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Earning Your Stamp of Approval

THE FINE PRINT OF STRATA INSURANCE & STRATA CONTENTS AND IMPROVEMENTS

During Spring 2020 various issues around strata insurance such as gross increases in deductibles surfaced to the forefront of the media. If you didn't understand insurance policies much before, it is my hope to help you to understand why this strata insurance issue really matters, and that you can reduce your anxiety and risk with a little education and action. Let me start that education by stating emphatically that the fine print matters!

There are two types of insurance policies that relate to the strata. The first is strata building insurance - in which payment is covered in monthly strata fees. I call this the 'bricks and mortar' insurance policy. This policy is already held by the strata corporation and covers the overall structure of the building, common and limited common areas. Selection of the broker and underwriter is the responsibility of the strata corporation on behalf of all the individual strata unit owners and is only updated from time to time. These bricks and mortar policies include a specific level of finishing, including the general finishing of specific units. In practical terms - there is no specific control over this bricks and mortar policy by an individual person or strata unit owner, except through involvement, awareness and voting rights. And, as it's impossible or impractical to update a bricks and mortar policy every time one strata unit owner upgrades a refrigerator, the complementary insurance to that bricks and mortar insurance is the second type of strata insurance -- strata contents and improvements insurance ("SCII"). This SCII is the whole responsibility of the strata owner to purchase and maintain annually.

Some people will equate SCII to renter's insurance, but it is not that simple. Not only does SCII cover contents such as furniture, appliances, clothing, computer equipment and such - it covers improvements and upgrades (renovations) to the unit. For example, your unit might have been improved with 24 carat gold-flecked hardwood flooring, gold plated faucets and gold-plated toilet seats (to emphasize the point!). These improvements would be reflected in either the price you are paying or the increased value to the property after upgrades and improvements. It is these improvements that are important to accurately assess for financial value in consultation with your insurance broker when obtaining SCII or increasing policy coverage. The strata building insurance, which payment is covered in monthly strata fees, will not cover your personal property in your unit or the value of the improvements that have been made to the unit. The building coverage will ONLY cover to the basic standard defined in the strata building insurance policy, whereas SCII takes you to the 'gold' standard.

While the financial compensation of a payout of a SCII policy makes sense, it is important for borrowers to remember this improvements insurance is mandated by mortgage lenders in the fine print to have and keep in place for the length a mortgage exists. A borrower cannot let the policy lapse. From the lender perspective, when a catastrophic or big dollar insurance claim occurs, the unit will be put back to the same quality of finishing as prior the triggering event (i.e. flood, fire, etc.) using compensation via the insurance policy in place. To some extent, current strata owners with SCII in place are covered in getting their home back to the same standard, however strata owners who choose to disregard SCII are definitely not. In the evolving new insurance culture with shifts to 'who pays what' in a strata insurance claim, the root of new problems for strata owners begins.

The biggest issue in the strata insurance coverages lays in interplay between the strata building insurance coverage and the SCII. Strata corporations are now seeing increased dollar value to bricks and mortars deductibles in the fine print of insurance policies (ie. for a water sewage back up). This deductible is the responsibility of the strata corporation to pay out first, and then the strata building insurance (or a combination with SCII) coverage kicks in. Essentially, for a policy with deductible of $100,000, insurance coverage will only apply to the dollar value above the $100,000. The real kicker here is that strata corporations are now starting to place the burden of the strata building insurance coverage deductible or repairs onto the individual strata homeowner for the unit damage. Reviewing strata meeting minutes (for new purchasers) or keeping abreast of changes to strata by-laws (current owners) becomes essential to assess personal risk exposure.

A client of mine recently experienced the strata owner's nightmare:

A strata unit was sold in Greater Victoria with a set completion date in August. Five days before the sale was to go through, damage from a water back up was discovered in the unit. The unit had been vacant for two months and it is not known when the water had backed up into the unit. It is likely damage was made worse due to the lapse of time with water sitting on hardwood floor and seeping into the kitchen cabinetry. Cost of repairing the damage was estimated at up to $80,000. The owner asserted that the blockage of the pipes couldn't have come from her unit because no one had been living in it for 2 months prior, however the Strata Corporation asserted that the first $100,000 deductible was the responsibility of the strata owner, and not that of the Strata Corporation. After that it was uncertain who or which insurance would pay. If any.

In this scenario, the client did not hold any SCII. Like many, she expected that the strata building insurance would cover the cost of repairs for pipe blockages in the building. Even if the SCII was in place, it is not a guarantee that the SCII policy owner (strata owner) would receive adequate compensation in a claim. In reference to my earlier point, it really depends on the fine print of the SCII policy.

From my own experience, I know the value of having the improvements insurance in place because I once had a $40,000 flood in my duplex strata. Damages were in part covered by the strata bricks and mortar insurance, but mostly through the contents and improvements insurance.

However, my client's scenario illustrates the real risk to strata homeowners when none or inadequate insurance is in place. From this we should all be taking action to avoid the unexpected financial consequences of an insurance claim. Understanding the foundational aspects of strata insurances and the potential issues means it can be corrected.

Key Takeaways for Strata Owners:

1. The financial burden of fixing property damage may be placed on specific strata owners, even if the damage (or some of the damage) may be covered under an insurance policy.
2. You may be responsible for some or all deductible/damage costs even if you did not cause the damage in your unit (i.e. your neighbours three floors higher are throwing sanitary wipes or hypodermic needles down their toilets).
3. You may be responsible for costs to repair any and all damages in your unit.
4. If not responsible for all costs associated with fixing damages, you may be responsible for some.
5. You may not have the financial resources to correct the damages or return the unit to its previous finished quality.
6. You may be placed in a position to litigate to recover your costs.
7. You may have a legal obligation in your mortgage contract to make sure you have correct level of coverage.

However, let's be clear here – THERE IS A FIX! You should consult with your insurance broker about your unique scenario.

Existing SCII policy holders:

1. Check your current policy for adequate coverage on any owner deductibles to limit that you may bear in the event the strata unit or building has an insurance claim.
2. Check to make sure your current policy has adequate improvements financial coverage to return your strata to the 'gold' standard.
3. Review the bricks and mortars policy coverages.

New SCII policy holders:

1. Get a SCII policy with correct coverages and deductibles.
2. Ask for these coverages – in writing
3. Upon receipt review your policy to make sure you see the coverages requested.

4. You should also satisfy yourself regarding the correct insurance for strata contents and improvements with respect to your specific strata unit

5. Updating in the future for potential improvements.

6. If buying, review the bricks and mortars policy coverages to understand what is covered, what are the deductibles, and if there any gaps in coverage.

Although BC Notaries do about 75% of all real estate deals in the province, we are in no way involved in the negotiation and understanding of the specific terms of your insurance coverage - we never see your property or review insurance policies. However, as a representative of the lender we are required to provide an insurance binder with proof that each of the two types of strata insurance are in place. The burden of getting the strata contents and improvements insurance in place with correct coverage, and understanding the implications for financial consequences of both insurances in the event of a claim is the sole responsibility of purchaser or homeowner.

You should satisfy yourself regarding the strata's insurance policy, including the strata's ability to obtain renewals for future policies for the building. You should also review the strata policy deductible amounts or any matters relevant to the coverage of the overall structure and property. Generally insurance investigations should be done as a subject condition before the contract becomes binding – or, in other words, make it a condition, and properly review it before you remove the conditions. Notaries Public in B.C. represent for legal real estate conveyance work and we are not involved in pre-binding contract terms, conditions or negotiations. Our involvement relates to the contract after it is in binding (firm).