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What's Your Policy?

Owners Face Insurance Woes On Older Homes

by Sheila Ascroft

A Fredericton couple spent thousands of dollars fixing up their older home—upgrading the electrical system and replacing the old wood stove with a high efficiency—only to find that Allstate wasn't satisfied. The couple stated that "Allstate said they would insure us once we had the work done, but when they learned the age of the house they deemed it too old to insure."

50More.com

According to 50More News' Web site, Allstate Insurance no longer insures homes more than 65 years old in Nova Scotia and New Brunswick, largely as a result of fire hazards. In the year 2000, fire loss made up half of the company's claims in those two provinces.

Heritage homes in the Maritimes are definitely feeling the squeeze. Last summer Kathy Redmond had to have the municipal heritage designation removed from her 1861 home in Wentworth, N.S., before she could renew with Dominion of Canada General Insurance for its replacement value.

A spokesperson for her former broker, Carolyn James of K. N. Umlah Insurance, said that Ms. Redmond's policy was cancelled because of its heritage property designation. "There should be no surprise in that," she said. "I've been in the insurance industry for 20 years and not insuring heritage properties has been the policy at most insurance companies during that time."

Ms. James explained that most insurance policies guarantee replacement of a home in the event that it is lost. With a heritage home, "heritage by-laws require reconstruction in the same manner as it was originally built. To replicate everything in a heritage house exactly as it was in the original would mean the replacement cost would be exceedingly expensive," said Ms. James.

However, local Councillor and head of the Heritage Committee Ralph Welton claims there has never been such a by-law. Halifax Regional Municipality representative John O'Brien

agreed. "There's no stipulation that, if it's built with wooden pegs or whatever the case may be, it has to be replaced that way." He added that people who buy heritage homes often keep them in top shape, and he fears that the perception that homes are uninsurable could deter potential owners.

The Heritage Society of British Columbia's newsletter recently reported a similar situation. Don Tonsaker, HSBC Vice-President, found his insurance company no longer wanted to provide coverage of his award-winning heritage home in Nelson after it was formally designated. It was assumed the local government would demand exact replacement in the case of damage by fire or other disasters.

Unfortunately there appears to be a widespread misconception in the industry that heritage designation by-laws automatically stipulate exact replacement of historic fabric in the event of a disaster.

Beverly Miller of the Provincial Heritage Property Owners Association of Nova Scotia said there are hundreds of heritage homes around the province. She pointed out that the prohibitive factor may not be the heritage designation, but the clause governing guaranteed replacement cost that is standard in most insurance contracts. In calculating replacement costs, insurers agree to replace materials with "like kind and quality."

The Insurance Bureau of Canada's (IBC) Vice-President, Don Forgeron, noted that the "vast majority" of companies still insure heritage properties and homes more than 50 years old.



"We think that we're looking at isolated cases. We simply don't see a...crisis," he said. He observed that there could be other reasons for refusal that have nothing to do with the heritage designation. "There could be other risks associated with the property...for instance, wiring in the house. It may need to be updated.... Older homes need to be more carefully underwritten, whether they're heritage or not," he added.

Mr. Forgeron admitted that there are some companies that do not cover heritage homes. "Maybe they don't have the expertise to underwrite that risk so they've chosen not to get into the business."

However, many regular insurance companies in Canada seem to have chosen not to insure older homes. According to Don MacGillivray at the Allstate Insurance call centre, this is, essentially, the company's policy. "As far as older homes with knob and tube wiring, galvanized plumbing, etc., are concerned, we do not underwrite. You would have to go to a broker who might have a specialty market," he said. Regarding heritage buildings, "We as a rule will not underwrite, so they receive no coverage."

Van Helden Agencies, a Calgary insurance broker, indicates on its Web site that the age of a house is a factor. "Some insurance companies may not insure very old homes, or offer a limited form of coverage." In its client bulletin, Van Helden explained why insurers were wary. "The 9/11 World Trade Center attack has deprived underwriters around the world of their accumulated reserves, forcing all insurers to take a disciplined approach in setting their policy premiums." As well, "recent insurance losses from fires of wood-frame homes...have forced the insurance industry to re-evaluate their risks."

The bulletin indicated that "for 2003, we foresee both higher insurance costs and some insurance companies abandoning some high-risk policies. This increased difficulty in obtaining insurance coverage (in some cases, at any price) is challenging to homeowners, builders, and insur-

ance brokers alike."

Stacy Elliott of the Ottawa brokerage firm of Smith Petrie Carr and Scott, reiterated the concern about insurance companies being required to replace the home exactly to its original specifications. "Older homes have materials that were used 80 years ago but which are not available today. This requires the companies to custom make and custom order the materials, driving up the replacement cost of the building and the premium charged," he said. Mr. Elliott added that there are some special market insurance companies that will cover high-risk properties. "These companies will sometimes insure the older home if certain conditions are met. However, their premiums are very high," he cautioned.

Again, this policy indicates that the prohibitive factor is not the heritage designation, but rather the clause governing guaranteed replacement cost.

In some areas, the real estate sector is adding to the problem by advising vendors of heritage properties to de-designate if they want to make their home more marketable. Victor Kerman of Royal LePage Signature Realty answers the "Dear Realtor" column on the Toronto.com Web site. Last November, he wrote that "serious insurance coverage issues are affecting older homes." He indicated that over the last few months "there are issues for purchasers of older homes, regarding the obtaining or renewing of home insurance... A number of transactions have fallen through on closing, as a result," he wrote.

The HSBC newsletter article noted that in Australia a useful distinction is made between "replacement" insurance and "indemnity." In the first case, a damaged element is replaced with similar material, in the second, "old" is replaced with "old," at a considerably increased rate.

Last fall, Heritage Canada's Brian Anthony queried IBC to find out how many homeowners of heritage properties were facing these insurance difficulties. It reported that none of its various regional offices had seen any problems. In February, Mr. Anthony

wrote to the IBC, asking for further assistance in examining this insurability issue.

"Owners of heritage buildings, it seems, are finding it increasingly difficult, costly and, in some reported cases, impossible to insure their properties. This apparently is not just limited to designated heritage buildings, but any older home over a certain age. Given that there are 1.7 million pre-1920 structures in Canada...this problem has the potential of affecting a significant number of property owners," he wrote.

A related concern is that this reluctance to insure older properties could run up against the new federal Historic Places Initiative Program. It recently created the \$30-million Commercial Heritage Properties Fund (see *Heritage*, Winter 2004) to encourage restoration of designated buildings. Although the insurance industry is federally legislated, it seems that this restrictive insurance policy could detract from a promising federal heritage initiative.

In response to Mr. Anthony's letter, the IBC has proposed collaborating with the Heritage Canada Foundation in finding a solution. Heritage Canada is encouraged by IBC's request to schedule discussions on this crucial matter.

Heritage Canada would like to hear from any heritage homeowner who is currently experiencing insurance problems. E-mail: heritagecanada@heritagecanada.org.

Dear Realtor (www.toronto.com/feature/12676/eight.html); www.50more.com/50mnewsweb/news/1463.htm;

Don MacGillivray, Allstate Call Centre, dmac@allstate.ca;

Halifax Chronicle-Herald, N.S., 07/25/03, 07/30/03;

HSBC Newsletter, "Are You Covered?" Fall 2003;

Insurance Bureau of Canada (www.IBC.ca);

Smith Petrie Carr & Scott Brokerage (www.spcs-ins.com);

Van Helden Agencies

<http://www.vanheldenagencies.com/HomeInsuranceDetails.htm>