The Agency for Co-operative Housing
L’Agence des coopératives d’habitation

Questions and Answers on Insurance for Housing Co-operatives

What insurance does our housing co-operative need?

You need at least five kinds of insurance—perhaps more, depending on your circumstances. The five are property, loss of housing charges, public liability, blanket bond (also called fidelity) and directors’ and officers’ liability coverage.

The Agency has adopted a set of minimum insurance standards, which we talk about in this Q&A. However, each housing co-operative should assess its own needs in consultation with its insurance advisor.

Why does the Agency care so much about our insurance?

Your lender wants to know that your co-op has enough insurance to pay off the rest of the mortgage if a calamity damages or destroys your buildings. The Agency wants more than that. We want to see your co-operative flourishing as far into the future as anyone can imagine. For that, you need the right kinds of insurance and coverage levels.

No matter how well managed and governed, your co-op is not safe from the unpredictable. The right insurance will help protect you from a financial loss that could close your doors for good—assuming you still had doors.

What are the tricks and traps to watch for when we insure our property?

The most important words to look for in your policy are “guaranteed replacement cost.” “Replacement cost” is the amount you would get to rebuild if your buildings were partly or wholly destroyed. “Guaranteed” means that that sum would be enough to cover the full reconstruction cost, even if it exceeded the policy limit.

Let’s look more closely at the difference between the two. In most property-insurance policies, the amount of insurance purchased (the “limit”) must prove to be at least equal to a specified percentage—typically 90 %—of the building’s actual replacement cost at the time of loss or damage. Otherwise, the insurer invokes the co-insurance clause in the policy. This means that the co-op itself must pay to repair some of the damage. Invoking this clause reduces the amount received and, in the event of a major loss, could leave the co-op without enough money to rebuild.

The word “guaranteed” is your shield against such an event, but your co-op must qualify for this coverage. Because the insurer is assuming the full risk—there is no co-insurance clause—it must satisfy itself that you are buying enough coverage. It will do this by inspecting your property and carefully estimating the replacement cost of the buildings and equipment, given current prices. Using a building-cost index, the insurer will revise the estimate—and your premium—up or down every year. From time to time, it may wish to re-inspect your property. These regular updates protect the insurer by keeping the insured value as close as possible to the real cost of replacement.

Unfortunately, not all commercial insurers will guarantee the replacement cost. If you are not sure your policy includes this coverage, please consult your relationship manager at the Agency before you renew it.

A few co-operatives are insured only for a specified replacement cost or actual cash value, but not by their own choice. The co-op's buildings may be in poor condition or the co-op may have a claims history such that no insurance company will guarantee replacement. If a co-operative in this situation has to make a claim, it is unlikely to get enough money to reconstruct a severely damaged building.

Do we really need earthquake coverage?

It is not an Agency requirement for co-ops in most regions, even though Canada has a number of earthquake zones. However, Vancouver Island and the lower mainland of British Columbia are at high risk of severe earthquake damage. BC co-ops in these sub-regions definitely need such insurance. Co-ops in the Ottawa area are also at risk.

All co-operatives that insure with The Co-operators under Co-operative Housing Federation Canada's (CHF Canada) insurance program are already covered for earthquakes no matter where they are in Canada. Co-ops in an earthquake zone that are with a different insurer should seriously consider this coverage, discussing it with their advisor and asking about the cost.

What do we need to know about insurance for loss of housing charges?

If a co-operative has fire or water damage and units are empty, the bills will still come due, including your mortgage payment. If you cannot earn revenue from one or more damaged units, insurance for loss of housing charges makes up the missing income, allowing you to focus your energy on the challenge of repairing the damaged units.

The Agency wants co-ops to have coverage for 12 months of housing charges. While six months' coverage would be enough to deal with some problems, it won't cover you where the damage calls for extensive rebuilding. Remember, restoring and reconstructing will always take longer than you expect.

If you are insured under the CHF Canada insurance program, you have guaranteed coverage for your full housing charges. (But do remember to tell your advisor at The Co-operators when your housing charges change.

Co-operatives whose policies are with other companies should set the policy limit at the co-op's "gross housing charge potential": the annual amount of money you would receive if all units were occupied at the full rate, i.e., before deduction of any rent supplement or income-tested assistance. Be sure to review your limit regularly and change it as necessary. You have two annual opportunities to do this. The first comes just after the members have approved the annual housing-charge increase. At this time, it would make sense to ask your insurance company to increase your coverage as of the beginning of the new fiscal year. The second chance is whenever your co-op confirms its coverage for another year, which usually takes place at a different time in your annual calendar. Whenever you make the change, remember to check that you have a full 12 months' coverage for your increased housing charges.

Liability coverage? Public liability insurance? What's the difference?

Liability insurance is a general term for insurance that protects against the risk of being held negligent or responsible for damages or injuries to someone else. It generally covers investigation, negotiations for private settlement of claims, a defence in court, if the case goes that far, and the payment of judgments or judge-approved settlements up to the limit set out in the policy. The insured should expect to help and support the efforts of the insurance company, its agents and its lawyers until the matter is settled.

Liability can arise from many sources. Some of the most common are the use of a vehicle; ownership or use of a building or premises;

activities of a group; operations of an organization; use of a product or service; and reliance on someone else's opinion or expertise.

Public liability insurance provides a co-op with financial protection from legal action by such third parties as members of the public, visitors, contractors and even trespassers who may be physically injured or suffer damage of some kind when on co-op property or as a result of co-op activity. Based on current trends, the Agency recommends $5 million of coverage and requires at least $2 million. Canada Mortgage and Housing Corporation (CMHC) asks that any co-op with a financial workout have $5 million in public liability insurance.

One risk that co-ops should not overlook involves the consumption of alcohol. If your co-op serves alcoholic beverages at social events, you have a responsibility not only to warn participants about the dangers of drinking and driving, but to ensure that they remain safe after your event. Anything less could make the co-op negligent if an accident occurred.

Your co-op should consider purchasing party alcohol liability insurance (PAL). This insurance is normally sold to cover a specific event and is not expensive. In addition, each province provides general advice and solid training about proper procedures when serving alcohol. You can find information on the government website for BC, Alberta, Ontario and Prince Edward Island. One person should be responsible for deciding, if necessary, when someone has had enough to drink and whether it would be prudent to close down the bar earlier than planned. As the expression goes, "It's all fun and games until someone loses an eye."

What is fidelity (commercial blanket bond) insurance?

A fidelity bond is designed to replace any asset—not just cash—lost through the dishonest actions of those responsible for managing it. It can take different forms, one being a commercial blanket bond.

You should arrange for a bond that protects your co-op against losses resulting from the actions not only of employees but also of board members and other volunteers responsible for administering or handling any of your co-op's assets.

Not all insurance brokers may understand this. Some may claim that your co-op is protected without realizing the business responsibilities that volunteers have taken on. So don't judge your coverage by its name alone. Instead, confirm that you are insured for the actions of all volunteers, as well as staff.

In the Agency's view, your fidelity bond should be for at least the lower of $500,000 or $1,000 per unit. Anything less will leave you at risk. (Note that the coverage is sold in $5,000 segments.) But you may need more coverage. Whatever your situation, ask your relationship manager as well as your insurance advisor about the largest amount that could be stolen at one time, or over a long period of time, and make sure you are insured for at least that much.

If your co-op uses the services of a fully bonded property management company, the Agency will be satisfied if you carry a bond of at least $25,000. (Depending on your circumstances, you may wish to purchase higher coverage.)

> Before you sign a service contract, read it carefully. The contracts of some management companies state that the company is not responsible for any dishonest act of their own employees. In that case, a co-op would have to sue that individual and might not recover anything. If a company does not take responsibility for the conduct of its staff, your co-op should go elsewhere for management services.
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> Once assured that your management company accepts its full responsibility, you will need to check that it is carrying enough insurance of its own—at least as much as your co-op would buy if it did not use the services of a property management company.

Please note that a company's fidelity bond for its staff is different from errors and omissions coverage, which the Agency does not ask for and the company may or may not have.

Is the Agency saying that we can't trust our volunteers, directors, officers and staff?

Co-ops place great trust in their volunteers and staff, giving them access to keys, cheques, cash and personal information of many kinds. Most staff and volunteers are worthy and reliable people.

Unfortunately, though, a number of co-ops have suffered losses from fraud or theft. Co-op members often respond with shock and horror, because they have known the accused for a long time. You should not assume that you don't need this form of protection just because so far you have not been victimized in this way. The risk of fraud is small—we see it once or twice a year—but, when it happens, the damage to the co-operative is very great. Do trust your staff and volunteers, but first make sure your co-op has the right insurance and good internal controls.

Since we have directors' and officers' insurance, aren't we covered?

Directors' and officers' liability insurance provides the individuals acting as your co-op's directors and officers with protection against allegations that their decisions have in some way harmed someone else. It insures against different risks than public liability or a fidelity bond, but responds in the same manner. The insurer mounts and pays for your directors' and officers' legal defence against accusations, whether or not they are false, and pays any ultimate award, should a court find the directors responsible. It is designed to give your key volunteers the security to fulfill their responsibilities on your board of directors without risking their personal assets.

The Agency recommends that co-operatives hold at least $1,000,000 of directors' and officers' liability coverage. Settlement awards are rising. If your co-op can afford it, increasing this coverage is a respectful way of recognizing the hard work undertaken by your Board of Directors.

Members do a lot of the work at our co-op. If there any insurance for our volunteers?

Yes. The Co-operators offers Directors and Volunteer Accident coverage, which is purchased separately. Each co-op should decide if they need this insurance., depending on whether or not volunteers do hands-on work around the property.

This accident insurance covers directors, committee members and volunteers who experience an accident while performing duties for the co-op., including travelling on co-op business. Benefits include a lump sum in case of permanent disability or loss of life or limb. It also provides for rehabilitation and some medical costs and a weekly payment to cover loss of income if the volunteer is totally disabled temporarily.

What if our broker or insurance company doesn't offer the kind of coverage the Agency says we need?

Through The Co-operators Group, the Co-operative Housing Federation of Canada offers its members access to a group-insurance program that meets the Agency's standards. Together, CHF Canada and The Co-operators have worked over many years to design coverage tailored to meet the specialized insurance needs of housing co-operatives. If you are not a CHF Canada member and your current insurance company does not offer the policies we have described, you should shop around. Get more than one offer: agents and brokers will often do a better job of explaining the coverage if they are working hard to sign you up.

Our insurance rep and the Agency say we need different levels of coverage? Why is this?

Co-ops are only one of many kinds of multiple-unit housing. Canadian insurance companies provide insurance for housing with different ownership structures, including rental housing, strata-title developments, condominiums and co-operatives. Their offerings reflect the needs and experience of their most common clients.

In contrast, the Agency is a specialist organization that works only with federal-program housing co-operatives. Our guidance is based specifically on the experience of housing co-operatives.

How much will all this cost us?

In some parts of the country, you can get the insurance we recommend at no extra cost—or even at a lower cost. In other areas, the extra premium can be as little as a few hundred dollars a year. More insurance is not likely to be unduly expensive unless your co-op has a history of claims. At worst, the increase will still be only a tiny fraction of your co-op's annual budget. (On average, an Agency client pays three per cent of their total revenue for insurance.) A good way to keep the cost down is to increase the deductible (the portion of any loss not paid by the insurance company) under your property policy.

The point to remember about insurance is that it seems expensive only until you really need it. Then it will seem like a bargain.

Even so, is there any way we can pay less?

More and more housing co-ops are climbing on board CHF Canada's Risk Management Program. The program gives co-ops a checklist of common risks. The co-op's staff or volunteers then complete the checklist while inspecting member units. Fixing the common risks found through these inspections can help prevent fires accidents, severe injuries and serious property damage.

The more claims, the higher your premiums will be. If you can reduce the number of claims you make, with time, your insurance premiums will go down.

In addition, at renewal time, clients with The Co-operators go through an exercise called the Qualifier, which assesses how good their management is. Depending on the results they are rated Gold, Silver or Bronze. Gold co-ops pay a reduced premium.

A Gold or Silver co-op can further reduce their premiums if they complete the Risk Management Checklist described above and send it to CHF Canada.

What do we need to think about when we renew our insurance?

When it comes time to renew your insurance, make sure once again that you have guaranteed replacement property coverage. If the price has gone up, don't be surprised. Your buildings and equipment may well be more costly to replace than they were a year ago.

If you are not insured with The Co-operators, check that your loss-of-housing-charges policy covers your most recent housing-charge increase. You may also need a larger fidelity bond if your management model has changed. Take the time to discuss your coverage with your advisor.

What doesn't our insurance cover?

It is important to understand what an insurance policy does not insure so that you can plan to manage those risks yourselves. Every insurance policy has its exclusions: the technical word for the kind of claim or situation not covered.

Insurance companies describe their policies in similar ways, using such terms as "property" and "liability." However, the level of protection for your co-op under a particular policy will vary from one insurer to another. These differences are often based on the company's experience of claims and losses. Please remember that the lowest price may not give your co-op the best coverage.

- Perhaps the most important thing to remember about insurance is that it gives protection against misfortune that strikes without warning. It does not preserve your co-op against daily life, which wears away your property little by little, unless you repair, refurbish and replace it.

Why should we buy insurance we won't use?

Insurance by its nature is a co-operative activity. When we buy a policy, we join a pool of others who are also at risk. In ordinary circumstances, only a small number of us will incur a loss but, through our premiums, all of us will help make them whole. The premiums of the many, in other words, pay the claims of the few. By helping to protect others from a financial loss they can't afford, we've gained protection for ourselves.

If it troubles you to pay for a service you may not use, please think about the following points.

- First, when the risk of loss is low, premiums are low, relative to the coverage purchased. When losses are frequent, premiums are higher.

- Second, you can never be sure you won't have a loss. In the long run, it's less stressful, and probably less expensive, to buy insurance than to find the funds yourself to pay for an unexpected loss.

- Third, the Agency assesses the risk levels of our client co-operatives annually. If, in our view, your co-op is underinsured, your risk rating will be worse than that of a similar co-op with coverage that meets our standards. Co-ops often ask how they can improve their risk rating. A quick way for some is to increase their insurance.

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