

Property Insurance Trends – Impact on Investors with Bryan Fitzpatrick – Park Insurance

Presented July 2010 Exclusively to The Members of REIN™

Property Insurance Trends Impact on Investors

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President



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Current Trends

- Water Damage Losses
- Restrictions on Water Damage Losses
- Increased Premiums

Water Damage Losses

SCOPE OF PROBLEM

- No. 1 cause of claims
- 44% of total claim payouts in Canada
- Basement flooding claims alone an estimated \$140 million annually (Canada)



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Water Damage Losses

SCOPE OF PROBLEM

- Damages per incident range between \$20,000 to \$100,000
- Water damage claims under REIN Insurance program averaged \$26,500

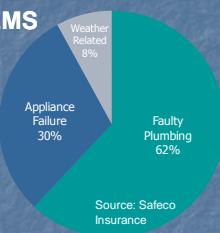


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Water Damage Losses

CAUSE OF WATER PROBLEMS

- Faulty plumbing
- Appliances
- Frozen pipes
- Sewer backups
- Rain / melting snow leaks from eavestroughs / roof gutters
- Surface or overland flood waters



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Water Damage Losses

REASONS FOR INCREASED FREQUENCY / COST

- Aging municipal water/sewer infrastructures
- Climate change with more severe weather incidents
- Increased number of finished basements
- More and increased value of fixtures, appliances, and finishes
- Laminate flooring



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Water Damage Losses

FINANCIAL IMPACT FOR THE INVESTOR

- Property Value Depreciation
 - Long-term damage to the building and equipment (property value may depreciate)
- Loss of Rental Income
 - Restoration may displace occupants up to six months



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Water Damage Losses

FINANCIAL IMPACT FOR THE RENTER

For the Renter

- Loss of personal belongings
- Renters looking for compensation; cost of living elsewhere during repairs



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Myths About Water Damage

- **Myth No. 1:** Municipal governments hold majority of responsibility for damages caused by sewer backup
- **Reality:** Municipal bylaws limit their liability



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Myths About Water Damage

- **Myth No. 2:** My insurance will cover the tenants' property.
- **Reality:** No, it will not. Tenants need their own insurance.



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Myths About Water Damage

- **Myth No. 3:** Insurance will pay for damage to burst pipes
- **Reality:** Insurance will pay for resulting damage to property but you will have to pay the plumbing repairs as "wear & tear" is never covered



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Restrictions on Water Damage Losses

- Insurers starting to restrict water damage coverage because of large dollar value of claims
 - Limit of \$5000 in some cases
 - Higher deductibles
 - No coverage if property vacant
 - No coverage if pipes froze and tenants away more than 4 days, without daily house checks
 - No flood coverage
 - No coverage for bylaw upgrades post-water damage



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Restrictions on Water Damage Losses

IMPACT ON STRATA/CONDO TITLED PROPERTIES

- Cost of Strata/Condo Master Insurance policies is rising by 30% on average in BC in 2010
- In some cases, deductibles are being increased up to \$100,000 or more; responsibility shifting to unit owners
- Reasons:
 - 1) Severity/frequency of water / fire claims
 - 2) Losses by insurers for this class of business
 - 3) Cost of earthquake coverage



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Water Damage Losses

CASE STUDY: STRATA/CONDO TITLED PROPERTY

- Deanna owned two bedroom condo
- Dishwasher hose burst and ran water all day
- Damaged her unit (\$8000), plus 2 units below her (\$12,000 each)



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Impact on Investors

CASE STUDY: STRATA/CONDO TITLED PROPERTY

Loss Assessment

- Repairs to three units was covered by Strata/Condo Master Insurance Policy
- Entire deductible was assessed to her unit (\$25,000)
- Deanna paid that out of her pocket



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Impact on Investors

CASE STUDY: STRATA/CONDO TITLED PROPERTY

Unit Improvements

- Previous owner had done major renovations, including hardwood floors throughout
- Strata/Condo Master Insurance policy only covers for the unit as it was originally built
- Deanna had to choose between paying the difference or having it rebuilt to a much lower standard, which would mean less rental income and lower resale value



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Important Insurance Coverage

COVERAGE TO LOOK FOR—RESIDENTIAL DWELLINGS

- "All Risk" Policy
- Water Damage Including Flood & Sewer Back-up Protection
- Extended Vacancy Protection – including water damage
- Rental Income Protection
- Municipal Bylaw Protection
- Guaranteed Replacement Cost Protection



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Important Insurance Coverage

COVERAGE TO LOOK FOR—STRATA/CONDO PROPERTIES

- Loss of rental income coverage
- Loss assessments – including condo master insurance policy deductible protection
- Contents Coverage (appliances)
- Unit Improvements
- Personal Liability Protection



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Benchmarking Insurance Policies

GETTING GOOD VALUE VS. CHEAP PRICE

- Evaluate types of coverage and levels of claims payouts
- Price comparison then becomes more meaningful

Buying insurance on price alone is high risk!



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Park Insurance Scorecard

Type of Coverage	Point Value	ScoreGuard Score	Your Policy Score	Notes
Rental Income Protection (See Case Study 1)				
Coverage for loss of rental income (max 12 months)	10	10		
24 Month indemnity Period Available	5	5		
Actual Loss Guaranteed (not subject to dollar limit or co-insurance penalty)	5	5		
Loss Assessment (See Case Study 2)				
Loss Assessment Coverage	5	5		
Includes Master Policy Deductible	10	10		
Contents Coverage – for appliances (See Case Study 3)				
Contents Coverage	5	5		
All Risks Coverage on a Replacement Cost Basis	10	10		
Unit Improvements (See Case Study 4)				
Unit Improvements Coverage	5	5		
All Risks Coverage on a Replacement Cost Basis	10	10		
Extra Coverage				
Vandalism by Tenants	5	5		
Disappearing Deductible	5	5		
Earthquake and Flood	5	5		
Sewer and Drain Back-up	5	5		
Frosting (no daily inspections required)	5	5		
\$2,000,000 Liability Protection	5	5		
Unit Contingent Coverage (See Case Study 5)				
		100	/ 100	

Benchmarking Insurance Policies

BENEFITS OF THE INSURANCE SCORECARD

- Prevents gaps in your coverage
- Increases understanding of what you're getting
- Helps ensure you are getting excellent value
- Expedites the buying process
- Peace of mind



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Benchmarking Insurance Policies

SCORECARD REVEALS GAPS IN COVERAGE

- Average rating is 30-50 points
- Never seen a rating higher than 70 points
- Most investors are not adequately insured



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Benchmarking Insurance Policies

MOST FREQUENT AND SERIOUS GAPS

- No coverage (or underinsured) for water damage
- No rental income coverage
- No bylaw upgrading coverage
- No water damage coverage while vacant
- No Guaranteed Replacement Cost



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Getting Excellent Value

- Use Insurance Scorecards
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Thank you.



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