

MONDRIAN MUSE

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From the Editor's Desk

The author of this feature article encourages readers to "check to see if your Strata Corporation has a bylaw that makes you responsible for their deductible".

Note that Bylaw 4.4 reads: *An owner shall indemnify and save harmless the strata corporation from the expense of any maintenance, repair or replacement rendered necessary to the common property, limited common property, common assets or to any strata lot by the owner's act, omission, negligence or carelessness or by that of an owner's family, but only to the extent that such expense is not reimbursed from the proceeds received by operation of any insurance policy. In such circumstances, and for the purposes of bylaws 4.1, 4.2, and 4.3, any insurance deductible paid or payable by the Strata Corporation shall be considered an expense not covered by the proceeds received the Strata Corporation as insurance coverage and will be charged to the owner.*

Bylaws available at: <http://mondriandowntown.com/Bylaws/Modrian%20Bylaws%202009%20February.pdf>

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WHY SHOULD I INSURE MY CONDO?

—BY SHARON C. KNOTTS, CBA, FCIP

Whether you own your own condo and live in it, rent it to others, or you are a tenant, you should seriously consider the risk involved in not having insurance. It is not just about insuring your own property—your legal liability for bodily injury or damage to property of others is a bigger concern. (In this article, the word "condo" means either an apartment or townhome that is part of a Strata Corporation development.)

What is mine to insure?

Condo insurance can be complicated and is strictly defined by the *Condominium Act*. Your Strata Corporation is responsible for insuring the building, fixtures, equipment, and liability arising out of the ownership, use and operation of the premises. You are responsible for insuring your "unit entitlement" as well as your personal liability arising out of the ownership, use and operation thereof. Your Strata Corporation can, by including a bylaw, redefine what your "unit" is. Under the *Condominium Act*, the Strata Corporation is responsible for the walls in your suite outward and you are responsible for the walls inward, into your suite. The Strata Corporation insures what constituted your "unit" when it was originally constructed so if there have been upgrades to your unit, after purchase, whether by you or a previous owner, they are NOT included in the definition of "building" and you are responsible for insuring them. Upgrades that are part of the original construction are included. We will talk about some claims examples later.

Condo insurance for owner occupied units is sold as a "package" policy. Coverages provided are listed below.

1. Personal Property Protection

Your personal property, including your clothing, furniture, linens, food, toys, gadgets—literally everything that you own and that is on your premises—is typically insured for "All Risks" which means insured for loss or damage from any cause. There are, however, exclusions in the wording. For example, earthquake coverage is NOT included; criminal or intentional acts are not insurable; and breakage of brittle objects would not be included. Regardless of who you purchase your policy from, you should read the wording carefully. (Yes, I know it is boring but if you do not read it, you won't know what the exclusions are.) In the event of a loss, you want to know what is covered and what is not so that there are no surprises. You can purchase coverage separately for some of the "uncovered" perils such as earthquake. The policy will also extend to cover your personal property while temporarily removed from your condo. However, if you have property permanently located elsewhere, for example, in storage, it may not be covered. This may need to be arranged separately.

2. Betterments and Improvements Coverage

(sometimes referred to as Additions and Alterations)

This coverage covers additions and alterations that have been made to your unit, by you or by previous owners. In other

words, the difference between what was included in your unit when it was built versus what has been changed. An example might be when you purchased the unit, it had wall-to-wall carpet, valued at \$10,000. You installed hardwood floors with a value of \$18,000. The betterment value is \$8,000.

Insurance for your personal property and Betterments and Improvements is provided based on "replacement cost". Replacement cost is what it would cost you to replace (buy new) the items that are lost or damaged. When you are trying to figure out how much insurance to buy, you should consider current prices. For example, the sofa you purchased three years ago would likely cost you more to buy it new now. You should review the amount of insurance you have annually when your policy comes due for renewal. Insurance companies will add an "inflation" factor to increase your amount of insurance incrementally however this would not take into consideration new purchases you have made throughout the year. Your policy only pays "replacement cost" if the items are actually replaced. If you chose not to replace, you will be paid actual cash value or depreciated value.

Also, it is important to note that the policy will contain "special limits" with respect to things like jewelry, furs, fine arts, money, bicycles and other items. If you own more than the limit stated in the

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policy, consider purchasing additional coverage or specialized coverage like a personal articles floater where you can schedule special items.

3. Deductible

All policies will contain a deductible clause with respect to physical damage (property) coverages. The deductible is the amount you will pay in the event of an insured loss. The insurer will pay the amount of the loss in excess of the deductible, subject to the policy limits. A standard deductible in Vancouver is \$500. The higher the deductible, the lower your premium, as insurers will give you credit for having a higher deductible. When you think about submitting a claim for a small amount, your broker will counsel you about whether or not you should make the claim. Most policies will include a discount for being "claims free". If you make a claim, this discount will disappear and have an impact on the premium you pay for the next three to five years. Therefore, do not make a claim unless it is absolutely necessary. In many cases, the deductible will disappear when the claim reaches a certain dollar value. For example, if the claim is more than \$10,000, the deductible will not apply.

Other coverages such as Earthquake, Scheduled Articles Floaters, etc, treat deductibles differently. The Earthquake deductible is usually a percentage of the insured amount while the Scheduled Articles Floater eliminates the deductible on the articles scheduled. Typically there is no deductible with respect to liability claims.

4. Loss Assessment Coverage

This is the coverage that is of primary concern to most condo owners. Condo policies provide coverage for your share of any

special assessment up to a specified limit, if it is a valid assessment under your Strata Corporation's rules and it is made necessary by a direct loss to the collectively owned condo property. Loss Assessment coverage is also included for assessments made necessary by the liability of the Strata Corporation for occurrences that take place during the policy period. Most policies also provide coverage for assessments as a result of a deductible in the Strata Corporation's policy and you should be sure that the policy you purchase has a limit high enough to protect you for this. In other words, if the deductible in your Strata Corporation's policy is \$25,000, you would want to be sure that this is the level of protection you have. Be sure you discuss this section of the policy with your broker, and know what your Strata Corporation's deductible is.

It is possible that if there is a loss that is solely a result of your actions, an assessment could be made against your unit, and your unit only. For example, you leave a tap running in the bathtub and you go out for the evening, and damage to common areas and several other units occurs. The Strata Corporation will present a claim under their building policy but you will be responsible for the deductible. If you do not have assessment coverage that is equal to the deductible, you could be out of pocket for the expense. Recent case law has found that a unit owner need only be responsible, and not negligent, in order for the Strata Corporation to recover their deductible. Check to see if your Strata Corporation has a bylaw that makes you responsible for their deductible. If so, the insurance deductible costs are the responsibility of the strata owner. See Claims Examples below for a theoretical situation. There is an excellent explanation and example at:

<http://www.cwilson.com/insurance/reviews/insrev132.shtml>.

5. Unit Owners' Additional Protection

If your Strata Corporation has no insurance or if the insurance is inadequate or is not effective, the condo unit owner's policy includes coverage up to a specified limit for your unit.

6. Additional Living Expense

If an insured loss makes your unit uninhabitable, or if you must move out while repairs are taking place, your condo policy will pay for any increase in living expenses including the cost of moving out. You may also be entitled to coverage for kenneling your pets if you must move into a temporary location where pets are not welcome. This coverage is subject to the limit of insurance specified in your policy and is often a percentage of your Personal Property limit. Coverage for Rental Income is also available under this section if you rent your unit to others.

7. Personal Liability Protection

This coverage includes Tenant's Legal Liability. A condo policy will include coverage for your legal liability, including your legal liability arising out of your personal actions anywhere in the world, as well as, your legal liability arising out of your ownership, and use or occupancy of your unit. Legal liability means you must be "negligent" in your actions. The policy will also pay cost to defend you in the event of a suit which alleges bodily injury or property damage even if it is groundless, false or fraudulent.

8. Tenant's Legal Liability

This coverage provides protection for your legal liability for unintentional property damage to premises (or their contents),

that you are using, renting or have in your custody or control, caused by fire, explosion, smoke or water escape. If you own a condo and rent it to others, you should insist that your tenants carry this insurance.

The liability section of the condo policy also provides coverage for **Voluntary Medical Payments** and **Voluntary Property Damage**. You do not need to be legally liable to have this section of the policy respond. (Example—your visitor's child falls and chips a tooth or your child throws a ball through a neighbor's window.)

The liability section of the policy will also include exclusions—for example, there is no coverage for the operation of motor vehicles under a property policy. Again, you should read the wording to understand your coverage.

Your condo policy may also provide coverage for things like Lock Replacement, Identity Fraud, Credit Card coverage and more. I encourage you to read your policy or talk to a broker for advice.

Insurance Broker and Insurance Companies

An insurance broker is a licensed, independent insurance expert who represents more than one insurance company. The broker will have access to more than one product so he or she can ensure that the product you buy is the one that is right for you.

Insurance companies, who are licensed to write in British Columbia, include RSA/CNS, Aviva Canada, Intact, Dominion, Wawanesa, Economical, Gore Mutual, and Axa-Pacific, to name a few. There are also companies that specialize in high end products such as Chubb, Chartis, and Lloyds.

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<http://mondriandowntown.com/>

To subscribe to online newsletter distribution, submit suggestions for contents of future newsletters, or volunteer to write an article, please email:

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WHY SHOULD I INSURE ... (CONT'D, P.3)

Claims

In the event of a claim, your broker acts as your advocate, liaising with the insurance company and the adjuster to make sure your claim is handled efficiently and that your needs are met. An insurance policy is only as good as the claims service that is delivered in the event of a claim. Brokers rely upon their clients' feedback to evaluate the performance of their insurance companies.

Claims Examples

Recently the courts have ruled that condo unit owners do not need to be "legally liable" rather just "responsible". For example, the pipe under your kitchen sink bursts while you are away on vacation, and water damage is caused not only to your suite but to common hallways and the suite below. You were not negligent in causing the loss however the cause of the loss was from your suite. You are held responsible. The Strata Corporation policy responds to the damage to the common areas including building damage in your suite. Your policy responds to the damage to your improvements and betterments and to your personal property. The tenant below has no insurance. Your policy may be called upon to pay for the repairs to the tenant's personal property as well as to any improvements and betterments

that the unit owner has made to the rental suite. It can get complicated.

You could be on the hook for the Strata Deductible, the repairs to improvements and betterments and personal property in your own suite, and perhaps the repairs to improvements and betterments and personal property in the suite below. It could be very expensive, if you do not have insurance.

If you have insurance, in the event of a loss, your insurance company will appoint an adjuster to manage the claims settlement process, and work with other adjusters representing the Strata Corporation, and other owners, in your best interests.

Let us look at it from another perspective. You have a rental suite and your tenant goes away for the weekend. Your tenant turns the washing machine on and leaves it running when he/she departs. A hose bursts and a significant amount of water escapes before the problem is discovered. If the tenant had insurance, the Tenant's Legal Liability coverage would respond for repairs to the unit he/she is occupying. If the tenant has no insurance, and the if Strata Corporation insurance responds, the

Strata Corporation's insurer might pay for the repairs. However, they have the right to subrogate. To subrogate means they can recover the cost of repairs from your tenant which could mean garnishing wages for a very long time. If your tenant has no insurance, they could very well look to you, as the owner, for compensation. You want to be sure that your interest as the owner of the property is insured even if you do not occupy the suite.

Buying Condo or Tenant's insurance is a painless process that can usually be accomplished over the phone, or by completing a simple application form. Payment plans are also readily available. So, protect yourself, protect your belongings, and most of all protect the ones you love with an insurance policy. It is a small price to pay for peace of mind.

For more information, please contact Aon at 1-800-448-2539 and one our licensed, professional, experienced Personal Insurance Brokers will be happy to answer your questions and provide information to you.

Further information is available on the following websites:

<http://www.cwilson.com/cgi/faq/smartfaq.cgi#1131665349>

http://www.cba.org/BC/public_media/housing/401.aspx

<http://www.choa.bc.ca/strata.html>

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