

## **BCFSA Strata Property Insurance Final Report – FAQ**

### **What was the goal of this report?**

BCFSA’s goal was to better understand the root causes of the premium increases and issues facing the BC strata insurance market to allow stakeholders to find solutions to set the market back on a course towards a healthier state. Together with stakeholders, BCFSA will continue to work towards finding strata insurance solutions, including providing advice and support to the B.C. government.

### **What did BCFSA’s report find?**

British Columbia’s strata insurance market is “unhealthy”. For consumers, this has meant rapid increases in costs associated with obtaining strata insurance coverage. For the insurance industry, a lack of profitability combined with a variety of other factors has prompted many insurers to leave the market, further driving up premiums for consumers and creating significant capacity challenges.

### **What has caused this?**

A convergence of factors, both local and global, have created a perfect storm leading to dramatic year-over-year increases in premium rates and deductibles for strata property insurance and an unsustainable market for insurance providers.

The final report identifies eight contributing factors – four of which are critical – that must be addressed to improve British Columbia’s unhealthy strata market. These range from the need for increased education and involvement by all players in the market, to addressing earthquake and natural disaster exposure, to fostering more innovation around strata insurance coverage.

### **Will this report lead to a decrease in prices?**

The reality is there are no simple solutions to the situation facing British Columbia’s strata market. Although the rate of increase can be mitigated with the right actions, complex local and global issues as well as significant natural risk factors such as earthquakes and the impacts of climate change provide little prospect of short or medium-term relief from further pricing increases. Price stability not reduction is the realistic short- and medium-term goal.

That said, the final report does outline several immediate steps that BCFSA can take as the regulator to mitigate some of the root causes of BC’s unhealthy strata insurance market. Action has already been taken to eliminate the insurance industry practice known as Best Terms Pricing, which was contributing to some premium increases.

**My strata property had a big increase this past year. What should I do now that your report has been released?**

Connect with your strata council and your insurance representatives to discuss possible actions that strata councils and individual strata owners can take or participate in possible risk mitigation strategies.

**What is Best Terms Pricing?**

Insuring strata properties often requires brokers to bring together multiple insurers with each insurer taking a portion of the total risk. In putting together such a policy, each insurer would submit its own bid. Under Best Terms Pricing, the final premium paid by strata owners was typically based on the highest of those bids, even if the majority of quotes were lower.

Following further work by BCFSA, the insurance industry has agreed to cease the use of Best Terms Pricing by the end of 2020. Although the elimination of Best Terms Pricing will help alleviate some of the upward pressure on premiums, it was not the sole reason for those premium increases and as such, its elimination will not result in premium reductions.

**What about a public insurer for strata coverage?**

BCFSA is aware that there has been discussion about the use of a public insurance model to provide strata property insurance. It is not clear without further study if this option would provide dramatic improvements to the situation, particularly without other causes also being addressed. However, the merits of a public-private partnership model should be explored specific to achieving long-term supply stability by addressing more extreme catastrophic risk exposure and reducing concentration risk of private insurers.

**Is this a new problem?**

Underpricing in the BC Strata Insurance market has been prevalent for over a decade. That underpricing, combined with escalating claims costs, has resulted in significant losses for insurers. Strata insurance premiums will not stabilize until that overall loss experience by insurers in the market is reduced.

**Is climate change impacting this issue?**

Insurers are facing increased losses from catastrophic events such as natural disasters and the impacts of climate change both here in Canada and globally. These are driving up premiums, but also prompting some insurers to reducing capacity and further impacting cost pressure.

**What else can BCFSA do?**

Based on its mandate as the regulator for the private insurance industry in British Columbia, BCFSA has identified two main areas where immediate action can be taken.

The first is to address a gap in information by working with other Canadian regulators to introducing regular collection and analysis of strata insurance data across the country.

The second involves working with BC Housing and the provincial government to better streamline insurance claims between a property's strata insurance coverage and New Home Warranty coverage. BCFSA's review of this matter revealed a potential lack of working knowledge or awareness around the appropriate use of claims between these two different sources of insurance coverage.