

Cover yourself

■ "Saving" a few rands a month on your homeowner's insurance premiums isn't a saving at all when you realise that being under-insured will mean your payout is less than what it will cost you to rebuild your home if disaster hits, writes **Mike Addison**.

AS A PROPERTY OWNER, YOU NEED TO MAKE sure your building is properly insured, whether it's a house or a sectional title unit.

Here's why: if your building suffers damage as a result of an insured event, such as a fire, and your building is under-insured on the replacement value, the insurer will "apply average". This means that if, for example, your building is insured for R500 000 but should have been insured for R1 million, you are under-insured by half. You will thus be reinstated by half the value of your claim. If R100 000 in damage is incurred, expect a R50 000 payout. It's not worth risking this kind of shortfall to save an average monthly premium of, say, R10 or R20 per R100 000.

Building insurance is one of the cheapest types of insurance around, particularly sectional title insurance rates. Recently, there has been a higher demand on the resources of the building industry, and inflation in this sector seems to be heading higher.

For this reason, you need to look at your building replacement cost carefully, to ensure it's correctly reflected in your sectional title policy or homeowner's insurance policy. As a rough check, do a simple sum to check the value of your house or flat.

First, ascertain a building rate per square metre for your type of building. To do this, consult a quantity surveyor, look up published building rates or consult a valuer (but not an estate agent). Then set out a rough estimation by multiplying the rate by the area of the building, then add the professional fees, VAT and the cost of removing the debris (see Example 1 on the facing page).

Compare the figure you obtain with the figure on your insurance policy and you will know whether your building is under-insured.

If you are under-insured and you hold separate title, increase your cover with your broker as soon as possible. Make sure your broker knows all about your building so he or she can advise you better. Let your broker know if you live on a slope and, as a result, if you think there is a risk of subsidence or landslip.

If you live in a sectional title complex, the trustees must make sure the buildings are insured for their full replacement value. But it is up to you as an owner to check that the figure allocated for your unit (your section plus your share of the common areas) is enough.

Any improvements you have done need to be accounted for, whether your home is held under sectional title or separate title. This means you must tell your broker about any thatch, wooden structures, Wendy houses, additions and other items that increase the replacement value of your building. Examples include a renovated kitchen, new flooring, extra fittings and under-tile heating.

Tell your broker if you have expensive chandeliers, air conditioner units, and whether you have fitted extras such as a solar heating system or wind generator. Your insurer or insurance adviser may suggest that you insure these additional items on an all-risk basis.

Rather be safe than sorry, so when



Example 1. Replacement cost of a separate title property

Property description	Square metres	Rate per square metre	Amount
Main dwelling	150	R5 500	R825 000
Garage	36	R2 200	R79 200
Tarred driveway	60	R175	R10 500
Swimming pool			R40 000
Precast walling	30	R400	R12 000
Sub-total			R966 700
Add 12% for professional fees			R116 004
Add 14% VAT			R151 578
Add 5% for removal of debris			R61 714
Roughly estimated replacement cost			R1 295 997

Example 2. Replacement cost of a sectional title property

Property description	Square metres	Rate per square metre	Amount
My section	150	R5 500	R825 000
Garage (section)	36	R2 200	R79 200
Sub-total			R904 200
Add 10% to 15% or so for common use			R90 420
Sub-total			R994 620
Add 12% for professional fees			R119 354
Add 14% VAT			R155 956
Add 5% for removal of debris			R63 497
Roughly estimated replacement cost			R1 333 427

in doubt, increase your cover – it costs very little in the bigger scheme of things.

If you live in a sectional title environment, ask the trustees when last the buildings were valued or how the figures were determined. If it was done recently, as it should have been, you are probably safe, unless you have made improvements to your unit over and above the norm for the complex in which you live.

You cannot be too careful when determining your replacement value. A schedule of replacement costs should be presented at the complex's annual general meeting. Do your sums, while remembering that your unit's replacement costs equal your section plus your undivided share of the common property. Example 2 provides a "back-of-the-cigarette box" calculation.

What about finding the right insurer or product? If you have purchased a sectional title unit, the trustees of your body corporate will presumably have put in place the right product, and you just need to verify the sums insured. However, as a separate title property owner, you need to check with your insurance adviser whether your insurance policy is suitable.

If you run a business from home or let out rooms

as a bed-and-breakfast establishment, you will need a commercial or business insurance policy. Thatch roofs or wooden structures need individual attention.

There are specialised products for these instances, such as the Be & Be Sure policy for B&B establishments and Flexiflight, a combined domestic-commercial policy.

Both policies, which are available nationally through brokers, are unwritten by short-term insurance company Zurich in South Africa.

Remember, we are simply talking about building cover here. Obtaining cover for your contents and business risks are separate issues.

In conclusion, some suggestions:

- Make sure you have a licensed financial services provider as your adviser or broker;
- Check replacement costs carefully and if you hold sectional title, ask questions;
- Account for all your improvements; and
- Take care to advise the body corporate if you have thatch in your exclusive-use area.

If you would like more information about insurance workshops for property owners, trustees and managing agents, go to www.addsure.co.za □

