

STATE OF THE INSURANCE INDUSTRY:

What Board Members Need to Know

2019 has presented numerous challenges for the insurance industry, specifically for condominiums and apartments. These buildings have been experiencing a sharp increase in premiums and deductibles, based on the new minimum requirements of the insurance companies and the building's history of claims.

Background:

The condominiums insurance market changed rapidly and dramatically in 2019. Over the last year we have seen significant increases to both premiums and deductibles on managed properties, as insurers look to reduce their exposure to risk.

The insurance market is in a hardening state because of the poor loss performance. More than half of every dollar collected in premiums is paid out in claims. After operating expenses and taxes, insurance companies are losing money.

Insurers are reducing insurance capacity, increasing rates and deductibles, or leaving the residential insurance marketplace altogether due to poor financial results. Board members and unit owners should understand the factors influencing the insurance marketplace and how their condominium corporation might be impacted at the next policy renewal.

Insured Value Increases:

Condominium corporations are required to be insured to full replacement value. Due to higher costs for supplies and an increase in labour wages, the typical replacement value in our portfolio has increased between 7-12% over last year.

Condominium corporations should expect an increase solely due to the higher value being insured. Property insurance is priced based on the value of the property, so if the replacement value increases, so does the premium.



Factors Influencing the Rising Costs of Property Premiums:

Climate Change

Climate change is a reality and its cost to Canadians is increasing. In Canada, we see the impacts of climate change mainly in the severity and intensity of extreme weather events. Thirty years ago, insured losses for extreme weather events averaged \$400 million per year, whereas now the Insurance Bureau of Canada reports an average \$1 billion per year.

Claims on the Rise

In 2018, insured losses from severe weather events across Canada totalled a staggering \$1.9 billion. The Insurance Bureau of Canada reports the highest ever loss for a single year was \$5 billion in 2016, of which \$3.7 billion went to the Fort McMurray wildfire in northern Alberta that resulted in 60,000 insurance claims. Prior to 2016, the year 2013 was the record-breaker for catastrophic losses when insurers paid out more than \$3.2 billion due to floods and storms.

Global Community

For the most part, insurance companies involved in the Canadian condominium market are exposed to global reinsurance rates. Therefore, large insurable losses globally will impact rates across Canada

2017 was one of the costliest years for insurers and reinsurers due to devastating hurricanes in the United States, earthquakes in Mexico and an abundance of wildfires costing insurers in excess of \$200 billion.

Low Supply/High Demand

More buildings are being constructed, many of which are larger and more complex than ever before. Most, if not all buildings, are experiencing increased replacement cost values, requiring even more capacity from insurance companies. However, remaining insurers are restricting their capacity for the condominium class which is creating less insurance supply, leading to increased premiums when combined with high demand.

The Bottom Line

Insurance rates need to increase to improve performance and attract insurers into the condominium insurance market.

- » Insurance rates need to increase to improve performance and attract insurers into the condominium market. We are seeing restrictive underwriting from all insurance companies, regardless the condominium corporation's broker.
- » Condominium corporations with frequent or severe claims will see a higher rating increase and higher deductibles, regardless of whether the most recent claim occurred during the last insurance term, as insurers have new stricter underwriting guidelines.
- » Obtaining multiple quotes is very difficult in this market as brokers share from the same pool of insurance companies. Insurers are much quicker to decline to quote if the corporation has any perceived risk factors (e.g., frequent losses).
- » Expect more attention to detail on specific claims and more questions regarding what steps have been taken to prevent similar claims in the future.

What does it mean for Unit Owners?

These insurance changes can have a significant impact on maintenance fees or require a special assessment if the condominium corporation experiences a loss and may have an adverse effect on sales.

Deductibles:

If your corporation has a clause in its bylaws that allows deductibles to be charged back to a unit owner in case of damage to other units or the common elements, then this should be clearly outlined as a warning to the unit owners. Unit owners should understand the importance of protecting themselves against deductibles that may be assessed against them for any losses that they are deemed responsible for.

Most insurers will offer homeowners coverage if a deductible is charged back to the unit owner. As of January 1, 2020, unit owners can be asked to cover a deductible (up to a maximum of \$50,000) if damage originates in their suite. All Alberta condominium owners should contact their insurance broker to make sure they are fully covered with deductible insurance.

Mortgages:

If the value of a unit is close to the mortgage amount plus the deductible maximum, then a mortgagee may decide not to place a mortgage. For example, if you try to mortgage 90% of the value of a \$500,000 property (\$450,000), and they were being asked to pay a \$50,000 deductible, the unit owner is at risk of just walking away from their investment. The mortgagee may then find itself in possession of the unit, where the equity remaining may not be enough to adequately cover the loss. How soon before the mortgage companies start seeing this type of risk and then potentially refusing to provide a mortgage?

Tips to Mitigate Rising Insurance Costs:

- » Regular maintenance and building updates to keep your property in the best shape possible (e.g., plumbing, electrical, heating, and roof).
- » Education: Distribute educational materials to owners and residents to help prevent losses. Please contact the FirstService Financial insurance department if you require copies.
- » Risk Management: Mitigate losses before they happen. Both frequency and severity of losses can be influenced with actions taken before a loss ever occurs.

Mitigate Water losses by:

- » Distributing emergency restoration numbers to unit owners.
- » Know the location of and label water shut off valves in each unit. Remember, water shut off valves are often under metal plates. The screws on these plates can be loosened so the plate is easy to remove if there is a leak.
- » Use braided hoses instead of plastic ones. Typically, braided hoses need to be replaced every 5-7 years.
- » Place a water leak detection sensor around toilets and appliances.

Mitigate Fire losses by:

- » Never leave a lit candle unattended.
- » Prevent kitchen fires (the majority of residential fires start in the kitchen):
 - Put lids on pans to smother flames.
 - Never throw water on a grease fire.
 - Keep a fire extinguisher close by.
- » Ensure flammables are contained; only keep necessary amounts on site.
- » Install a fire suppression system in units without sprinklers.
- » Keep a fire extinguisher on or near every balcony that has a grill.
- » Dispose of cigarettes only in designated areas or ashtrays.



FirstService
RESIDENTIAL

About FirstService Residential

FirstService Residential is North America's property management leader, partnering with 8,500 communities across the U.S. and Canada. HOAs, community associations, condos and strata corporations rely on our extensive experience, resources and local expertise to maximize their property values and enhance their residents' lifestyles. Dedicated to making a difference, every day, we go above and beyond to deliver exceptional service. FirstService Residential is a subsidiary of FirstService Corporation (FSV), a North American leader in the property services sector. Find out how we can help your community thrive. Visit www.fsresidential.com today!

