

# THE KEY

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# INSURANCE 101: FIVE WAYS TO IMPROVE YOUR BUILDING

*By Ajay Gill, Vice-President Client Executive, BFL CANADA, Realty Division*

There are many benefits to owning apartment buildings. Landlords tell me they see themselves contributing to a solution for the housing shortage and get satisfaction from providing people with the flexibility of where they may live without the obligations of home ownership.



Of course, there are also some challenges as in any business enterprise. As an insurance professional and broker who has worked with landlords for many years, they often share their apprehensions—whether it's local regulations, problem tenants, or just the frustration of rising costs and limits on increasing rents.

Mixed in there is the the cost of insurance, which has fluctuated over the past few years largely as a result of inflation, pandemic, and supply chain issues. Part of my role is to work with owners and explain to them how the insurance industry works and to help them develop strategies to ensure they get the best value for their premiums.

For apartment owners, the key to understanding the insurance market and individual premiums is to understand that the industry operates according to a business cycle that is tied to the general state of the Canadian — and global — economy. This has been especially true over the past four years, when the market hardened or contracted, resulting in increased property insurance premiums, and higher property deductibles.

In addition, during this time some insurers placed limits on the types of properties they wanted to insure or left the property insurance market entirely. These moves reduced the capacity and number of insurers available within the market, putting an upward pressure on premiums. There is some light on the horizon now. After years of increased premiums and rising deductibles, coupled with strong interest rates and inflationary pressure, insurers are beginning to enter the realm of profitability again which has ramifications for clients like apartment owners.

## **THE RISE AND FALL OF THE MARKETS**

We are now entering a softer market, which means that pricing will be more competitive, property deductibles will decline, and new companies will enter the property insurance market again. Although this all may seem promising for the future of insurance premiums, there are some things that landlords need to know now that can help them manage their premiums and also make their buildings — their investments — grow.

Insurers can harness technology and software to more quickly and accurately determine which types of properties are more attractive to insure, and which are the least attractive. With that business intelligence in mind, I have been recommending that owners build a plan with their broker to best present each property in a way which attracts the greatest number of insurers and provides the ability to leverage their negotiating power.

### **Here are five ways an owner can optimize their building and make it more attractive to insurers:**

**1. Review and update your building's systems:** There are a number of improvements that can be made that will ensure the structure carries less risk. If the building has a shingle roof, it should be updated or replaced every 20 years. If the building has a metal or slate roof, it should be updated and replaced every 50 years. If the building's roof is past its useful life but functioning well, have a roofing contractor complete a report showing the roof remains in satisfactory condition.

Electrical systems also need to be modernized. If the building's wiring is aluminum, at a minimum have the building 'pigtailed.' An electrical pigtail is a technique used to lengthen short wires or combine multiple wires together and leave one conductor that can connect to electrical devices such as a switch or outlet. If the building has fuses, have the building updated to circuit breakers with a minimum of 100 amps. If the building was built prior to 1990, have an electrician's report completed showing that the wiring is in satisfactory condition.

Plumbing is another area of concern for insurers. If the building has Poly-B plumbing, have the building updated to PEX or cross-linked polyethylene, a type of flexible piping designed to replace copper or rigid plastic plumbing. PEX doesn't corrode and is resistant to scale and chlorine. As a rule of thumb, for buildings built before 1990, have a plumbing report completed showing that the plumbing is in satisfactory condition. Finally, heating systems should

be updated every 25 years, and an evaluation needs to be completed by a heating contractor showing the system is in an acceptable condition.

**2. Remedy the cause of any previous insurance claims:** If your building has more than two similar losses in the past three years, insurers will be more willing to negotiate if the property implements risk mitigation measures to avoid comparable future losses. Some examples of this could include:

- Install sprinkler cages over sprinkler heads if you had a claim for an accidental sprinkler discharge
- Implement a connected water detection system that includes an automatic shut-off valve if the claim was a result of a water overflow
- Develop a plan to replace plumbing if the building had a cause of loss due to multiple burst pipes

**3. Assess your building's true value:** It is very important to have an accurate building appraisal. With the rising cost and shortage of materials and labour, as well as large building fires experienced in the last few years, insurers continue to look to insure properties to more accurate values. Lenders have also now begun to look into replacement cost values to ensure the assets remain protected. It is recommended to obtain an appraisal for your property that is based on replacement cost, completed by a certified appraiser, and includes the cost of debris removal, landscaping, and building by-laws.

**4. Implement leasing agreements and building rules:** Insurers will often request and require that lease agreements be a minimum of one year in order to insure a property. Any short-term lease agreements could restrict the number of insurers available for your property, reducing the ability to negotiate a lower premium. A few other items that will work to your advantage are clear rules in place that include no smoking regulations and that all residents must have tenant insurance and provide proof.

## **AT A GLANCE**

- Landlords have seen their costs rise over the past years and have limited options to offset by raising rents.
- Insurance premiums have gone up in the past four years as a result of the pandemic and other economic factors.
- The state of the economy is key to understanding variances in insurance premiums.
- Apartment owners can mitigate the cost of insurance by implementing a number of relatively simple improvements and upgrades to their buildings.
- An insurance broker can help you select the best options and approach.

**5. Consider removing wood burning fireplaces and stoves:**

Insurers are now giving wood burning fireplaces and stoves greater scrutiny. Each insurer has its own requirements, but with the implementation of restrictions and reporting on the use of wood burning fireplaces for heating and wood burning stoves for cooking in the Metro Vancouver area, it is recommended that owners investigate the benefits of closing and removing these fixtures to protect the property from a significant fire. If wood burning fireplaces are left in place, insurers will require further details and may impose higher premiums if they are still in use.

**TECHNOLOGY PLAYS AN IMPORTANT ROLE IN THE INSURANCE MARKET**

The outlook for the multi-unit residential property insurance market is expected to improve over the next few years. As insurers harness the power of technology to map and plan more accurately to ensure that resources are used in the most effective way — capacity allocation — in certain areas and for certain types of properties, it is important to choose a broker that has a vast array of insurers at their disposal.

The ability to access multiple insurers provides greater negotiating power, increased leverage, and overall longevity of your insurance portfolio.

As time passes, it is important that you monitor the overall health of the economy and interest rates as they have an effect on an insurer’s overall investment returns. If lower interest rates result in reduced financial returns, this combined with lower premiums, will mean that the insurer’s profitability may deteriorate. Their profitability will also be hindered if the cost of claims continues to increase, and as detailed above, the cost of materials and labour continues to rise.

Taking all of these factors into consideration, over the next few years we may see insurance premiums come down slightly, and then begin to stabilize. Of course, we can never truly predict the future, so it’s important to stay in touch with your broker and facilitate a plan using the recommendations I’ve suggested to negotiate and leverage each of your properties to their full potential. This will allow property owners to take advantage of the market in a climate which in the past few years has proven to be difficult.

*With BFL CANADA since 2018, Ajay Gill, vice-president client executive, has extensive knowledge insuring apartments, residential strata corporations and commercial buildings. He understands the risks faced by landlords and stratas and is always ready to help clients navigate the complexities of property insurance. Contact Ajay at [agill@bflcanada.ca](mailto:agill@bflcanada.ca) or 1.778.329.4182.*

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