

## Insuring Heritage Buildings in Canada

### A brief overview

Planning for the future of a strong, vibrant community requires knowledge of the past and an understanding of what we value in the present. Existing buildings, structures and landscapes often define a community’s unique identity and give it character and a sense of place. To help guide change, it is important to identify and protect the places in the community that have cultural heritage value.<sup>1</sup>

While many heritage buildings in Canada continue to serve their communities as originally intended—for example, government buildings, churches, museums—many others have been re-purposed. Today, a great number of heritage buildings have been transformed as schools, art galleries, theatres, hotels, shops and other commercial ventures.

All three levels of government —Federal, Provincial, Municipal—play a role in the designation and conservation of heritage buildings.

### Federal

Canada’s Historic Places Initiative (HPI) is a federal, provincial, and territorial collaboration created in 2000. Among its goals: to foster a culture of conservation in Canada, to support the continued use of historic places so that they remain an integral part of Canada’s cities and towns, and to provide guidance on the preservation and restoration of historic sites. HPI programs include the Canadian Register of Historic Places ([www.historicplaces.ca](http://www.historicplaces.ca)), “an online register of locally, provincially and federally recognized heritage properties from across Canada.” The site offers a broad range of information and includes links to funding opportunities in individual provinces. HPI has also developed ‘Standards & Guidelines for the Conservation of Historic Places’, a comprehensive document that provides detailed, practical guidance on the preservation and restoration of historic places.<sup>2</sup>

Parks Canada administers the National Historic Sites of Canada which includes a wide range of nationally significant historic places located across the country in urban, rural or wilderness settings. Many of these sites are still used for work and worship, commerce and industry, education, habitation and leisure.<sup>3</sup>

The federal government is also the single-largest owner of heritage properties in Canada (with some 60,000 properties).The heritage management of federal buildings is handled by the Federal Heritage Building Review Office<sup>4</sup>

### Provincial

While each Province has its own heritage conservation program and attendant legislation, they share common goals and approaches. Generally speaking, they give municipalities and the provincial government the authorization to preserve the heritage of the province, identify and designate heritage sites, and provide standards, guidelines and bylaws for conservation, restoration, alterations to existing structures, etc. Provinces may also maintain a provincial heritage register.

## Municipal

Typically, the Municipal Council—authorized by the Province and with assistance from a Municipal Heritage Committee—is responsible for:

- Designating and de-designating heritage buildings
- Keeping a register of properties that have cultural or heritage value
- Reviewing any additions, alterations or demolition requested for heritage buildings
- Restricting demolition by passing appropriate zoning and/or other bylaws
- Passing designation bylaws and publishing a notice of Intention to Designate in local newspapers.

Once a property has been designated, it is listed on both the Municipal and Provincial Registers and is then eligible for listing on the Canadian Register of Historic places.

## Common questions about insurance and heritage buildings

### Are we legally required to insure a heritage building?

While legislation relating to heritage buildings does not specify insurance requirements, you may be required to insure the property under the terms of a contract or legal agreement—for example, a mortgage, lease, loan, investment portfolio, trust, or other legal arrangement. It is important to note, however, that legislation does impose various duties and limitations upon owners with respect to repair, maintenance or demolition. Among other reasons, a poorly maintained building is far more susceptible to fire and cannot withstand other kinds of damage and deterioration.

### What risks should we insure against?

If you are an owner or a tenant of a heritage property—and have a mortgage or other kind of loan, or a lease—you may be required to insure the property against certain risks, often referred to as ‘perils’. Most mortgage providers will require at least ‘**Named Perils**’ coverage and in some cases ‘**All Risks**’ coverage. (Where there is no mortgage or lease, the level of coverage may be selected by the building owner.)

**Named Perils** coverage provides protection against such risks as fire, lightning, explosion, impact from aircraft, windstorm and hail, leakage from fire protective equipment, smoke, riot and vandalism. Other perils may be included but they vary depending on the insurance provider. It is therefore important to examine the individual policy carefully to ensure that the appropriate cover is being offered.

**All Risks** policies provide coverage against any kind of loss or damage *unless it is specifically excluded*. Exclusions vary but typical policies exclude earthquake, flood, seepage, dampness and dryness of the atmosphere, war and invasion, rodents, insects or vermin, criminal acts on behalf of the insured, nuclear incidents, rust or corrosion, pollution, terrorism, fungus, electronic data and increased costs due to by-laws or ordinances.

Some of the exclusions outlined above—for example earthquake, flood, and included costs due to by-laws—can, in fact, be covered so it is best to discuss this with your broker or insurance provider.

## **What type of coverage should we select?**

When insuring a heritage property, you can choose from two coverage options:

### **Replacement Cost**

This coverage option requires a prior insurance appraisal of the building. If the property is totally destroyed, it provides for the rebuilding of the property to the same design and quality as the original, in accordance with current building bylaws and regulations and up to the amount stated in the policy. Partial losses would be handled in the same way, covering the repair, restoration or rebuilding of the part of the building that was damaged or destroyed. This is the customary form of coverage for heritage buildings.

### **Actual Cash Value (ACV)**

ACV is calculated by establishing the cost of replacing the property with something of like kind and quality after taking depreciation into account. This is often described as the formula:  $ACV = \text{Replacement} - \text{Depreciation}$ . It is important to speak with your insurance broker regarding your claims settlement when arranging this type of insurance.

In both cases, the Insured is responsible for ensuring that the building is properly maintained and kept in a good state of repair.

## **For how much should we insure the building?**

When the Replacement Cost coverage option is selected, the insured value should represent the cost of rebuilding the entire structure including increased costs required by bylaws and regulations enacted since the structure was erected or renovated. The amount should include an allowance to cover temporary site work to protect the building and adjoining properties after damage. The costs of archaeological excavation, conserving artifacts, demolition, removal of debris, surveyors' and other professional fees also need to be included. If provision for inflation is not included under the policy, then an allowance must be made within the insured value.

Heritage buildings tend to be more expensive to repair and rebuild than modern buildings of similar size. For example, it is not uncommon for the cost of a major restoration following a partial loss to far exceed the cost of restoring an equivalent modern structure.

## **Who can help us decide the insured value?**

It is important to get professional advice when determining the insured value of your heritage building. People to consult include surveyors and architects who have experience with heritage buildings, as well as your insurance provider's specialists.

At Ecclesiastical, we provide such advice—at no charge—for our policyholders, for insurance purposes only. If accepted, the value represents the limit of liability under the policy.

## **How do we keep the insured value up to date?**

Having an up-to-date appraisal for a heritage building is extremely important. This appraisal should be updated every five years, taking a variety of factors into account—for example, inflation, increases in the cost of labour and materials, professional fees, additional costs resulting from new bylaws, etc. All of these can dramatically increase the value of your heritage building in a short

period of time. For more information regarding a building appraisal please consult your broker or insurance provider.

### **What is under-insurance and what are the consequences?**

In the simplest terms, underinsurance means having an insurance policy with a coverage limit that is insufficient to cover the cost of rebuilding the property in the event of a total loss. In such a case, the insurance company may very well reduce the amount of the claim proportionately. That's because many insurance contracts have a co-insurance clause (also known as a 'co-insurance penalty') designed to penalize the insured for carrying an insufficient insurance limit. Under a co-insurance clause the insured can only collect on the portion of the loss equal to the amount that the limit of insurance bears to the actual value of the property.

In order to avoid any penalties on claims settlement, the insured must make certain that their building is insured to an agreed percentage of its full value.

In the case of policies issued by Ecclesiastical Insurance, the co-insurance penalty will be waived when, following an Ecclesiastical appraisal, the insured value has been agreed upon at the outset and when this amount has subsequently been increased to allow for inflation in line with Ecclesiastical's advice. The liability of the company however is always limited to the total insured value.

<sup>1</sup>[http://www.culture.gov.on.ca/english/heritage/info\\_sheets/info\\_sheet\\_why\\_designate.htm](http://www.culture.gov.on.ca/english/heritage/info_sheets/info_sheet_why_designate.htm)

<sup>2</sup>[http://www.historicplaces.ca/protect-proteger/sub-gra\\_e.aspx#ab](http://www.historicplaces.ca/protect-proteger/sub-gra_e.aspx#ab)

<sup>3</sup><http://www.pc.gc.ca/eng/docs/r/system-reseau/sec1/sites-lieux9.aspx>

<sup>4</sup>[http://www.canadacapital.gc.ca/bins/ncc\\_web\\_content\\_page.asp?cid=16300-20450-27614&lang=1](http://www.canadacapital.gc.ca/bins/ncc_web_content_page.asp?cid=16300-20450-27614&lang=1)

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