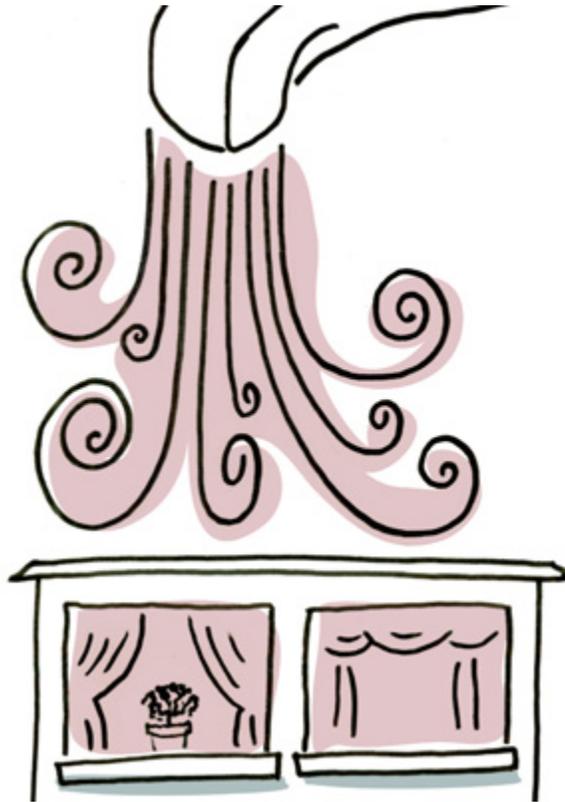


Condo insurance: a dripping time bomb

BY ALLISON LAMPERT, THE GAZETTE NOVEMBER 18, 2012



While there are no statistics documenting under-insurance in condominiums, co-owners, lawyers, insurance brokers and industry officials say it has become a critical and widespread issue in the condo market, the fastest-growing housing sector in Montreal, Toronto and Vancouver.

Photograph by: Susan Ferguson, The Gazette

Major Canadian condo markets might be plagued with fears over high personal debt and overbuilding, but experts say an even bigger threat to owners involves problems with insurance. In a two-part series, The Gazette reveals how ignorance, bad luck, and a mix of rising claims and premiums have left some Montreal condo owners one fire or flood away from risking their investments. This week, we look at the risks of under-insurance.

MONTREAL - The first flood started in a bathroom, possibly after a child threw something in the toilet, causing it to overflow. Then there was the resident who forgot to shut his bathtub tap, causing another \$25,000 worth of damages, as water leaked from his apartment to the one below in the Montreal condo building. After yet a third flood last year, co-owners were left in a bind when renewing their building's insurance policy this fall: their annual premium had doubled to \$35,000, and they were no longer covered for water damage.

Now each time a toilet or bathtub overflows — in what's an exceptionally well-maintained condo building — a bill will have to be paid directly by the 50 co-owners.

"We went to every insurance company around," said Michael Wilk, property manager for the building, which he declined to name. "We even asked to have a \$100,000 deductible, but they refused. No one else wanted to insure us. It (the building) is now basically self-insuring (for water damage)."

The case above is an extreme example of what experts are calling a growing problem in residential real estate: Canadian condo owners lack ample insurance for rising repair costs at a time when property values have soared in the country's largest cities. While there are no statistics documenting under-insurance in condominiums, co-owners, lawyers, insurance brokers and industry officials interviewed by The Gazette say it has become a critical and widespread issue in the condo market, the fastest-growing housing sector in Montreal, Toronto and Vancouver.

Indeed, inadequate coverage — either because of frequent damage claims, attempts by owners to reduce monthly fees by keeping premiums low, or a failure by condo boards to determine the true costs of replacing their buildings — has emerged as a bigger threat to the condo sector than the much-publicized risk of overbuilding, several real estate experts say.

One particularly alarming tendency has been the small but growing number of Montreal-area condo buildings that now have insurance deductibles as high as \$100,000 — a trend first seen in Vancouver.

"A condo isn't a home where there is one person. You are multiplying the risk," said attorney Yves Joli-Coeur, a specialist in condo law at the Montreal firm De Grandpré Joli-Coeur. "If you have too many floods in an apartment, then the insurer will tell you either 'I won't insure you' or you will have a high deductible. This is what we are going to see in the future in Quebec. There will be buildings that are no longer insurable.

"And when we have trouble finding insurance, then it has a direct impact on the value of the condo."

Concern over home insurance comes at a time when Quebec and Ontario are updating provincial condo laws to better protect existing owners and the growing number of new buyers. By 2016, the number of Quebec households living in condos is expected to swell to 266,000, provincial data show, while there are at least 500,000 condo units already in the province of Ontario — with tens of thousands of new ones under construction in Montreal and in the Greater Toronto area.

This week, recommendations to overhaul Quebec's aging condo laws — including calls for condo boards to obtain "reasonable deductibles" — were made to Parti Québécois Justice Minister Bertrand St-Arnaud, who is moving forward with reforms next year.

In both provinces, condo boards — staffed by volunteer owners — are legally obliged to have insurance covering their buildings, from common areas like the lobby, to the basic structure of the private units. Individual owners — who are responsible for the value of their own furniture and any improvements they make to their condos, like the installation of hardwood floors — don't always bother

to get personal insurance, sometimes because they mistakenly believe their units are fully covered by the condo board, mortgage brokers say.

“People don’t always understand who is responsible for what,” said Serge Meloche, business-development manager of the insurance brokerage Dale Parizeau Morris Mackenzie.

Meloche cited the result of an internal study by a large Quebec evaluation firm, which showed that 70 per cent of the 270 homeowners surveyed were under-insured for the value of their properties.

“One of the big issues is that people buy condos without thinking of this (insurance costs),” said Line Crevier, a technical expert at the Insurance Bureau of Canada’s Quebec chapter.

Even real estate brokers contacted by The Gazette said they were unaware of the complexities of condo insurance — where responsibility for coverage and the sharing of blame in the case of damages, can vary from building to building depending on what’s written in the declaration of co-ownership.

“If you are a real estate broker, then you must make sure you inform the buyer that the building isn’t sufficiently insured,” Joli-Coeur said.

That information is critical because even as the number of condo owners is rising in Canada, so are the costs of protecting their homes, especially from the growing incidents of water damage — including sewer backups and burst pipes — the most common problem in condo buildings, experts said.

Intact Insurance spokesperson Gilles Gratton said the cost of water damages for the company over personal properties in Quebec grew from \$14.2 million in 2002 to \$48.5 million in 2011, with the average claim more than doubling during that period. In an email, Gratton attributed the rise in the water damage in Quebec and other parts of the country to a greater prevalence of severe storms — like May’s flash flood in Montreal — a problem compounded by aging municipal infrastructure that cannot cope with the increased rainfall, and a rise in the proportion of basements that have been transformed into living spaces.

“The severity of water damage in condominiums is high, as a single occurrence may affect many units at the same time,” he said.

Gratton said Intact doesn’t intend to cease insuring condos, but remains vigilant about costs: “We pay close attention to ensure that the protection offered is priced adequately and this line of business remains sustainable over the years,”

A spokesperson for Aviva Canada Inc. didn’t return The Gazette’s repeated requests for insurance data.

While the insurance industry couldn’t provide statistics on average rises in premiums, anecdotes from Montreal brokers, owners and property manager suggest they’ve risen faster than property values over the last few years.

One well-known Montreal insurance broker, who oversees policies for 300 different condo boards, said his clients' premiums rose between 20 and 50 per cent — depending on the size of the building — over the last three years.

To reduce the cost of premiums, or because they've made repeated claims for damages, some condo boards in Vancouver and now Montreal have \$50,000, even \$100,000 deductibles in buildings with as few as 40 units.

"I know there are a few (in Vancouver) that have six-digit deductibles," said Lindsay Olson, an Insurance Bureau of Canada spokesperson for Western Canada. "I think it's a fairly unusual situation, but we're seeing more of it. And if you're living in one of those apartments, it should be a cause for concern."

The risk is that they leave individual co-owners exposed to hefty bills in cases of negligence. Ontario, Quebec and B.C. all allow condo boards to sue a co-owner for the deductible if it's proven that he or she is responsible for the damages, real estate lawyers from all three provinces say.

"If your washing machine breaks or if your dishwasher overflows, you're responsible," explained B.C. attorney Jamie Bleay, an expert in condo, or strata law at Access Law Group in Vancouver. "As the deductibles go up, it's becoming more of an issue to owners."

While individual co-owners can get private coverage to protect them in such cases of negligence, an owner who doesn't have insurance could be left paying a \$100,000 deductible out of pocket. And in a case where no one in the building is deemed responsible for the damages, high deductibles can lead to repeated bills for owners.

A co-owner's personal insurance can help defray these costs, but companies set limits on coverage for condo board deductibles. Intact Insurance, for example, sets a maximum limit of \$500, an amount that won't go far in a building with a \$50,000 deductible, 50 co-owners and even two floods a year.

"If you put deductibles that high, then you're not accomplishing your goal of insuring a building," said Joli-Coeur, who believes Quebec condo laws should be changed to prevent cases of deductibles being raised to "unreasonable" amounts to lower premiums.

At the Montreal building with no insurance for water damage, the estimated 50 co-owners agreed to set aside \$50,000 in a special fund to cover themselves in the case of future incidents, Wilk said. Another \$50,000 might be set aside next year.

Living in a building with no insurance for water damage means being especially vigilant, with a special meeting held recently to remind owners to turn off their taps. Memos are to be sent out warning residents to shut their main valves if they're going out of town for the holidays, Wilk said.

What's most tragic about this particular building is that it lost its coverage, even though condo board administrators had done everything right.

“It’s just absolutely bad luck,” Wilk said. “It’s a great, beautiful building that’s really well-maintained with a really strong, proactive condo board. It’s a bit scary because if it can happen in this building it can happen to anyone.”

Puzzled over condo insurance issues in Quebec? Read the list of common questions and answers on the insurance broker’s site (in French): <http://www.assuremoncondo.com/faq/reponses-a-vos-questions>

[See also: Condo insurance: Who pays for what?](#)

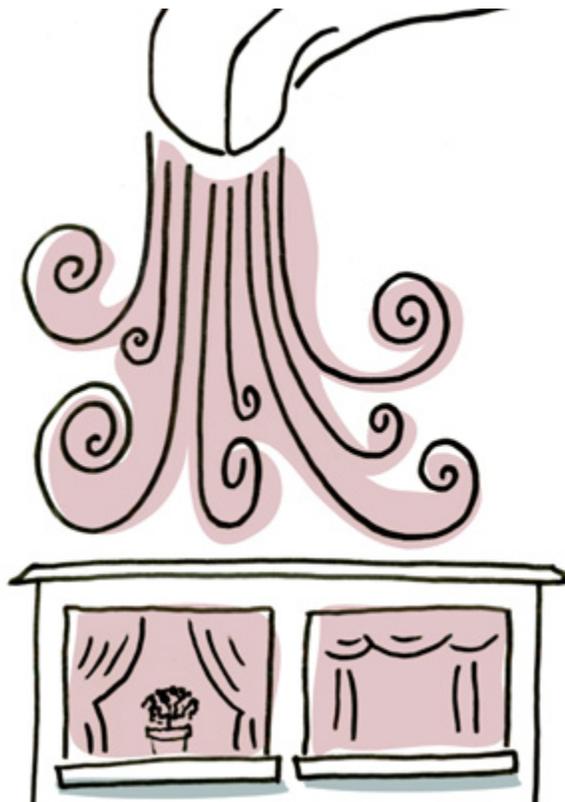
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