

Could Skyrocketing Costs of Insurance Bankrupt a Condo Corporation?

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What Would Happen if a Condominium Corporation Did Not Have Insurance?

News articles over the past 6 to 9 months have identified that there is a looming problem in the condominium industry where individual condominium corporations are having trouble either affording, or obtaining, the insurance which is required under the Alberta Condominium Property Act, and its associated regulations. This research explores the question from several perspectives as it strives to reconcile the risks and ramifications to condominium corporation stakeholders if a corporation is unable to 'hold and maintain' the government mandated insurance.

This poster identifies relevant questions corporations must ask and graphically illustrates the risks and ramifications to the stakeholders of the corporation that include: the Corporation, Board of Directors, Individual Board Members, Unit Owners, and Tenants. It culminates with conclusions and recommendations that corporations need to consider to mitigate against the risk of not being able to 'hold and maintain' in accordance with the Alberta Condominium Property Act and associated Regulations (January 1, 2020).

15 Things Condominium Owners Need to Know

1. What are the Top-5 costs to the condominium corporation?
2. What percentage of a corporation's annual budget do condominium insurance premiums represent?
3. How much has the corporation's insurance premium and deductible increased, year over year, for the past five years?
4. How much have condominium fees increased, year over year, across the same five-year period?
5. Has the Condominium Corporation segregated sufficient funds on its balance sheet to cover the Corporation's insurance deductible? If not, then what is the plan to pay that deductible?
6. Can an unit owner sell a condominium if the condominium corporation does not have insurance?
7. How many claims has the corporation made in the past five years?
8. How is and individual owner affected if other owners are unable to pay their condominium fees?
9. How closely does the condominium corporation adhere to the Reserve Fund Study recommendations? If not, why?
10. Does the corporation have enough money to do all the regularly scheduled maintenance that it wants to do? If not, how does it decide what will get done?
11. What is the impact to unit owners if the Corporation is unable to secure enough insurance to meet its needs? Or, it cannot afford the insurance that is offered?
12. What is the condominium corporation doing to mitigate against rising insurance costs?
13. What role does the Government of Alberta play in ensuring availability and affordability of insurance?
14. If the government legislation requires condominium corporations to 'hold and maintain insurance' but does not cap the amount that insurance can be charged, then what happens?
15. If the government is not responsible to ensure that insurance is obtainable and affordable, then who is?

What Causes Insurance Rates to Increase?

Insurance rates are derived from a combination of factors:

1. From the business' perspective these include: interest rates, profit margin and loss payouts.
2. From the clients' perspective: past claims history, age of building, geographic location, maintenance history of the building.

Risk Assessment

A risk assessment is a method for identifying hazards, analyzing associated risks, to determine appropriate ways to eliminate hazards or to mitigate risk.

A risk matrix is used during risk assessment to correlate probability of occurrence with the severity of occurrence. It is a tool that provides management with a visual representation of Impact vs. Likelihood of occurrence.

Table 1: Risk Rating Matrix

Likelihood	Score	IMPACT					
		Not Applicable	Insignificant	Minor	Moderate	Critical	Catastrophic
Not Applicable							16
Unlikely							16
Seldom						16	32
Occasional					16	32	64
Likely				16	32	64	128
Definite		16	16	32	64	128	256

Table 2: Top-10 Highest Loss Years on Record

This chart identifies the Top-10 Highest Loss Years on Record. 7 of the 10 largest Loss Payouts on record have occurred since 1998 and were for losses incurred in Alberta. Losses are a component of premiums.

Rank	Year	Total loss (\$ Billion)	Notable Severe Weather Event
1	2016	5,261	Fort McMurray, Alberta, fire
2	2013	3,418	Alberta and Greater Toronto Area floods
3	1998	2,494	Quebec ice storm
4	2018	2,113	Multiple events including Ontario and Quebec rainstorms and windstorms
5	2011	1,740	Slave Lake, Alberta, fire and windstorm
6	2012	1,456	Calgary rainstorm
7	2019	1,334	Multiple events
8	2005	1,299	Ontario rainstorm
9	2017	1,255	Multiple events
10	2010	1,226	Calgary rainstorm
Total		21,596	

Table 3: Top Insured Damage Severe Weather Events in 2019

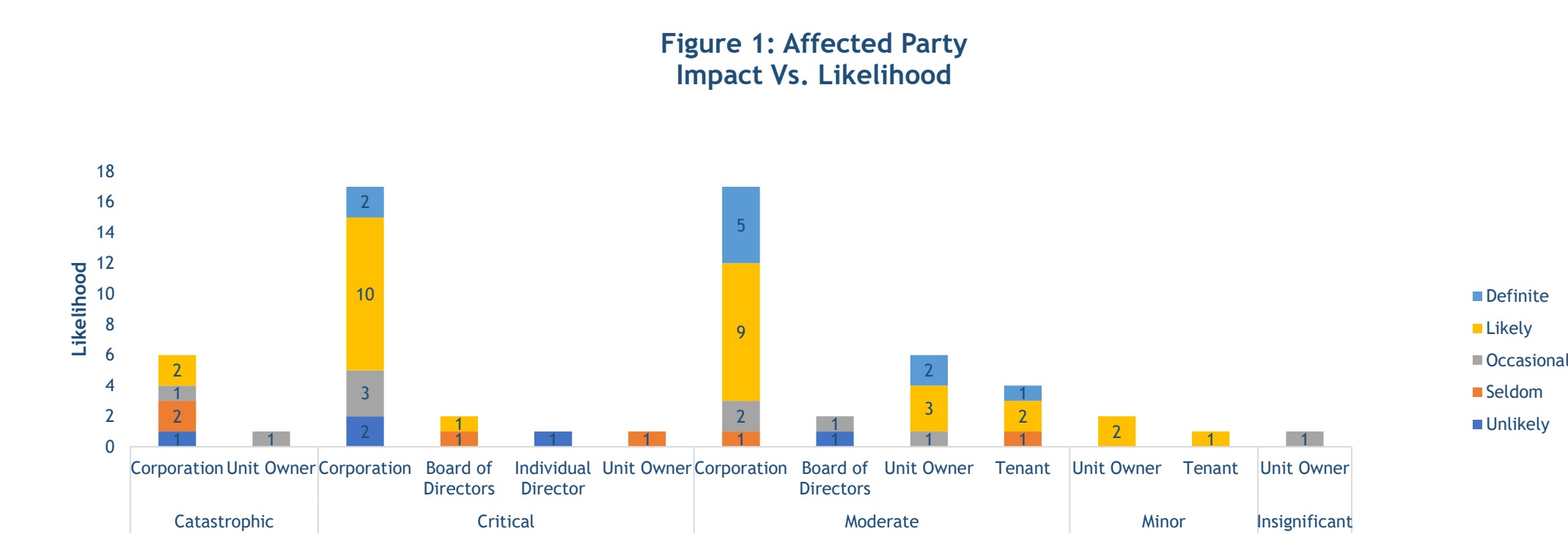
This chart shows the Top Insured Damage Severe Weather Events occurring in Canada in 2019.

Date	Event	Loss (\$ Million)	Location
January 24 to 25	Winter storm	40	Eastern Canada
February 3 to 4	Winter storm	70	Ontario
February 24 to 25	Winter storm	48	Southern Ontario
Mid-March	Two winter storms	114	Greater Toronto Area and Eastern Canada
April to May	Floods	208	Quebec and New Brunswick
July and August	Hailstorms	181	Western Canada
September	Hurricane Dorian	105	Eastern Canada
October	Storm	250	Eastern Canada
Total		1,016	

Impact of Escalating Cost of Insurance

The potential Impact to condominium corporation stakeholders, stemming from rising costs of insurance, range from: Insignificant to Catastrophic with Likelihood of Occurrence ranging from: Unlikely to Definite.

This chart demonstrates how condominium corporation stakeholders are affected when comparing the Risk Impact and Risk Likelihood are considered. It illustrates that the Condominium Corporation bears the greatest aggregated incidence of Risk Impact and greatest Aggregated incidence of Likelihood of being imperiled.



How Does the Government of Alberta Fit In?

There are several elements that influence insurance premiums and deductibles, and therefore affordability, of insurance in Alberta. Principal among them is legislation requiring condominium corporations to 'hold and maintain' full replacement insurance on the property, without a cap on what may be charged by insurance companies.

This chart illustrates that the largest percentage of risks to a Corporation results from government inaction.



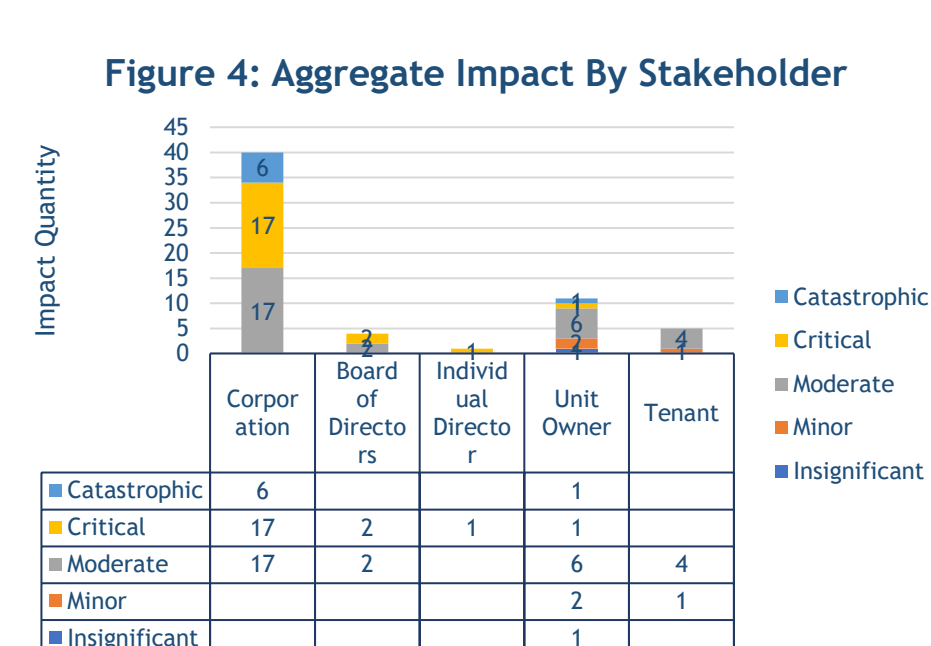
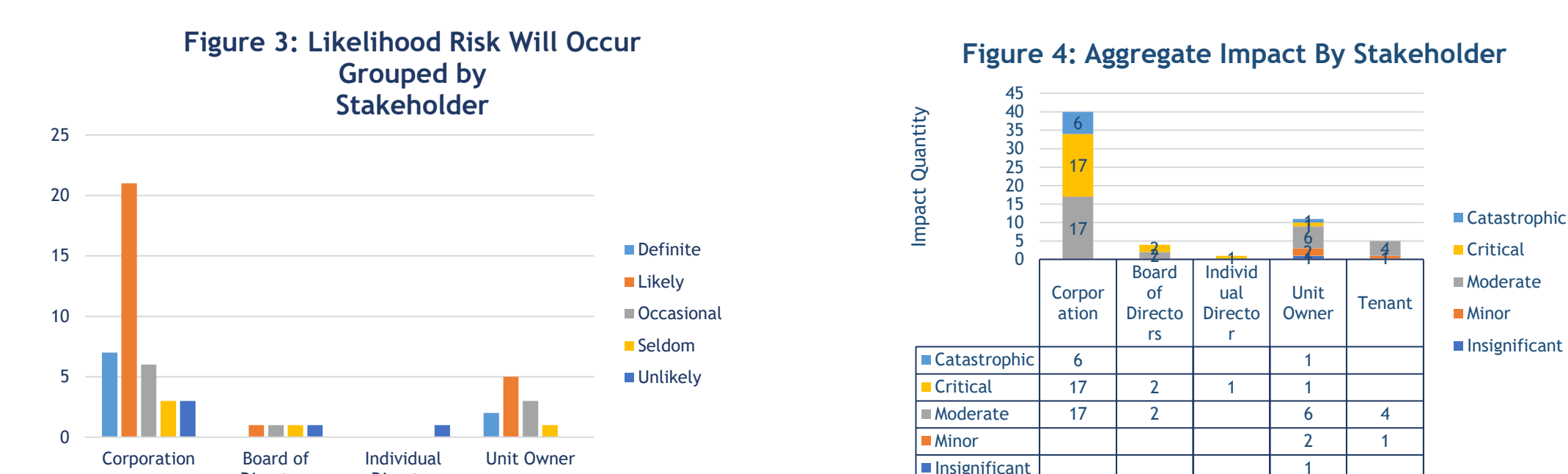
The 64% of the risks to the Corporation specific to the Government of Alberta are comprised of the following risk descriptions:

- Excessive PMC Workload
- High Strata Fees Lead to Inability to Pay Strata Fees
- Inability to Collect Special Assessments
- Inability to Obtain Government Mandated Insurance
- Inadequacy of Individual Property Manager
- Inadequacy of Property Management Company
- Issuance of Multiple Special Assessments
- Lack of a Single Government of Alberta Agency to Oversee Condominium Industry Legislation
- Unfinished Regulations
- Low Individual Property Manager Capability
- Low Property Management Company Capability
- Reduced Funds Available for Maintenance
- Strata Fees Increase to Unsustainable Levels
- Unaffordability of Insurance
- Unrealistic Timeline to Complete Alberta Condominium Property Act and Regulations by Government of Alberta

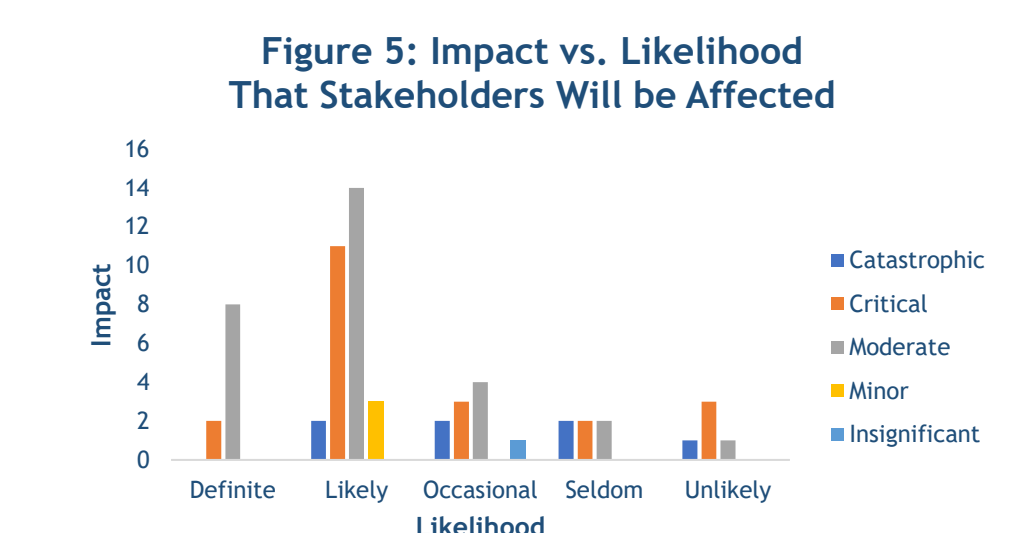
What are Potential Impacts and Likelihoods?

This chart shows that the condominium corporation bears the highest likelihood of each risk category, followed by the individual unit owner.

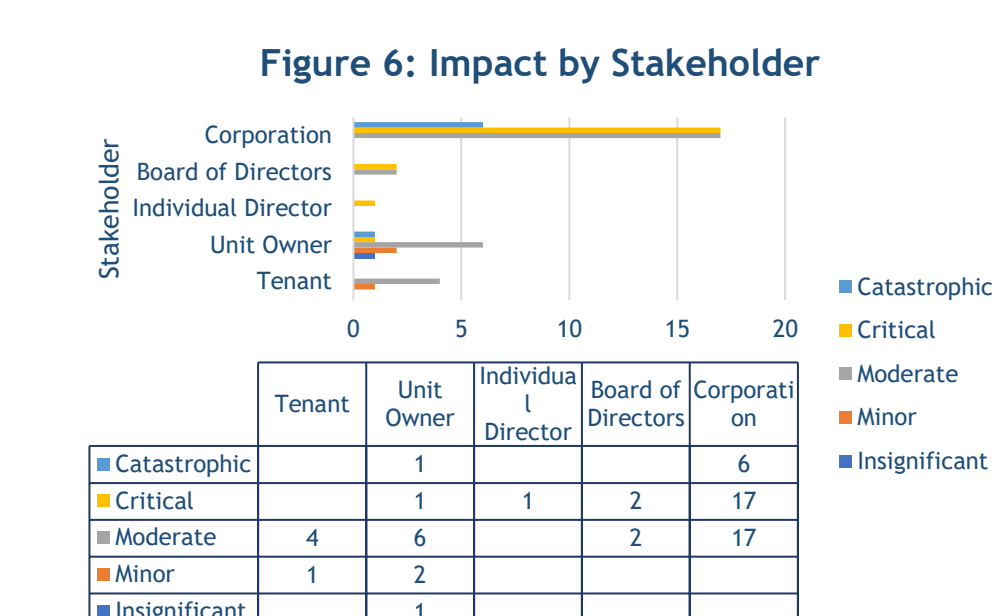
This chart illustrates that, when aggregated, the corporation is affected by the largest number of potential risks, followed by the unit owner.



This chart shows the Impact Score vs. the Likelihood Score for the condominium corporation stakeholders. When all stakeholders are selected, the chart shows the strong probability that the impact to the stakeholders will be Likely to Definite.



This chart shows the degree of impact borne by each stakeholder group within the corporation. It demonstrates that the most significant impacts are borne by the Corporation.



Conclusions

1. Government intervention is essential to prevent financial ruin of the condominium industry in Alberta.
2. The Government of Alberta must work expeditiously to rationalize the requirement for condominium corporations to 'hold and maintain' insurance with the affordability and availability of insurance. Not doing so, places condominium corporations, and by extension, unit owners, in financial peril.
3. Lobbying government will be required because the ramifications to the governing party will likely have a negative political impact for that governing party.
4. Condominium corporations must work to reduce their risk profile as a means to mitigate potential insurance premium and deductible increases.

Recommendations

1. Lobbying the government to make the necessary changes will require the support of all stakeholders within the condominium industry and will require unit owners to take an active role in campaigning for this change.
2. Corporations must know their Insurance Risk Profile and use it as the foundation for developing and maintaining a Risk Mitigation strategy.
3. Corporations must perform the prescribed maintenance as it is outlined in the Corporation's Reserve Fund Study.
4. Corporations must not use the Corporation's insurance policy as a means by which to pay for maintenance of the property.
5. Corporations should proactively develop relationships with the key sub-trades and business partners of the Corporation, so that they are well positioned if a crisis occurs. These partnerships should include, but are not limited to, mechanical systems, heating ventilation air conditioning (HVAC), legal, insurance (broker and/or insurance companies) and property management.
6. Corporations must be willing to examine all possible options to secure the best possible insurance coverage with the appropriate deductible that best meets their needs for the best possible price.
7. Corporations should segregate funds on their balance sheet equal to at least 1x their deductible to ensure funds are available, if needed.

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