



# **Rising Condominium Insurance – Assessment and Advocacy Options**

*June 2021*



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## Overview

BILD Alberta members continue to express concerns over rising cost of condominium insurance and the impact it is having on the affordability and feasibility of future projects. Based on conversations with various members, association partners and industry stakeholders, it is evident that the issue is complex and strongly market driven as multiple insurers are leaving the market space altogether and reducing available competition. As a result, BILD Alberta is developing a advocacy strategy that will engage industry partners, municipalities and various provincial government departments to identify and implement a balanced solution in mitigating rising condominium insurance.

## Issue

Condominium insurance premiums in British Columbia, Alberta, and Ontario have increased substantially between Q3 2019 and Q3 2020 largely due to the frequency and severity of claims, driven by severe weather events and rising rebuilding costs. This is mostly due to Canadian property and casualty insurers seeing their return on equity and return on investment drop dramatically in recent years. For instance, BFL Canada's data from 2018 (3-year cumulative data) outlined for every \$1 insurance companies collected on premiums for condominium buildings, they paid on average \$1.67 for claims. In addition, property losses as a share of total losses paid out have increased from about 25 percent to over 36 percent in the last decade.

Due to these growing losses, insurance companies are being selective in insuring specific condominiums and pivoting away from others that have undesirable factors, such as the age of the building, wiring, piping, plumbing, or even geographical conditions. Other insurance companies are exiting the marketplace altogether, regardless of the price they charge, resulting in the remaining companies raising their premiums and deductibles significantly. Alberta has the third-highest average rate of insurance premiums after British Columbia and Ontario and market indicators are not providing any projected relief anytime soon.

Like the banking sector, the insurance industry in Canada is highly concentrated. While there are nearly 200 companies active across the country, the top five by premium value account for over 43 percent of all business. If a large insurer moves to limit their exposure to a specific type of risk or region, lack of capacity can 'harden' the market and result in higher premiums as currently witnessed in British Columbia, Alberta, and Ontario. Insurance companies are also taking into consideration the rising cost of catastrophic losses from costly climate events in recent years (flooding, hailstorms, fires, and wind events). Insurance companies are investing in more technologically advanced modeling and risk forecasting and current modeling is not favorable and suggests an increase in climate-related natural events.

The Government of Alberta is aware of the situation but has not presently committed to any intervention. Other jurisdictions, including Ontario, have not committed to any legislative changes but have acknowledged the growing issue.

## Condominium Insurance In Alberta

Under the *Condominium Property Act* and the Condominium Property Regulation, condominium corporations are required to have property insurance covering units located in a building for their full replacement value, subject to any reasonable deductible agreed to by the board and the insurer.

A corporation is required to maintain insurance to protect common property against loss resulting from destruction or damage caused by fire, lightning, smoke, windstorm, hail, explosion of natural, coal or manufactured gas, water damage caused by flood, water damage caused by sewer back-up or the sudden and accidental escape of water or steam from within a plumbing, heating, sprinkler or air conditioning system or a domestic appliance, impact by aircraft, spacecraft, watercraft and land vehicles, riot, vandalism or malicious acts (other than vandalism or malicious acts caused by an owner, occupant or tenant to the unit) and any other causes as required by the condominium by-laws.

For bare land condominium units, condo corporations must maintain insurance on common property against loss resulting from destruction or damage caused by the perils listed above.

The amount of insurance required for condominium units depends on the type of unit. Condominium corporations must, at a minimum, place and maintain the following amount of insurance:

- **Residential units on the parcel owned by the developer:** the replacement value of units and of the fixtures and finishing as they existed at the time of the condominium plan's registration.
- **Non-residential units on the parcel used in connection with a residential purpose (e.g., parking spaces and storage units for owners):** the replacement value of the units and of the fixtures and finishing, as were typically provided to purchasers by a developer.
- **All other non-residential units on the parcel:** the replacement value of the units, excluding the replacement value of any fixtures and finishing in the unit.
- **Units on the parcel owned by the corporation:** the replacement value of the units and of the fixtures and finishing in the unit.<sup>1</sup>

Legislation also require condominium corporations to cover replacement costs and not the actual cash value. Replacement cost differs from actual cost value in that it reflects the amount of money needed to repair damage back to the same sort of condition as it was originally. Given the cost of materials and labour currently faced by industry, major repairs in Alberta can become disproportionate. The insurance premium on replacement cost is generally higher than actual cash value.

In general, condominium corporations do not have the flexibility to choose what coverage they require and cannot push claims of fixtures and finishing back onto unit owners. Various studies have outlined the increasing number of small claims is a contributing factor to the cost of rising insurance.

In January 2020, Service Alberta introduced amendments to the Condominium Property Regulations which clarified the options that corporations can use to recover insurance deductible costs. Condominium corporations can recover the cost of an insurance deductible from an owner where the damage and resulting insurance claim originated in their unit or exclusive possession area (for example a storage space). Some common claims include damage caused by fire, smoke, flooding, or damage caused by the sudden and accidental escape of water from a plumbing, heating, or air conditioning system or a domestic appliance. The legislation caps the amount of the deductible that can be

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<sup>1</sup> [Condominium Law For Albertans, Insurance, January 2020.](#)

recovered from an owner (often referred to as a “chargeback”) at \$50,000. Previously there was no cap on the deductible chargeback.<sup>2</sup>

The intent behind the regulatory changes is to ensure the corporation and other owners do not bear the burden of this cost. Before the changes, a condominium corporation had to provide proof of negligence on part of the owner which often was cumbersome and complicated to prove. Although the government reduced red tape on the behalf of condominium corporations, adding a cap of \$50,000 on the deductible did unintentionally increase insurance premiums. British Columbia’s Financial Services Authority conducted a thorough analysis that concluded the higher the deductible, the lower the premium, as higher deductibles reduce the amount insurers pay. Deductibles form a part of the policy’s overall cost and act as key influencers on the premium price.

Insurance in Alberta is also seeing a rising number of small claims that are resulting in higher insurance premiums. Stakeholders have indicated that property management firms often use insurance as a maintenance tool or that they can lack the technical expertise to identify when maintenance is required. In certain instances, condominium corporations felt it was less costly to file a claim because of the low deductibles and low premiums than finance repairs and maintenance directly.

## Engagement

BILD Alberta engaged with members through various committees to gain a better understanding of the current issue and potential advocacy options. Common themes out of the engagement sessions included:

- Rising condominium insurance is significantly impacting the affordability and purchasing power of prospective homeowners with demand for condominiums decreasing substantially since the pandemic as many homeowners opt for single-family homes that do not require monthly fees. Members estimate that a \$100 increase in condo insurance translates into \$15,000 lost in purchasing power.
- Building with resilient materials or using innovative tools such as water detection technology has yet to significantly reduce insurance premiums.
- The rising number of small claims is a growing issue and is contributing to rising premiums.
- Condominium corporations should have more flexibility, including insuring only the structure of a unit and require an owner to insure fixtures and finishings described in their Standard Insurable Unit Description.
- Condominium boards have historically used insurance as a maintenance tool when deductibles were less than the cost of the repair.
- Due to recent regulation changes, condominium corporations can only recover a maximum of \$50,000 for insurance deductibles from unit owners. Previously there was no cap, and this may cause unintended consequences on insurance premiums.
- Municipalities need to reconsider their high-density targets, especially if condominium ownership demand is weakening. Many builders are considering purpose-built rental projects instead to avoid costly insurance and weakened demand.

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<sup>2</sup> [Service Alberta, Recovery of Insurance Deductible, February 2020.](#)

Based on the feedback provided, BILD Alberta conducted a cross-jurisdictional analysis and further engaged industry partners and associations to understand if any proposed solutions exist in mitigating the challenges presented.

## Alternative Solutions

Associations and provincial authorities across the country are pushing for various advocacy solutions to this complex market-driven issue. In December 2020, British Columbia's Financial Services Authority delivered a [final report](#) analyzing multiple key factors affecting the health of the condominium insurance market. The main findings concluded there is not enough supply of insurers currently in the market and this issue is unlikely to correct without additional insurers willing to compete and take on the risk. Recommendations from the report included the government creating additional insurers, whether it is through public insurance, private insurance, or a private-public partnership.

The British Columbia regulatory authority also raised the possibility of utilizing 'Captive Insurance' which is a type of self-insurance where a related group of entities establishes an insurance company. Captive insurance companies are wholly owned and controlled by their insureds, a captive should be viewed as a structure that can provide innovative insurance support or provide supply and encourage risk mitigation, supporting long-term pricing stability to be a successful enterprise for corporation's insurance needs. Insurance coverage may also be structured to meet the specific needs of the insureds. British Columbia is the only jurisdiction in Canada with captive legislation.<sup>3</sup>

British Columbia premier Horgan acknowledged the findings from the report and told his ministers of finance and housing that if "rates have not corrected by the end of 2021," they should explore a public strata insurance option.<sup>4</sup>

In the interim, the provincial government in British Columbia announced legislative amendments to the *Strata Property Act* and *Financial Institutions Act* and associated regulations to:

- End the practice of referral fees between insurers and strata property managers or other third parties.
- Set out clear guidelines for what strata corporations are required to insure, including providing homeowners with advanced notice on any policy changes, including increasing deductibles, and allow strata's to use their contingency reserve fund when necessary to pay for unexpected premium increases.
- Protect strata unit owners against large lawsuits from strata corporations if the owner was legally responsible for a loss or damage, but through no fault of their own.
- End best terms pricing where the final premium paid by owners is usually based on the highest bid, even if lower quotes were available.
- Enabling regulations for further changes, if required.

In Alberta, the Ministry of Treasury Board & Finance aligned with B.C. and released a bulletin discontinuing Best Terms Pricing as of March 1, 2021. The Ministry acknowledged curtailing Best Terms Pricing should help alleviate some of the premium increases but will not solve all insurance issues faced by many condominium corporations in Alberta. The Ministry urges condominium

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<sup>3</sup> [BCFSA, December, 2020, "Strengthening Foundations"](#)

<sup>4</sup> [Vancouver Sun, March 5, 2021 "BC condo insurance crisis continues in 2021"](#)

corporations to work with their insurance broker or insurance representative to identify steps they can take to improve their risk profile.

The Canadian Condominium Institute is proposing reforms to insurance brokers including:

- Insurance brokers must disclose commission;
- Insurance brokers can't get kickbacks; and
- Insurance brokers need to give the condo corporation more than 60 days' notice prior to a renewal.

The Insurance Bureau of Canada is talking to all levels of government and insurance companies, trying to identify policy changes that could ensure that insurance stays on the market at an affordable rate. A Task Group issued a [final report](#) in June 2021.

CHBA National is aware of this issue and is advocating a national approach to the federal government. In the coming years, CHBA National expects to provide builders and developers with better design and decision-making tools to construct a more resilient building that is less susceptible to natural disasters and more insurable at a lower cost to buyers.

Treasury Board and Finance Minister Travis Toews said the province is aware of challenges with insurance rate hikes that condominium corporations have experienced but is not considering introducing any caps. Rate regulation can distort the market and reduce insurer participation, thereby adding upward pressure on premiums. Although rate regulation may initially protect consumers from prices that are perceived as excessive, it can have unintended negative consequences, including adding significant additional costs that increase premiums.

## Advocacy

Based on the information gathered, there is no clear, individual solution that will resolve this complex issue. Increasing the supply of insurers can only occur if the market is favorable without increasing the risk of diminishing returns on investment. Although supply remains the main topic to address, members have highlighted it is equally important to advocate to reduce the number of small claims. Members have stated the majority of claims are minor and rarely associated with catastrophic events. For the market to return to a healthy state which is sustainable in the long term, there needs to be a consistent amount of supply of insurance and a reduction in costly claims, where possible.

Without a clear, singular solution; BILD Alberta will engage with multiple Ministries within the Government of Alberta and municipalities to highlight the following topics.

### Service Alberta:

- Consider amendments to the *Condominium Property Act* and Regulations to ensure condominium corporations can only insure the structure of the unit and require owners to insure fixtures and finishings identified in the Standard Insurable Unit Description.
- Consider removing the \$50,000 deductible cap under the Condominium Property Regulations while balancing consumer protection.
- Consider reviewing the list of coverage corporations are required to cover as stated in legislation.
- Encourage the use of risk management education for condominium/strata board members.

- Identify methods to remove property management boards from using insurance as a maintenance tool and mandating the licensing of condominium/strata managers to hold a higher level of experience and professionalism.
- Mandating depreciation reports and enhancing regulations governing the use of reserve funds.

#### **Treasury Board and Finance:**

- Work with policymakers to identify opportunities to create favorable market conditions to increase supply and competition.
- Consider the creation of public, private, or public and private partnership insurance agencies to increase the supply of insurers.
- Enable legislation to allow 'Captive Insurance' as an alternative option.

#### **Municipalities:**

- Highlight consumer demand for multi-family projects post-pandemic in urban centers and whether there is the same capacity / demand as there was prior to the pandemic.
- Emphasize Alberta's advantage over other impacted markets (British Columbia, Ontario) is affordable housing and if condominium insurances continue to push prospective homebuyers out of the market, municipalities will need to consider different approaches to their bylaws and density targets.
- Discuss members considering rezoning their developments to optimize the viability of projects or shifting resources to purpose-built rentals opposed to condominium buildings and how this will only continue as insurance prices rise.

#### **Election Strategy:**

- Given the timing of the election cycle, drafting policies that require substantial stakeholder engagement and legislation review may be difficult to implement prior to the spring of 2023.
- Condominium insurance advocacy can become a component of BILD Alberta's election strategy with a focus on engaging elected officials on potential commitments leading up to the 2023 provincial election.
- The outcome of the 2021 municipal election may require revisions in BILD Alberta's advocacy strategy with municipalities.
- The NDP have publicly stated they would consider insurance caps if they were re-elected and may consider policies implemented by the NDP government in B.C.

Members are encouraged to discuss advocacy options with BILD Alberta, and staff will continuously provide updates through correspondence and committees. In the interim developers and builders planning a strata development are encouraged to discuss insurability with their brokers, as there may be minor adjustments which would reduce Property & Casualty coverage costs for eventual strata owners and provide a compelling market advantage.