October 26, 2026

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Why Deferred Maintenance is a Risk Management Issue

By design, real assets are built to endure and are intended to generate value over decades, not years. Yet across Canada and much of the developed world, many of these real assets are aging at the same time economic pressures are intensifying. Capital is more expensive, operating costs remain elevated, and organizations are under increasing pressure to improve short-term financial performance. Thus, the temptation to defer maintenance is understandable. Replacing a roof can be postponed. Mechanical systems can operate a little longer. Building envelope repairs can wait until next year. Electrical upgrades can be pushed into a future capital plan. Unfortunately, maintenance expenditure is frequently viewed as a discretionary cost rather than what it truly is: an investment in asset preservation, risk reduction, and long-term value creation.

Deferred maintenance rarely eliminates cost. It simply transfers the cost into the future, often with interest, and frequently in the form of an insurable loss. As built assets age, the relationship between maintenance quality and risk performance becomes increasingly important. Owners who allow maintenance backlogs to accumulate should expect both the frequency and severity of losses to increase over time.

The risks are neither theoretical nor uncommon. For the real asset sector, deferred maintenance often manifests itself through several predictable loss categories:

1. Water Damage Events

Aging roofs, deteriorated building envelopes, worn plumbing systems, and deferred mechanical maintenance frequently result in water intrusion and escape-of-water claims. These losses continue to be among the most common and costly insurance claims experienced by property owners.

2. Equipment Breakdown

HVAC systems, boilers, chillers, pumps, elevators, and electrical distribution equipment require ongoing maintenance to operate reliably. Deferred servicing increases the likelihood of unexpected failure, business interruption, and emergency replacement costs.

3. Fire Losses

Electrical systems that are not inspected, tested, and maintained can create significant fire hazards. Aging switchgear, overloaded circuits, and deteriorating wiring substantially increase loss potential.

4. Building Envelope Failures

Deferred attention to windows, facades, roofing systems, and waterproofing assemblies can allow moisture infiltration that ultimately leads to structural degradation, mould growth, tenant complaints, and expensive remediation projects.

5. Liability Claims

Poorly maintained assets can create slip-and-fall hazards, falling object exposures, accessibility concerns, and other operational deficiencies that result in bodily injury claims and litigation.

6. Business Interruption

Many owners focus on the physical damage portion of a loss while underestimating the operational consequences. Equipment failures, utility interruptions, and major repairs can reduce occupancy, disrupt operations, impact tenant relationships, and diminish revenue generation.

7. Premature Capital Replacement

Assets that are not maintained according to manufacturer recommendations often experience shortened useful lives. What could have been a planned maintenance expenditure becomes a major capital replacement project years earlier than expected.

Consider a simple example. Deferring $250,000 of roof replacement work may appear attractive when budgets are tight. However, if that decision ultimately contributes to a major water damage event, the resulting costs could include property damage, tenant disruption, deductibles, uninsured costs, reputational impact, and increased future insurance premiums. The ultimate financial impact may be several multiples of the maintenance expenditure that was avoided.

This is where real asset owners should begin viewing maintenance through a total cost of ownership lens rather than a simple operating expense lens. The objective of an effective maintenance program is not merely to keep a building functioning. It is to reduce loss frequency, lower loss severity, improve business continuity, preserve insurability, and extend asset life. Maintenance should not be viewed as a cost centre. It should be viewed as an investment in financial resilience.

The insurance marketplace provides another important reason for maintaining discipline around asset management. Over the past several years, many property owners have benefited from significantly improved insurance market conditions. Competition among insurers has increased, capacity has expanded, and pricing has come way down across all asset classes.

However, insurance markets are cyclical. When the next hard market emerges, insurers will inevitably become more selective. Underwriters will place greater emphasis on engineering quality, maintenance practices, capital planning processes, and asset condition. Risk engineering inspections will become more frequent, recommendations will carry greater weight, and owners with significant maintenance backlogs may encounter capacity constraints, coverage restrictions, higher deductibles, or premium increases. In many respects, insurability begins long before the insurance renewal process. It begins with how effectively an owner manages the physical condition of their asset portfolio.

The message for asset owners is straightforward. When budgets tighten, maintenance spending can appear to be one of the easiest costs to reduce. In reality, it is often one of the most dangerous costs to defer. What appears to be a short-term financial benefit can quickly evolve into increased loss activity, operational disruption, reduced insurability, and diminished asset value.

Sound asset management is not simply a facilities function. It is a risk management strategy, an insurance strategy, and a value preservation strategy. As owners evaluate the future of their real asset portfolios, maintenance planning should be viewed through the broader lens of total cost of ownership and total cost of risk. In most cases, the cost of maintaining an asset today is significantly lower than the cost of managing the consequences of neglect tomorrow. The organizations that recognize this reality will ultimately protect not only their assets, but also their operating performance, enterprise value, and long-term competitiveness.

Platform's Real Assets team helps clients evaluate maintenance-related risks, understand their impact on loss performance and insurability, and develop risk management strategies that support asset preservation and long-term value creation. In an increasingly complex operating environment, proactive asset stewardship remains one of the most effective ways to reduce risk and protect enterprise value.



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