Mapping the DNA of Investment Property Insurance

PARK INSURANCE

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Purpose of This Guide

Real estate investing has proven to be one of the safest, if not the safest investment an individual can make. Nonetheless, purchasing and owning investment properties does involve numerous risks. To minimize the financial impact of potential losses due to unpredictable risks, investment property insurance is needed.

However, buying insurance is often far from simple. Many people find insurance and the selection process complicated, or even intimidating. An 'apples-to-apples' comparison of insurance options can be difficult to make; for most people it seems to take too much time. Yet, the costs and consequences of quickly selected or inadequate insurance coverage can be very high. This is particularly true for property investors.

Therefore, this guide is designed to provide REIN members with:

1. Insight into buying investment property insurance appropriate to each property
2. Components of a sound insurance policy and their explanations
3. Helpful information on selecting an insurance broker

Note: The words *strata, condominium,* or *condo* are interchangeable terms used in this document.

Disclaimer:

This Guide is for informational purposes only. While the information is deemed to be accurate, it is not a substitute for consultation with an experienced investment property advisor, an insurance broker and/or a lawyer.

Protecting Your Investment Properties

Risk Assessment and Management

Each investment property has its own risk level, which determines the types of coverage that are available, as well as the costs for such coverage. For example, some properties have a history of insurance losses, are located in high-risk areas, are over twenty-five years old, the occupancy is a boarding or rooming house, short-term rentals, or are otherwise deemed to be a higher insurance risk. In such cases, it will be harder to obtain sufficient insurance—at least at competitive prices.

Investors who dedicate appropriate resources to risk reduction and risk control have, on average, fewer insurance claims and therefore, lower insurance costs. Conversely, without appropriate insurance, property losses can easily cause an entire investment portfolio to collapse.

Risk assessment and management of risks to your property follows these basic steps:

1. Risk Avoidance
2. Loss Prevention
3. Loss Reduction
4. Contractual Transfer of Risk

Contractual transfer of risk refers to buying insurance, which is defined as 'paying someone else to assume a risk that would normally be yours.' You pay the insurer a fixed amount and they then undertake the responsibility of paying for the costs of repair or replacement of the asset that you have insured.

In some ways, insurance is like a wager you make with the insurer. You're betting that something terrible, such as your rental dwelling being broken into or that it will burn down, will happen to you. The insurer is betting that it won't. But you don't want to take any chances, so you buy insurance.

Three of the best ways to manage risk and protect your investment property are to:

1. assess the level of risk your property represents—from an insurance perspective
2. put in place an ongoing risk assessment program to identify new risks and to formulate action plans to minimize their effect or eliminate them altogether
3. purchase sufficient insurance to protect your investment against these potential disasters, accidents, and liability losses,

In some respects, your insurance policy should be the last line of defense in your efforts to protect your investment property from unrecoverable losses.

Challenges in Securing Investment Property Insurance

Insurance can be complex and this is certainly true for investment property insurance. The insurance landscape is continuously changing as new risks arise, the frequency of risk events increases (i.e. natural

disasters due to changes in weather patterns), and precedent setting court cases are heard. For these and other reasons insurance buying decisions can be challenging.

This complexity often means that: 1) insurance for investment properties is poorly understood, 2) investment properties are over-insured or under-insured. Therefore, to secure sufficient coverage at competitive rates requires a greater level of expertise and effort—both by investors and their brokers.

Understanding Investment Property Insurance

Overview of Insurance Categories

Investment properties are insured under a residential policy or a commercial policy—depending upon the following factors, which are somewhat unique to investment properties:

- type of property or usage
- number of units in the building
- number of properties to be insured by the investor/owner

Obviously, a single family dwelling would be insured under a residential policy. However, there are exceptions to this. For example:

When an investor has one, two, or three single family dwellings, most insurers will provide coverage for the three properties under residential policies. However, once the investor acquires a fourth investment property—even though it is a single family dwelling—they will only provide coverage for the fourth property under a commercial policy. This can easily mean that the fourth policy—now deemed a commercial contract—costs much more than if it was insured under a residential policy.

Or, if the property is a four unit rental apartment, most insurance companies would provide coverage under a commercial policy. Obviously the apartment building isn't for mercantile purposes (stores, shops, etc.), but from the insurer's perspective an apartment complex is a business, and therefore it falls under the commercial insurance label.

Finally, some insurers further categorize their policy options for investment properties, as follows:

1. **Residential:** Rented dwellings and condominiums
2. **Commercial:** Mercantile buildings such as retail stores, strip malls, apartment complexes, or properties that are not covered above

Types of Policies

Within the above categories (Residential and Commercial), levels of coverage for investment properties are divided into two types of coverage or policies. They are:

1. **All Risks Policy:** The All Risks policy provides protection against:

   All risks (also referred to as "perils") that may cause damage or loss to the property—except those perils that are specifically excluded in the policy. Typical exclusions on an "all risks" policy could include: sewer back-ups, earthquakes, vandalism by tenants and guests, and others.

2. **Named Perils Policies:** The Named Perils policy lists the specific perils for which you are covered. If the peril is not listed, it is not covered. Typical perils that are named in such a policy include:

fire, hail, vandalism, falling object, impact by a vehicle, and explosion. A Named Perils policy is not recommended for investment properties. However, it may be the only type of policy that is available for properties that are deemed sub-standard.

Coverage Extensions

Property owners can obtain Coverage Extensions for some of the "excluded" perils in either an All Risks or Named Perils policy. These coverage extensions could include coverage for risks such as: sewer backups, earthquake, vacancy extensions, building bylaws, and others. In all cases it is critical to carefully review with your insurance broker the risks that are unique to your property so that you have the type of coverage and the level of coverage (amount of money to be paid by the insurer against a loss or damage), appropriate to your property.

Choosing the Level of Coverage

Finally, there are three levels of coverage that determine the amount of money to be paid to cover the cost of the loss or damage to the property. They are:

1. **Actual Cash Value (ACV):** This type of policy pays to repair damages or replace your building or your possessions—minus a deduction for depreciation. "Actual Cash Value" is often offered at a lower price, but is a poor choice because construction expenses continually rise, and the ACV value of your property will be lower than its replacement cost, requiring you to pay the difference, which could be a substantial amount.

2. **Replacement Cost:** This coverage ensures that your rental building is repaired or rebuilt at the actual cost to replace it. It is important to note that the repairs or rebuilding costs covered are only up to the sum that your policy specifies. For example, if your policy limit is $400,000, but at today's construction prices it may cost $500,000 to rebuild your building, the maximum payout would be $400,000.

   In addition, you can only collect the face value of the policy if you rebuild the building. Assuming once again, that in your policy the building is valued at $400,000 and it burns to the ground. The insurer will pay up to $400,000 to rebuild it—but you must rebuild it to collect the $400,000. However, at today's construction prices it costs $500,000 to rebuild it. Now, you have two options:

   A) Decide to rebuild; collect the $400,000 and pay the $100,000 difference yourself

   B) Decide not to rebuild the building, or at least not to its original size and purpose, and accept a claim settlement based on the Actual Cost Value (ACV) of the original building. In most cases, this would be far less than the amount of the insurance you carry. You are still required to pay for debris removal and site clearing out of your settlement money.

3. **Enhanced Replacement Cost:** The Enhanced Replacement Cost provision offers additional protection as it pays up to a specified percentage above the limit specified in your policy, just in case it costs you a bit more when you replace or rebuild your home after a covered loss.

4. **Guaranteed Replacement Cost:** The Guaranteed Replacement Cost provision offers the highest level of protection as it pays whatever it costs to rebuild your building as it was before the loss or damage—even if it exceeds the total sum of the policy limit. This gives you protection against increases in construction costs.

Co-Insurance Clause

In view of today's high construction costs, the co-insurance clause is a critical part of any discussion on insurance coverage. The co-insurance clause allows insurance companies to reduce the coverage of your claim if you do not insure the full value of the property equal to today's rebuilding costs.

When only a portion of a building is damaged by an insured loss (i.e. fire in the kitchen), and your building is not insured to the full replacement value, the insurer will apply a financial penalty against the claim. A simple way to describe this penalty is if you are only insured for half the property value, the insurance company will only pay half of the cost to make repairs and you will have to pay the difference yourself.

To avoid any unpleasant surprises you should have the rebuilding cost (including demolition and debris removal), estimated, and then increase your coverage accordingly. Your options are to hire an appraiser, consult a local builder, or contact your broker for help with such an evaluation or estimate. Ultimately it is up to you, however, to decide on the amount of insurance to carry.

It is important to note that the majority of investors do not have enough insurance to replace their buildings at today's construction costs. Although it costs more initially it always saves big-time when you need to file a claim. Again, this is an issue to discuss with your broker.

Construction Rebuilding Costs—How Not to Be Surprised

The strength of Canada's housing market continues apace. That is the good news. With it, however, comes continuing increases in construction and materials costs. This leads to two questions every home-owner and investment property owner should ask their broker—to avoid disappointing surprises:

1. What would it cost to rebuild my home or investment property at today's construction costs?
2. Is there a big difference between the cost of rebuilding and the level of insurance coverage on the building?

In view of the sharp increases in property values and construction costs, the answer to the latter question reveals that the majority of property owners are seriously under-insured. This is particularly the case where homeowners or investors have not had their properties valuated in the past two years, and therefore, would not likely have had their coverage adjusted.

The majority of property owners are either unaware of this gap in their insurance coverage, or they choose to ignore the need to increase their coverage. Whatever the reason for not protecting the increased value of the property, and being underinsured against rising construction costs, the result can be disastrous in the event of a substantial loss. Being underinsured in this situation might be compared to a person getting a $100,000 inheritance (i.e. the increase in the value of their property), which they then leave laying around the house in cash—unprotected. To be underinsured against rising construction costs is a huge risk that all property owners, and certainly investment property owners, need to consider carefully. Talk to your broker about the value of getting a Replacement Cost policy, Enhanced Replacement Cost policy or a Guaranteed Replacement Cost policy, as commented on earlier.

Getting the Right Fit

Many property investors are unclear about the types of coverage that they need, particularly in view of the fact that they are not personally occupying their investment properties. Let's consider some of the recommended types of coverage.

Personal Liability

Your **tenant** invites a few friends over for dinner. Later in the evening, one of them slips on the balcony and breaks their arm and is off work for four weeks. They file a suit against you to recover their loss of income during those four weeks. In the suit that they file, they allege that as the owner you are responsible for the balcony's tiled floor, that the tiles used were too slippery for the application, and there were no warning signs posted.

Personal liability insurance protects you against such claims for bodily injury or property damage for which you are alleged to be responsible. In addition to settlement costs (if you are determined to be responsible), this coverage will also pay defense costs and court costs—even if a suit brought against you is groundless.

So, although you do not occupy the unit, liability issues can arise and carefully selecting the type of liability coverage, as well as coverage levels is an important issue to discuss with your insurance broker.

Contents Coverage

Everyone is familiar with contents insurance for owner-occupied property. However, in the case of a rental dwelling, contents coverage is still needed to protect the owner's interest in the property's appliances (stove, fridge, washer and dryer), together with any other portable property of the owner on the rental premises. These items are not covered by tenant insurance, (unless they are owned by the tenant), nor are they covered, in the case of strata-titled properties, by the strata corporation's Master Insurance policy.

Coverage Extensions

Once you have determined whether an All Risks or Named Perils policy is best for your particular investment property, the next step is to decide which coverage extensions are needed. Listed here are some of the coverage extensions that you should review with your broker.

- Rental Income
- Flood Extension
- Sewer back-up
- Permission for Vacancy
- Building Bylaws
- Exterior Glass
- Professional Fees
- Earthquake
- Vandalism by tenants and guests (some policies include this coverage)

Rental Income

Coverage is available to protect an owner against the loss of rental income, when the investment property is damaged by an insured peril that prohibits tenants from continuing to occupy the unit.

Rental income coverage enables you to still meet your mortgage or other financial obligations, despite the loss of rental income. Most insurers place a dollar limit on the claim payout based on the amount of

insurance you purchased, and they usually have a co-insurance clause. The criteria used to assess the scope of the income loss are the:

1. Amount by which the insured's business income (rents) has been reduced. This includes the reduction in any rents the owner would have normally received.
2. Expenses that do not necessarily continue during the indemnity period are subtracted from clause no. 1 above.

Some insurance companies provide "Actual Loss Sustained" (ALS) on rental income and you should seek this type of coverage as it is superior to other offerings. It may provide no limitation on protection for a 12 month indemnity period.

A few insurance companies also offer an extended indemnity period of 18 months against the loss of rental income. This can be a very critical consideration in view of the fact that it often takes more than a year to rebuild, during which time there would be no rental income from the tenant.

Enforcement of Bylaws

This coverage comes into play any time a building suffers a loss or is damaged. The municipal building authority requires repairs to conform to current building codes. This may necessitate a complete upgrading of the electrical, plumbing, heating systems, or other structural components. Therefore, the older the building the more important this coverage becomes. It should be noted that most, if not all, policies exclude this coverage. However, there are a few insurers who will provide unlimited coverage and it is well worth the effort to find one who does.

Earthquake Coverage

Insurance policies do not automatically cover this peril. It is therefore recommended that all property owners purchase this extended coverage (Earthquake Endorsement). Earthquake coverage carries a deductible much higher than the basic insurance policy.

Note to Investors

If your property has unusual zoning or other bylaw situations, it becomes important to check with your broker to determine the impact it will have on your insurance needs.

Strata-Titled Properties – Unique Insurance Needs

Strata-titled properties (condos, townhouses, etc.), bring to light unique and often overlooked risk exposures. It is for this reason that the majority of condo owners do not carry sufficient insurance. Some of the reasons for this lack of insurance or inadequate coverage are:

- Insuring a condominium unit is complicated by the fact that there are two parties involved—the owner of the unit and the strata corporation.
- Coverage for "Betterments and Improvements" is not covered under the condominium corporation's Master Insurance policy.

Important!

Do not assume that the Condominium Corporation's Master Insurance Policy protects you from loss or damage to your rental unit!

Strata Master Insurance Policies

Strata Master Insurance policies typically provide coverage for the building and its common areas, such as walls, roof, floors, elevators, swimming pools, and any associated out buildings. These policies do not cover, however, appliances, upgrades, and other items in each owner's unit.

The coverage limitations of the typical Strata Master Insurance policy leave insurance gaps that the appropriate condo insurance package can fill. We will now explore some of the types of coverage that investment property owners need for strata-titled properties.

Loss Assessments

One risk that is unique to strata-titled properties involves the issue of "loss assessments." Strata corporations insure all buildings within the Strata Corporation complex, including common areas, through a Master Insurance policy. Because the common areas of a condominium complex are available for the shared use by all unit owners within the complex (sidewalks, lobbies, hallways, exercise rooms, swimming pool, meeting and party rooms, etc.), there is a shared responsibility amongst all owners when a claim is made against the strata corporation's Master Insurance policy.

How does this shared responsibility work in the context of insurance?

Scenario One: A visitor slips on one of the condo complex's sidewalks because the snow and ice have not been cleared. The visitor bangs his head, is paralyzed for life and unable to work. If the Strata Corporation is sued, their liability insurance will usually cover their legal costs and any possible judgment against them.

However, if the financial value of the claim is very large and the strata corporation is underinsured for the amount of the judgment, each unit owner is now assessed to cover the shortfall.

Scenario Two: Some Strata Corporations purchase Master Insurance policies that have a very high deductible (i.e. $100,000), for property claims. Again, each unit owner can be assessed to pay a portion of the deductible when a loss occurs, and a claim is filed. It is also quite common for one unit to be assessed the entire deductible in some cases, depending upon the circumstances surrounding the claim.

Scenario Three: Some Strata Corporations fail to buy enough insurance to rebuild at today's construction costs. Should the building suffer a serious loss, and the Strata Corporation's level of coverage is inadequate—each unit owner would be assessed to pay a portion of the claim.

In all cases, it becomes important for the investment property owner to include in his/her policy coverage for such 'loss assessments'. Talk to your insurance broker about this critical coverage need.

Betterments and Improvements

When purchasing a condominium unit, the purchaser is buying the unit—with its improvements. However, the Strata Master Insurance policy provides coverage for the unit as it was originally built by the owner developer. Therefore, any upgrades to the unit by you or by previous owners, such as lighting fixtures, air conditioners, flooring, kitchen and bathroom cabinets, countertops, floor and ceiling moldings, etc., requires additional coverage, referred to as "Betterments and Improvements."

While condominium laws require that the strata corporations have their own insurance that protects the structure and common areas of the building, upgrades are almost always excluded from the strata corporation's Master Insurance policy. It is the responsibility of the individual unit owner to insure the upgrades to their unit in the event of loss.

Unit owners need therefore, to ensure that any alterations or additions to their unit have sufficient insurance protection—regardless of who made the improvements. As mentioned earlier, most condo owners do not have adequate insurance to cover this type of loss.

Unavailable Coverage

You should be aware that there are some perils or risks against which insurance companies will not provide coverage. They include:

Drug Cultivation, Manufacture and Distribution

Loss or damage to insured property however caused, which results directly or indirectly from any Illegal Substance Activity is usually not covered. This exclusion will apply regardless of whether you are aware or unaware of such Illegal Substance Activity or whether you are able or unable to control such illegal activity. Most insurers, however, will cover any resulting fire damage.

Note to Investors

Due to the Illegal Substance Activity exclusion – it is imperative that you maintain a regular inspection of your rental properties to avoid losses resulting from an illegal activity.

Wear & Tear

Some losses or damage, such as wear and tear, aren't covered because they don't meet the basic insurance criteria of being accidental and unpredictable. Regular maintenance of property is always the owner's responsibility.

Fungi & Mould

Loss or damage caused by rust, corrosion, wet or dry rot, fungi or spores, bacteria, condensation, acid rain, or contamination are excluded perils under all policies.

N.B. There are other perils against which coverage is not available. These include: war, nuclear disasters, and terrorism.

Unlike the typical insurance policy for owner-occupied dwellings, investment property insurance does not usually cover what is commonly referred to as outbuildings (sheds, garages, swimming pools, etc.). Be sure to check with your broker on this issue.

Reducing Insurance Costs for Investment Properties

As mentioned earlier, each investment property has its own risk level. Therefore, careful selection of your investment properties should include a risk assessment or evaluation. Here are some of the conditions that increase a property's risk level, which should be factored into the purchasing decision.

PROPERTY LOCATED IN A FLOOD PLAIN: Flood coverage is not normally available on residential properties, especially those that are located in flood prone areas. Is there a history of flooding in the area? What has been the frequency and the scope of the flooding?

AGE OF DWELLING: The age of a dwelling is a key risk factor because discounts are often applied to newer homes, along with surcharges applied to older homes. This is especially so in homes where the roof, electrical, plumbing, and heating systems have not been updated. Without appropriate upgrading, certain coverage may not be available.

Another risk factor relating to the age of the dwelling, is whether it would be affected by what is referred to as 'Enforcement of Bylaws. If the proposed investment property's services have not been upgraded, and it suffers a loss, the municipal building authority may require you to repair your dwelling according to the current building codes. This can include a complete upgrading of the electrical, plumbing, and heating systems. In some cases, necessary upgrades can also include sprinkler systems, parking, and glazing.

PAST CLAIMS HISTORY: A careful review of past claims regarding the property may reveal a cyclical pattern of loss, such as water damage losses that may give rise to mould problems. Most policies exclude coverage for loss or damage that is caused by mould, rust, corrosion, wet or dry rot, fungi or spores, bacteria, condensation, acid rain or contamination.

FIRE PROTECTION: Insurance costs for dwellings are based on the level of fire protection responding within a defined area. The closer your property is to fire protection, the better the protection you have, which can translate into lower premiums.

VACANCY: Vacancy is another risk element that impacts on the type and the level of insurance coverage that will be available, as well as the cost. Vacancies due to renovations or difficulty in finding new tenants are of special concern to insurers. Therefore, careful consideration should be given to those properties that have a history of long-term vacancies, which may be due to their location, zoning restrictions in the case of commercial properties, or for other reasons.

N.B. In most cases, coverage is not provided when a vacancy goes beyond 30 days. (There are a few insurance companies who will extend their coverage up to 120 days.) Vandalism and water damage coverage, however, are usually cancelled the moment the property becomes vacant.

MOULD & MILDEW: Pay particular attention to the possible existence of mould or mildew in the target property. In fact, loss or damage caused by rust, corrosion, wet or dry rot, fungi or spores, bacteria, condensation, acid rain, or contamination are excluded perils under all policies. Insurance policies are designed to cover disasters and accidents, but not cleaning and maintenance, which is the category mould falls into according to insurers. In addition, chronic mould problems are very costly to repair and there is always the potential for a liability claim where the tenant feels that they have experienced serious health problems related to mould or mildew in the rental dwelling. One exception is in cases where mould results from a current accident or disaster (such as bursting pipes). In such cases, repairs and eradication may be covered.

DEDUCTIBLES & FILING CLAIMS: Cost savings can be realized by selecting higher deductibles and not filing claims for small losses. Red flags go up at insurance companies if you report every minor water damage or similar loss, which can result in higher premiums when you renew your insurance.

Emerging Trends

Strata-Titled Properties

The increase in condo living has seen a parallel increase in litigation over the often hefty deductibles on many strata corporations' insurance policies. Many strata councils have instituted bylaws that shift the responsibility for this deductible onto owners.

The decision handed down by the Supreme Court of British Columbia in May 2007, regarding Mari vs. Strata Plan LMS-2835, is a case in point. The issue raised was "Who pays the insurance deductible?"

As of July 2000, the Strata Titles Act of B.C. was substantively amended and the new Strata Property Act of B.C. became law. Until this change, previous statutes (Strata Titles Act and the Condominium Act) did not address the question of "Who pays the deductible?" on insurance claims. Under the new Strata Property Act, decisions of "responsibility" could no longer be made by strata councils. Instead, the new Act stipulates under Section 158 that insurance deductibles are a common expense to be paid for by the strata corporation. However, the Strata Property Act made a provision for strata corporations to sue an owner, if the strata council concluded that "the owner is responsible for the loss or damage that gave rise to the claim."

In the case of Mari vs. Strata Plan LMS-2835, a flood occurred in the Mari unit when the water level switch in their washing machine malfunctioned. The damages to the Mari unit, as well as to a number of units below them totaled $9,888. The strata corporation's insurance policy covered the repairs, but there was a $5,000 water loss deductible on the policy. Therefore, the strata corporation asked the court to assign costs against the Maris to cover the $5,000 deductible. The judge agreed that the Maris were "responsible" and ordered them to pay the deductible. As mentioned above, the judge did not find the Maris negligent (there was no way for them to know that the part was defective), but rather "responsible" for the incident. One line of reasoning used by the court to reach its conclusion was that condominium unit owners are much like owners of detached dwellings—both are responsible for whatever loss or damage is deemed to have occurred in their house or condo unit, regardless of the absence of fault or negligence on their part.

Note to Investors

In the precedent setting court case of Mari vs. Strata Plan LMS-2835, the court reasoned that condominium unit owners are much like owners of detached dwellings—both are responsible for whatever loss or damage is deemed to have occurred in their house or condo unit, regardless of the absence of fault or negligence on their part.

In another case similar to the above, a pipe burst within the bathroom wall of one of the condo units, which caused common-area damage. Once again, the court found the owner "responsible" and he was required to pay the deductible on the strata corporation's Master Insurance policy.

As a result of the above referenced cases (particularly the Mari vs. Strata Plan LMS-2835), several strata corporations have decided to charge back to the "responsible" owner—both the insurance deductible and any damages that exceed the deductible. In one case, water damages totaled approximately $8,000 and the strata corporation's Master Insurance policy deductible was $5,000. The strata council decided that the owner was "responsible" and concluded that the strata owner did not have the right to the benefits of the Master Strata Insurance policy. According to one report, some strata councils have instituted bylaws that assign responsibility for plumbing lines that service each condo unit to each respective owner.

The Mari vs. Strata Plan LMS-2835 decision now works as a precedent and will likely stand until it is challenged in a higher court. Until that happens, most strata councils will rely upon it despite Section 158 of the Strata Property Act, which says that an insurance deductible is a common expense.

In view of the foregoing, three actions are important for all condo unit owners:

1. Perform regular checks and keep in good condition all washers, dishwashers, ice-makers, garburators, toilets, sinks, tubs, taps, water filters and purifiers, hot water tanks, and visible water lines.
2. Know where the water shutoff valves are for each kitchen and washroom within the unit, and ensure that they are properly working.
3. Obtain a copy of the strata corporation's Master Insurance policy and review it.

Role of an Insurance Broker

Your Investment Advisory Team

A knowledgeable insurance broker who has experience with investment properties is a very important member of your property investment team. They can be as important to you as your accountant or your lawyer.

Choose your broker wisely because not only is insurance for investment properties sometimes difficult to obtain, it requires greater expertise than most insurance brokers and agents possess. Finally, the most valuable services your broker can deliver require an investment of their time and resources that not all are prepared to make. Your challenge is to find one you can rely on with confidence.

Profile of A Competent Broker

Your Advocate: Your broker is your advocate in the investment insurance marketplace. A capable broker knows what the markets are doing, who the underwriters are, what they are looking for, and how to present your properties in the best possible light. What does that involve? They need to thoroughly understand each insurer's policy applications, the meaning, and significance of each question, how the information being requested is likely to be interpreted, and how that information can best be communicated to the insurer. Adequate coverage and the cost of such coverage will depend on his/her knowledge, as well as the time and attention that they devote to your needs.

Your Risk Manager: Your broker should also act as your risk management advisor. He/she should be able to explain simply and clearly the differences in coverage and their relevant importance to your property. You should also expect objective advice on the benefits and risks of switching your policies from one insurance company to another.

Your Insurance Expert: Everything in life is becoming more complex. So it goes with insurance. Just like lawyers and doctors, insurance brokers' experience and expertise varies. Look for a broker who has the requisite expertise to deliver value—great coverage, competitive pricing, outstanding customer service.

Claims Advisor: Finally, a competent broker will be there when disaster or accidents arise and you now need to file a claim. Ask them what their claim satisfaction rating is? The answer can easily identify those who are good negotiators and carry weight with the insurance companies—and those that don't.

Finding Your Broker

When should you start your search for a competent broker who can work like a partner to make your business a success? Today. Don't wait for renewal time when a looming deadline pressures you into making a quick decision, rather than a sound one.

Use the above to develop a profile of what you would like your broker to do for you and then discuss this with your current broker or those you are considering.

Of course, the types of coverage, the levels of coverage, and costs the broker is able to deliver, should guide your final decisions regarding each property.

The Cheapest Price or the Best Value—Which?

For some insurance shoppers, the cheapest price is the name of the game and admittedly, with some purchases the lowest price can still deliver good value. However, cheap insurance—like cheap medicine—is no guarantee that it will really protect us when we need it.

Buying insurance for your investment property should be balanced against your risk-comfort level. It is important, therefore, to:

1) Identify the level of protection that will provide sufficient coverage in the event of loss,

2) Assess the calibre of customer service, or more precisely the strength of the broker's claims service. All insurance coverage is equal until it comes time to file a claim. Not all brokers are able or insurance companies willing to offer a fair settlement that you deserve.

3) Consider pricing as an important factor from a budgetary point of view, while at the same time carefully weighing the value of each insurance option.

Getting good value for your insurance dollar does not necessarily mean that your policy will cost more. In fact, a focus on value may cost you the same or even less than cheap insurance, while at the same time provide you with better coverage.

Insurance is a way to protect your future and it gives you peace of mind during the trip there. To spend a fixed amount each year to pay for your insurance will appear insignificant when your investment property suffers a loss due to accident or fire. Without insurance, most people never recover from a major loss.

So, buy wisely. And once again, it is critical to carefully select a broker who can assist you to make educated or well informed decisions. This will save you money now, and most importantly when you have to file a claim.