

# **INSURANCE CONSIDERATIONS FOR STRATA CORPORATIONS IN B.C.**

**Provided by Megson FitzPatrick Insurance Services**

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# INTRODUCTION



Strata properties are a popular choice for many Canadians, as they offer convenience, security, unique amenities and value prices. In fact, in British Columbia alone, over 1.5 million people live in stratas.

While the word strata is often used in reference to a condo, strata housing can include townhouses, duplexes or even single-family homes in certain circumstances. This is important to keep in mind, as insurance needs for stratas (strata corporations in particular) are complex and governed by law in B.C.

In a general sense, strata corporations—which are effectively made up of many strata owners—manage strata operations, oversee business affairs and protect the property interests of all strata owners. As part of this obligation, strata corporations and owners must follow the Strata Property Act, which provides a legal framework and strict insurance requirements.

The insurance requirements laid out in the act are detailed, which can create an administrative burden for strata corporations and owners alike. As such, it's important to work alongside a qualified insurance broker to understand the insurance needs of strata corporations, particularly to secure the right level of coverage and avoid costly litigation.

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This guide is meant to provide an overview of the specific insurance policies strata corporations must purchase. In addition, this resource recommends a number of optional policies to supplement your risk management programs.

Navigating the complex world of strata coverage can be a challenge. As an industry expert, Megson FitzPatrick Insurance Services is your go-to resource for tailored solutions for your strata corporation. After reviewing the content of this guide, contact us to review your insurance needs.

# WHAT IS STRATA INSURANCE?

Strata insurance is a complex topic, especially when you consider that it involves multiple parties—the strata corporation and strata unit owners. When it comes to strata insurance, there are effectively two policies to keep in mind:

## THE STRATA BUILDING POLICY

(sometimes referred to as the master policy)

This type of policy covers strata corporations and is designed to insure the collective interests of shareholders and the strata corporation itself. Typically, strata insurance is available for commercial, residential and mixed-use buildings.

## THE STRATA OWNER POLICY

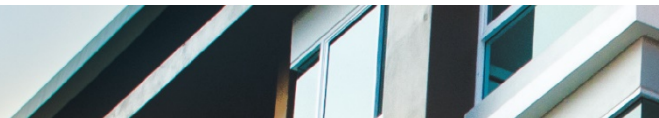
While not required by the Strata Property Act, insurance for strata units is recommended. These policies cover the personal interests of unit owners, such as personal property, any improvements and betterments done to the unit, and personal liability.

Every strata property is unique and comes with its own set of exposures. Both strata corporations and unit owners should work closely with their insurance broker when electing coverage to ensure that policies are adequate and cover all of the appropriate risks.

### What Does Strata Insurance Cover?

One of the most difficult things to understand is the relationship between a strata corporation's policy and a strata owner's policy. Each individual policy covers very specific exposures and, to avoid any gaps in coverage, it's important to understand how the various types of strata insurance complement each other.

# WHAT IS STRATA INSURANCE?



The chart below provides a high-level overview of the types of exposures each policy accounts for.

A STRATA CORPORATION'S POLICY COVERS:	A STRATA OWNER'S POLICY COVERS:
<ul style="list-style-type: none"><li>• The buildings shown on the strata plan</li><li>• Common property such as hallways, stairs, roofs, pools, garages and driveways</li><li>• Fixtures built or installed as part of the original construction, including things like floor and wall coverings or electrical and plumbing fixtures</li><li>• Strata assets like furniture and equipment</li><li>• Liability of the strata corporation for property damage and bodily injury claims</li></ul>	<ul style="list-style-type: none"><li>• Personal property such as clothing, household items, furniture and items stored in lockers</li><li>• Unit upgrades (betterments or improvements)—such as custom hardwood flooring—made by current and previous unit owners</li><li>• Expenses over and above the normal cost of living in the event that the owner is unable to live in their home following an insured loss</li><li>• Unit owner's personal liability for any bodily injury or property damage unintentionally caused to others</li></ul>

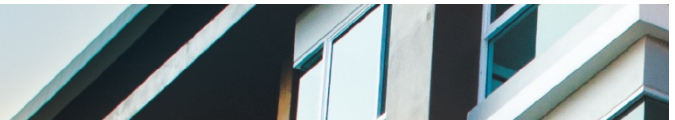
In addition to managing their own insurance requirements, strata corporations should encourage and recommend coverage for strata owners themselves. Above all, strata owners need to have all-encompassing homeowners insurance that works alongside the policies already put in place by a strata corporation.

Special areas of concern for strata owners include:

- Betterments and improvements
- Liability coverage
- Damage to other units and common areas
- Personal property and items stored in common areas
- Living expenses
- Earthquake insurance

If you're unsure about what's included in your current policy, meet with an insurance representative to ensure you have adequate coverage.

## WHAT TYPES OF INSURANCE ARE STRATA CORPORATIONS REQUIRED TO HAVE?



Within a strata corporation, a number of insurance policies are likely to be in place. These policies are obtained by the strata corporation itself or its owners. Per the Strata Property Act, strata corporations must obtain both property and liability insurance. However, it's not enough to simply purchase these policies. Strata corporations must ensure that their coverage meets the following minimum standards:

INSURANCE TYPE	REQUIREMENTS	SPECIFICS/EXAMPLES
<b>Property Insurance</b>	Strata corporations must acquire property insurance that covers the full replacement value of key items and insures against major perils. Per the Strata Property Act, corporations must account for major perils, including fire, lightning, smoke, wind, hail, explosions, water, strikes, riots or civil commotion, damage caused by aircraft and vehicles, vandalism and malicious acts.	<p><b>Common property</b>—This includes everything on a strata plan that is not part of a strata lot. Examples include, but are not limited to, storage lockers, parking spaces, hallways, hall carpets, garages and pipes outside a strata lot.</p> <p><b>Common assets</b>—Common assets are essentially items that are used by several strata unit owners. Examples include, but are not limited to, caretaker suites, vacuum cleaners, lawn mowers and leaf blowers.</p> <p><b>Buildings shown on the strata plan</b>—A strata plan designates the locations and boundaries of different categories of property. It is the strata corporation's duty to insure any buildings shown on the strata plan.</p> <p><b>Fixtures</b>—Fixtures are anything built or installed in a strata unit. Examples include, but are not limited to, cabinets, carpeting, counters and countertop stoves. Any items that are removable, like a refrigerator or microwave ovens, are not considered fixtures.</p>
<b>Liability Insurance</b>	Strata corporations are required to secure a minimum of \$2 million in liability insurance to protect against bodily injury and property damage claims.	Liability insurance must cover the strata corporation, owners, tenants and anyone else normally occupying strata lots. While \$2 million is the basic requirement, some strata corporations increase their limits for added protection.

There are often multiple policies, conditions and clauses to manage with strata insurance. What's more, not all insurance policies are created equal, and strata corporations must work closely with a qualified insurance broker to not only purchase the right policy, but the correct limits as well.

## WHAT TYPES OF INSURANCE ARE STRATA CORPORATIONS REQUIRED TO HAVE?



This is especially important for strata insurance, as corporations may need specific limits to meet requirements set out in the Strata Property Act. When it comes time to elect coverage, contact an insurance expert at Megson FitzPatrick Insurance Services. They will simplify the underwriting process for you, ensuring your strata corporation secures adequate coverage.

## WHAT ABOUT OTHER FORMS OF INSURANCE?

While the Strata Property Act outlines insurance requirements for property and liability coverage, strata corporations are advised to consider several other forms of insurance.

### Directors and Officers Insurance

While directors and officers (D&O) insurance is optional under the Strata Property Act, this coverage is a necessity for the majority of strata corporations. D&O insurance protects strata council members against liabilities for errors and omissions made in the performance of their duties as council members. This is important, as strata council members are held to the same standard of care as directors of companies and non-profit organizations.

A minimum of \$1 million in D&O coverage is recommended for most strata corporations. The strata corporation itself should be included as a named insured to the D&O coverage. In addition, if some of the strata council's duties have been delegated to non-members, consider adding these individuals as named insureds to the D&O policy as well.

**A minimum of \$1 million in D&O coverage is recommended for most strata corporations.**

### Earthquake Insurance

Earthquake insurance is not explicitly listed as required coverage under the Strata Property Act. However, this type of insurance is particularly important for strata corporations that operate in earthquake-prone areas of B.C.

While policy language can vary, coverage generally protects against losses or damages caused to property by the shaking of the earth. During the underwriting process, be sure to ask your insurance broker about the cost of earthquake deductibles. This step is crucial, as earthquake deductibles are expressed as percentages, often based on the value of the property itself.

### Overland Flooding and Water Damage

The Strata Property Act does not account for overland flooding. However, water damage is a leading cause of insurance claims for strata corporations. In fact, water damage from overland floods has the potential to affect multiple strata units at once, leading to complex and costly repairs. As a result, strata corporations should consider adding flood coverage to their risk management program, especially if they operate in flood-heavy areas.

### Coverage for Appliances

A strata corporation's property policy typically excludes coverage for appliances. This is because property insurance under the Strata Property Act only covers fixtures, which includes items attached to a building. This effectively excludes any item that can be removed from a building without causing damage, like:

- Refrigerators
- Stoves



## WHAT ABOUT OTHER FORMS OF INSURANCE?

- Dishwashers
- Microwaves
- Washers
- Dryers

To protect themselves and common property, strata corporations should speak with a qualified insurance broker about their policy options. To avoid discrepancies and coverage gaps, the full replacement value of uninsured items, policy deductibles and exclusions should all be discussed and reviewed each year.

### Miscellaneous Coverage

In addition to the policies listed above, there are a number of other supplementary coverage options to consider. Depending on a strata corporation's needs and exposures, they may want to ask an insurance broker about the following:

- Boiler and machinery insurance (for claims arising from the strata corporation's boiler or similar equipment)
- Crime insurance (to respond to claims for misappropriation of funds by the strata corporation's agents and employees)
- Pollution coverage (for claims related to bodily injuries and property damage caused by hazardous waste materials released during a strata corporation's operations)

## INSURANCE REPORTS AND COVERAGE CHECKLIST

The Strata Property Act requires strata corporations to report on the adequacy of their insurance each year. At a minimum, these annual reports must show that the insurance coverage complies with the requirements of the Strata Property Act. Specifically, under the act, strata corporations must:

1. Review the adequacy of the corporation's insurance.
2. Report on the insurance coverage at each annual general meeting.

To help meet the reporting requirements of the act, use the checklist below to assess your exposures and insurance needs.

INSURANCE CHECKLIST		
	YES	NO
Has your insurance appraisal been updated?	<input type="checkbox"/>	<input type="checkbox"/>
Does your property insurance cover the full replacement value of your assets?	<input type="checkbox"/>	<input type="checkbox"/>
Have you accounted for all fixtures in your policies?	<input type="checkbox"/>	<input type="checkbox"/>
Are you protected against all the perils listed in the Strata Property Act?	<input type="checkbox"/>	<input type="checkbox"/>
Do you have a minimum of \$2 million in liability insurance? Is this enough?	<input type="checkbox"/>	<input type="checkbox"/>
Are your council members and other leaders protected through professional liability insurance or similar policies?	<input type="checkbox"/>	<input type="checkbox"/>
Do your insurance policies contain any exemptions? Are these documented?	<input type="checkbox"/>	<input type="checkbox"/>
Do you have any employees? Do they require additional coverage?	<input type="checkbox"/>	<input type="checkbox"/>
Do you insure any volunteers?	<input type="checkbox"/>	<input type="checkbox"/>

COVERAGE LEVELS		
Peril/Exposure	Coverage	Deductible or Limit
Property		
Comprehensive liability		
Earthquake		
Flood		
Sewer backup		
Water damage		
Boiler and machinery		
Directors and officers		
Pollution		
Volunteers		
Key loss		
Per cent of coinsurance:		

# DEALING WITH A CLAIM

Strata corporations and unit owners should have an understanding of the deductibles associated with specific losses. What's more, all stakeholders need to know the terms and conditions of their policies and who is responsible for paying for a particular claim.



**IF A CLAIM ARISES,  
CONSIDER THE FOLLOWING:**

- 1** Strata corporations should contact their insurance broker immediately if they believe an incident may result in liability or a lawsuit.
- 2** In the event of an incident, strata corporations should take immediate action to prevent further damage or injury.
- 3** Strata corporations should never admit responsibility or wrongdoing for an incident until they have contacted their insurance broker. Doing so can void a policy.
- 4** In the event that a strata corporation is threatened with a lawsuit, they should not respond until they have contacted their insurance broker.

## Paying Deductibles

Following an insurable loss, owners are often the ones that contribute to the deductible based on unit entitlement. To avoid disputes, strata corporations should clarify deductible responsibilities and collection procedures in their bylaws. Prior to doing this, strata corporations should seek legal advice from a professional.

The following are some additional items to keep in mind when it comes to dealing with claims and collecting deductibles:

- When a strata corporation is awarded an insurance claim, the proceeds must be paid into a trust account. In addition, repairs or replacements must be made without delay. However, strata corporations can vote against replacing or repairing damaged property within 60 days of receiving an award.
- The strata corporation can pay for its insurance deductible from reserve funds or via a special levy—both without a vote of approval from owners. This allows strata corporations to obtain insurance payouts quickly, and to repair and replace common property in a timely fashion.
- A strata corporation can sue an owner to recover its insurance deductible, particularly if the owner is responsible for the loss or damage that led to the claim.

# WHAT'S NEXT?



The Strata Property Act is hundreds of pages long, dozens of which cover the strict insurance requirements for strata corporations. Regardless, strata corporations need to take care and fully understand what's expected of them. Not only does securing the right level of coverage protect strata corporations from fines and penalties, but it also ensures they are protected in the event of a claim.

The underwriting process for stratas can be confusing, and an experienced insurance broker can prove invaluable. Contact an expert at Megson FitzPatrick Insurance Services today to learn about your options.