurance premiums rising?

Rising rates 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 will be to make a wise and informed insurance decision.

*Here are a few of the reasons for higher premiums:*

## **Increased replacement costs**

The *Strata Property Act* requires all strata corporations to be insured to full replacement value. It's important to get an appraisal to know what the amount is. British Columbia has experienced very high increases in the cost of construction. This means that the replacement value of your buildings has likely gone up 20-40% or more between 2020-2023. Naturally insurance premiums increase to cover the higher value.

## **Catastrophes and earthquakes**

With major improvements in technology and more sophisticated computer models, insurance companies are now better able to predict the outcome of catastrophes, such as earthquakes. They 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.

Companies that specialize in earthquake modelling for insurance companies are 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 earthquake-prone regions, forcing them to substantially increase the pricing on strata properties.

## **Changes in regulations**

Changes to OSFI regulations (Office of the Superintendent of Financial Institutions) for insurance companies have led to increased premiums. Insurance companies must have adequate funds or purchase insurance for themselves (called reinsurance) to cover their clients' losses in case of a natural disaster. Both options have led to increased premiums.

## **Increased deductibles**

Another way for insurance companies to increase their cash reserves to cover potential disasters is to increase deductibles for water damage and earthquake damage. In the past, earthquake deductibles were kept at 10%; they are now rising to 15% and even 20%. Insurance companies try to find ways to lower their risk and still maintain their profitability. Getting rates to the desired levels will enable insurance companies to continue to offer earthquake Insurance for years to come.

The deductible is the amount of money that the strata corporation must pay before the insurance company begins reimbursing for damages. Let's look at an example of a strata property with an appraised replacement value of 10 million dollars and a 15% earthquake deductible. The building sustained damage in an earthquake, and the strata corporation needs to raise 1.5 million to pay the deductible. Since the strata doesn't have that much money in their contingency reserve fund, the council imposes a special levy. Since there are 50 units, each owner's portion is \$30,000 on average. The exact amount is calculated by unit entitlement.

## **Tips for a strata unit policy**

Condo and other strata owners may be able 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.**

## How to prevent water leaks

Water damage is the number one reason strata corporations in B.C. make insurance claims. Whether it's a burst pipe, overflowing bathtub, leaky roof or clogged drain, the leak can quickly cause extensive damage to common property and owners' units.

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.

### UNIT OWNERS' CHECKLIST

- ☐ Ensure that your plumbing 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 is secured firmly in place. To be extra safe, replace your rubber washing machine hoses with stainless steel braided hoses.
- ☐ Consider water leak detection devices for dishwashers, hot water tanks, and washing machines.
- ☐ If you're going to be away for more than a few days, shut off the water to your unit. If there is no water shut off for your unit, shut off the water to your sinks and toilets. Have a trusted friend and neighbour check on your home. Not only will this help prevent major water damage, but it's also often a condition of your insurance coverage and might be a condition in your strata bylaws.
- ☐ If you have tenants, ensure that they have insurance.



### STRATA COUNCIL'S CHECKLIST

- ☐ Ensure that common property plumbing and drains are maintained by a certified professional.
- ☐ Be prepared for an emergency: know where water shut offs are located.
- ☐ Ensure roofs are inspected and maintained regularly by a professional.
- ☐ Ensure gutters and downspouts are cleaned to prevent blockages.
- ☐ Ensure that pipes at risk of freezing are heated and/or insulated.
- ☐ Ensure perimeter drains are inspected and flushed.
- ☐ Consider water leak detection devices/systems for common property pipes.
- ☐ Consider bylaws that require hot water tanks in owners' units to be replaced before the warranty expiry date.

### If water damage occurs, who's responsible?

When it comes to insurance claims within a strata property, there are many things to consider, such as where the damage is located, who is responsible for repairing the damage under the bylaws, and what is insured by the strata corporation's policy and the individual owners' policy.

Claims that arise from damage to both the common property and an owner's unit require involvement from both insurance companies. 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.

### Who pays the strata corporation's deductible?

If a claim is made on the strata's policy, the strata corporation must pay the deductible as a common expense. The *Strata Property Act* allows the strata council to impose a special levy or use funds from the contingency reserve fund to pay an insurance deductible. Approval of the owners is not required.

Under section 158 of the *Strata Property Act*, the strata corporation may sue an owner in order to recover the deductible portion of an insurance claim if the owner is responsible for the loss or damage that gave rise to the claim.

### When an owner is responsible

When water escapes from a strata unit, an owner might be found responsible for causing damage to their unit, another unit, and/or the common property. There are many BC Supreme Court and Civil Resolution Tribunal cases that have determined that an owner or tenant is responsible even if they weren't negligent.

Each party should make a claim on their own insurance, and the insurance of the party found responsible will have to pay the other insurance companies.

*Here are a couple of common examples:*

**Q:** An owner's refrigerator leaked causing damage to their hardwood floor. The owner purchased the unit 2 years ago. A previous owner removed the original carpet and installed the hardwood floor. There is no damage to any other units. Which policy is responsible for the claim?

**A:** Since the floor is not original to the building (an original fixture), it is not covered by the strata corporation's insurance policy. The floor is an Improvement and Betterment under the unit owner's policy. Even though the current owner did not install or pay for the hardwood floor, they are responsible for insuring it now.

**Q:** A 5-storey condo building has 100 units and has had several water leaks over the last few years, causing significant damage. Due to the number of losses incurred, the water damage deductible on the strata's policy is now \$50,000. An owner's dishwasher leaked, causing over \$90,000 in damage to the lobby and 2 other strata units. The owner makes a claim on the strata's policy. Who pays the deductible?

**A:** Court cases have set precedents that if water escapes from a unit and causes damage, then that unit owner is responsible for the strata's deductible—in this case \$50,000. The unit owner does not have to be negligent. In fact, in many cases, the owner would still be responsible even if the damage was caused by broken pipes inside their wall. The unit owner's policy contains coverage called Loss Assessment which 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 coverage.

## Shopping around for quotes

If your strata corporation's insurance premium has increased significantly, you're going to want to shop around for quotes. [Perhaps add a comment about allowing time to shop around before a policy expires...]

### What is a broker?

The brokerage isn't the insurer. Your broker is an insurance expert who works with insurance companies to get your strata the best policy to suit your needs. Your broker can walk you through the process and answer your questions.

### What factors might the insurer consider?

- Claims history: has your strata made any claims in the last 5 years?
- Is your building more than 3 stories tall?
- How old is the building?
- Is it a wood frame or concrete?
- Where is it located? Is it in an area that is earthquake-prone or at high risk for flooding?
- Is there aluminum wiring or poly B piping?
- Are there hot water tanks in each unit or a common property hot water system?
- Are there woodburning or gas fireplaces?
- Is it a non-smoking building?



- Are there business activities such as hotel use?
- Does your strata have a depreciation report?

## What is “blocking”?

There are only a few insurance companies in British Columbia that will insure strata corporations, so many policies have the same insurance companies providing the coverage.

Because the strata insurance market is so competitive in B.C., it's possible for brokers to “block” those few insurance companies from providing quotes to competing brokers. How can this happen? Well, some insurance companies will just provide a quote to the first broker that approaches them for a quote. Some brokers use this knowledge to block other brokers from accessing the same insurance companies even when they have no intention of using 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 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.

# We got you!