

The Honourable Selina Robinson, M.L.A.
Minister of Finance
PO Box 9048 Stn Prov Govt
Victoria, B.C., V8W 9E2

8 September 2022

VIA EMAIL

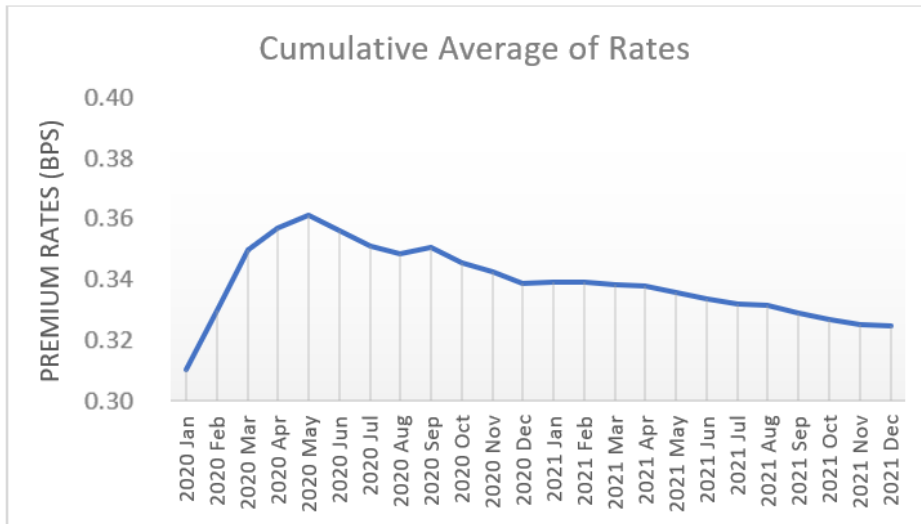
Dear Minister,

RE: B.C. Strata Property Insurance Market – Premium Pricing Changes

I am pleased to provide BC Financial Services Authority's ("BCFSA") findings on the state of premium pricing in the strata corporation property insurance ("strata insurance") market in British Columbia ("B.C."). These findings build on the report BCFSA delivered to government on December 18, 2020: *Strengthening Foundations: A Report on the State of Strata Insurance in British Columbia*. It is being provided as part of BCFSA's 2022/2023 Service Plan commitment to government to continue to monitor B.C.'s strata insurance market and provide, as requested by government, data on 2021 insurance pricing changes for consumers.

In our December 2020 report, we noted structural factors that were adversely affecting the health of the B.C. strata insurance market. Since the release of the report, we understand from our conversations with industry stakeholders, including insurers, insurance brokers, strata property managers, and strata associations, those same structural factors persist in the market. For example, exposure to earthquake and other catastrophic risks like extreme weather caused by climate change, the capital and reinsurance charges insurers must take to cover risks, rising construction costs, and overall claims costs still impact the prices insurers charge. Stakeholders have also identified additional factors that have developed since the report's publication which also have the potential to impact future prices. Those include supply chain issues, the availability of skilled specialized labour, and overall increasing inflationary pressure.

To assist in understanding the current state of the market, this past spring BCFSA undertook, per the above noted Service Plan commitment to government, a data call to collect information from insurers active in the strata insurance market in B.C. The primary purpose of the data call was to assess year-over-year changes in premiums paid by strata corporations for the years 2020 and 2021. As we will detail further below, we have found that property-level data is unavailable from insurers. However, based on the data we were able to collect, we can advise government there is a slight downward directional trend in the average rates insurers are charging per dollar of coverage since the peak in early Spring of 2020. The graph below shows that trend.



Strata insurance is often written on a subscription basis, meaning that the policy issued to a strata corporation will have multiple insurers participating on the contract, each insuring a proportion of the total insured value of the property, or a segment of the risk. Each insurer may charge a different premium rate. The above graph shows the cumulative average of the premium rates that some of the largest insurers in the market are charging strata corporations per one thousand dollars of coverage written by the insurer, i.e., the cumulative average of the rates in basis points (“BPS”). A cumulative average represents the average of all the data points in the set up to a point in time. As time progresses, the cumulative average is updated to incorporate all data points occurring within the preceding period. For example, the data point for March 2020 in the above graph represents the average of the premium rates charged in the sample data from January, February, and March 2020. The December 2020 data point is the cumulation for all of 2020. The data is from a sample of strata insurance policies written in B.C. over 2020 and 2021, representing approximately 6,400 segments of risk written by various participating insurers.¹ In other words, based on the data we were able to obtain, the amount that the insurers charge per dollar of insured value has slightly decreased since the peak over the in-scope period. This slight downward directional movement shown in the graph is supported by our discussions with insurers and insurance brokers in the market that have told us that they are seeing more competition in the market, with some additional supply entering.

As noted above, BCFSA was not able to compare actual year-over-year premium amounts charged to each strata corporation, but rather only obtained information on the direction of average premiums per one thousand dollars of coverage. We did try to obtain property-level data on each property but have found that this type of information is unavailable from insurers. Aggregate data such as the premium charged to any particular property is only available when one company alone insures the risk, and as noted above, most strata insurance policies are written on a subscription basis. Although a sample of insurers were able to provide data to support the BCFSA *Strengthening Foundations 2020* report, changes since that time, in part from changes in the market to eliminate Best Terms Pricing, means insurers no longer have access to the

¹ The data call was restricted to strata corporations with at least five or more residential units excluding bare land strata plans.

same data that they may have had previously. Given the above, it is BCFSA's view that any conclusions based on the data are limited to "high level" or "directional" ones.

To support our conclusions from the data, BCFSA has been engaging with various industry stakeholders, including those identified above, to understand what those stakeholders are seeing in B.C.'s strata insurance market. Those conversations support the finding that the strata insurance market is showing some reduction in the dollar amount paid per thousand dollars of coverage, but also highlight that the market still faces challenges.

The structural issues we noted in our December 2020 report remain in the market. Further, despite the downward directional trend in average rates insurers are charging per thousand dollars of coverage, in the near-term, strata corporations may find they may be charged more, on an absolute basis, for their coverage. This is because inflationary pressures are increasing construction costs (e.g., materials and labour), which in turn drives up the total insured value and claims costs. Section 149(4) of the *Strata Property Act* requires that the property insurance obtained by strata corporations must be based on full replacement value. For example, a strata property which had a total insured value of \$50 million in June of 2020, may have seen the value rise to \$55 million solely from inflation. So even if premium rates remain the same or continue to go slightly down, because the overall insured value of that property has significantly increased, the overall insurance costs for that property may increase.

The findings outlined in this letter conclude BCFSA's follow-on work from our 2020 report on the state of strata insurance in B.C. From our perspective, solutions must be multifaceted to affect any fundamental change in the market. As we noted in our December 2020 report, they will require participation from all local, provincial, and federal governments, as well as insurers and insurance brokers/agents, strata councils, strata owners, and builders and developers.

Regards,



Blair Morrison

Chief Executive Officer & Chief Statutory Officer
BCFSA