# Rising Condominium Insurance Rates

## *Overview*

## Issue

Condominium insurance rates have increased significantly in the past few years, with insurance companies indicating caution about the risks they underwrite due to recent financial losses attributed to natural disasters and increased cost of claims.

## Background

- Condominium insurance premiums in BC, Alberta, and Ontario have increased substantially between Q3 2019 and Q3 2020 due to the frequency and severity of claims, driven by severe weather events and rising rebuilding costs.
- Canadian property and casualty insurers have seen their return on equity and return on investment sharp dramatically in recent years.
- BFL Canada's data from 2018 (3-year cumulative data) outlined for every $1 insurance companies collected on premiums for condominium buildings, they paid on average $1.67 for claims.
- Property losses as a share of total losses paid out has increased from about 25 percent to over 36 percent in the last decade.
- Insurance companies are being selective in insuring specific condominium and pivoting away from others that have undesirable factors, such as the age of the building, wiring, piping, plumbing or even geographical conditions.
- Other insurance companies are exiting the marketplace all together, regardless of the price they charge, resulting in the remaining companies raising their premiums and deductibles significantly.
- According to data from the General Insurance Statistical Agency, Alberta has the third-highest average rate of insurance premiums after BC and Ontario.
- Under Alberta law, condominium boards must carry insurance on all units and common property against loss resulting from destruction or damage caused by fire, lightning, windstorms, hail, explosions, water damage and other perils.
- Treasury Board and Finance Minister Travis Toews said the province is aware of challenges with insurance rate hikes that condominium corporations have experienced but is not considering introducing any caps.

## Analysis

- Like the banking sector, the insurance industry in Canada is highly concentrated. While there are nearly 200 companies active across the country, the top five by premium value account for over 43 percent of all business.

  - If a large insurer moves to limit their exposure to a specific type of risk or region, lack of capacity can 'harden' the market and result in higher premiums as witnessed in BC, Alberta, and Ontario.

- The rising cost of catastrophic losses (flooding, hail storms, fires and wind events), and the very high administrative costs associated with these events, has led the insurance industry to invest heavily in more technologically advanced modeling and risk forecasting.
  - Current modeling and risk forecasting is not favorable and suggests an increase in climate related natural events.
  - In BC for instance, risk modeling is taking into consideration the likelihood of a seismic event and this higher risk is now being reflected in insurance premiums.
- Increased condominium rates are also negatively impacting purchasing power of new homeowners as financial institutions take into consideration condominium fees when determining lending amounts.
  - With downward pressure on purchasing power, prospective homeowners are looking at other types of housing and this is negatively impacting demand for future condominium developments.
  - The condominium market was already seeing downward pressure as a result of COVID-19 as homeowners opt out of high-density areas for suburban development.
- There currently is no cap for condominium insurance premiums and the Government of Alberta does not require insurers to apply for a rate increase.
  - This is in contrast to the auto insurance industry that requires companies to seek rate approval through the Automobile Insurance Rate Board.
  - The previous provincial government imposed a 5% cap on all automobile insurance rate increases via Ministerial Order which has since been repealed by the current government.
- BC recently announced legislative amendments to the *Strata Property Act* and *Financial Institutions Act* and associated regulations to include:
  - End the practice of referral fees between insurers and strata property managers or other third parties.
  - Set out clear guidelines for what strata corporations are required to insure, including providing homeowners with advanced notice on any policy changes, including increasing deductibles, and allow strata's to use their contingency reserve fund when necessary to pay for unexpected premium increases.
  - Protect strata unit owners against large lawsuits from strata corporations if the owner was legally responsible for a loss or damage, but through no fault of their own.
  - End best terms pricing where the final premium paid by owners is usually based on the highest bid, even if lower quotes were available.
  - Enabling regulations for further changes, if required.
- Other jurisdictions, including Ontario have not committed to any legislative changes but have acknowledged the growing issue.