

Make sure your insurance has you covered

■ The arrival in your postbox of the insurance schedule for your sectional title unit is your cue to start asking questions and being more proactive in looking after your investment.

Mike Addison tells you what you need to know.

DO YOU UNDERSTAND THE INSURANCE schedule that is sent to you ahead of the annual general meeting (AGM) that you will most likely not bother to attend?

Guess what? The arrival of the schedule is your cue to check that you're adequately insured.

Prescribed management rules make it clear that the trustees are responsible for attending to insurance, but in this article it is time to discuss how you, as a sectional title owner, should take responsibility to insure your investment: your home.

It is the duty of the body corporate, represented by the trustees, to prepare, or to arrange for the managing agent to prepare, a schedule of replacement values. This is done after determining the replacement value of the buildings based on what is known or what can be seen.

Usually, the trustees, via the managing agent, will arrange for a valuer to value the buildings. The valuer will hand his or her valuation figures to the responsible person, who will use this information to set out this important schedule. If this is done every two or three years for a building of, say, 20 units, then the building should be adequately insured.

Yet how often do we find bodies corporate that have not had their buildings professionally valued for years? More often than you'd think.

So this year, take the trouble to ask: "When was our

building last valued?" You don't need to wait for an AGM to ask – you can do so at any time. But you should also raise the issue at the AGM so that the question and responses are on record. This could be the best question you've asked in years.

How to read a schedule

SO WHAT IS THIS SCHEDULE ALL ABOUT? IT MAY be in fewer columns than the example on page 51, but that is how we think it should more or less look.

Does the table look like a whole lot of rows and columns for the usual "volunteers" on the body corporate's board of trustees to deal with?

Well, let's take a closer look – it's quite easy to understand, actually.

The first two columns are quite obvious; they identify the sections and flat numbers. Make sure you can identify yours on the schedule. If you cannot identify your section at the meeting, or are not sure of your section's number, ask the chairperson, because you will be part of the meeting that agrees to the schedule. Preferably, find out ahead of the meeting.

Next is the PQ, the participation quota. In layman's terms, it means your "percentage ownership" in the buildings/scheme. The schedule should also state the size of your apartment, cottage or house in square metres. On closer inspection, you will see that the square metres and PQ usually correlate.



ISTOCKPHOTO

The value of your apartment or house (and your garage) should be reflected in their own columns if they are separate sections. Apartment replacement values per square metre are usually much higher than those for garages, and for this reason we suggest separating them.

Also, it is always a good idea to show the common property separately. Although common areas cannot be split up (they are an undivided share), you need to get an idea of the unit's total value, hence the common areas should be shown as per the example.

Next, the "additions/improvements" row. This is where you need to think a bit. This is the row that reflects any additional value amounts over and above

the trustees' determination. In other words, this is *your* row. If you feel that the sum reflected may be too low, ask for an additional sum. It's easy: just ask for it to be increased. Believe it or not, it is also cheap: R100 000 extra should not cost you more than R10 a month and sometimes nearly half that.

Do an ultra-simple estimation: take your flat's size in square metres – say 100 square metres – and multiply it by a reasonable building rate per square metres, including your finishes, for a total of, say, R6 000, then add 35 percent for professional fees, demolition and VAT. For, example, 100 square metres x R6 000 + 35 percent = R810 000.

If your apartment reflects a lower figure on >>

ISTOCKPHOTO



This is **part three** of a **series** of articles in which PERSONAL FINANCE uses the expertise of Mike Addison and Graham Paddock to explain the ins and outs of buying, owning, insuring and living happily in **sectional title property**.



Mike Addison specialises in building and sectional title insurance. He regularly holds sectional title insurance workshops for owners, trustees and managing agents in centres around the country.



Graham Paddock is the head of Paddocks, a specialist sectional title firm. Paddocks offers training courses, publications, software and consultation services to a range of players in the sectional title industry.

>> the schedule, top it up by asking the managing agent or insurance company to increase the value accordingly.

If you are not sure about something here, ask the trustees or managing agents – this is important. It's a bit trickier if the trustees and/or managing agents have simply (or lazily) divided out the total per PQ and did not split the common areas from the flats. If this is the case, as it often is, deduct about 10 percent for common property as a guesstimate. The important thing is that you somehow manage to see whether you're underinsured.

Having said all of that, you may even find, to your horror, that there is already an additional sum reflected. This could be for one of two reasons: you recently purchased your unit and the schedule still reflects the previous owner's figures, or you are bonded and the bank increased the value to the value

of your mortgage bond or to the market value.

Always remember that when you signed for your bond, you gave your bondholder the right to do things such as increase your property insurance. If you are unhappy about paying for unnecessary additional insurance, discuss this with your bank. Ask your managing agent to guide you here. If you do not have a managing agent, find out who the brokers used by your managing agent or trustees are and seek some advice. Ask your bank to reduce the sum and show it why. You can always ask your managing agent for a copy of the actual valuation – it's not a secret document and you actually have a stake in it. You might be charged for a copy, but I feel that this would be a few rands well spent.

I have attended many AGMs where this point on the agenda is simply covered by presenting a schedule of replacement costs, which is then proposed and seconded; and then the meeting proceeds to the next point on the agenda. The reason for this is nobody really looks at the schedule properly; everyone nods in ignorance and the meeting moves on. Here's your chance to avoid that happening at your AGM.

All too often we find buildings underinsured by millions of rands, simply because no recent valuation has been done, or because trustees "estimate" replacement costs themselves by multiplying the area by a certain building cost per square metre without accounting for common areas, lifts, VAT, professional fees and demolition costs.

Most owners do not even attend the AGM if the block or scheme is running problem-free. Those in attendance also usually do not fully understand the insurance schedule. By approving the schedule, member-owners at the AGM may well – in their ignorance – be approving underinsured and/or inappropriately insured buildings.

What else you should ask

HERE ARE SOME MORE QUESTIONS TO ASK ABOUT insurance at the AGM:

■ With whom are we insured? Make sure that your body corporate is insured with an insurer that has provided a suitable policy to meet the needs of sectional title.

■ Who is our broker?

■ Is the broker able to give us proper advice about our building's insurance?

■ Has the broker compared the present insurance with competitive alternatives in the marketplace?

■ Has the body corporate put a claims procedure in place? In other words, owners should know what to do or who to contact in the event of a claim. These days, geyser call centres are common and owners need to know the emergency numbers.

■ How are hot water cylinders covered? Also, what is the excess structure here?

■ What is our excess (first amount payable in the event of a claim)?

Example of an insurance schedule

	Flats	Garages	Common property	Units total
Residential sections (@ R6 000/sqm)	R5 400 000			R5 400 000
Garage sections (@ R2 000/sqm)		R200 000		R200 000
Common areas			R560 000	R560 000
Plus professional fees	R648 000	R24 000	R67 200	R739 200
VAT	R846 720	R31 360	R87 808	R965 888
Demolition costs	R344 736	R12 768	R35 750	R393 254
Replacement at inception date	R7 239 456	R268 128	R750 758	R8 258 342
Additions/improvements	R150 000			R150 000
Base sum insured	R7 389 456	R268 128	R750 758	R8 408 342

Section number	Door number	PQ	Floor area (square metres)	Flat sum insured	Garage sum insured	Common property	Additions/improvements	Total
1	1	0.1000	100	R804 384		R75 076		R879 460
2	2	0.1000	100	R804 384		R75 076		R879 460
3	3	0.1000	100	R804 384		R75 076	R150 000	R1 029 460
4	4	0.1000	100	R804 384		R75 076		R879 460
5	5	0.1000	100	R804 384		R75 076		R879 460
6	6	0.1000	100	R804 384		R75 076		R879 460
7	7	0.1000	100	R804 384		R75 076		R879 460
8	8	0.1000	100	R804 384		R75 076		R879 460
9	9	0.1000	100	R804 384		R75 076		R879 460
10	10	0.0200	20		R53 626	R15 015		R68 641
11	11	0.0200	20		R53 626	R15 015		R68 641
12	12	0.0200	20		R53 626	R15 015		R68 641
13	13	0.0200	20		R53 626	R15 015		R68 641
14	14	0.0200	20		R53 626	R15 015		R68 641
		1.0000	1 000	R7 239 456	R268 128	R750 758	R150 000	R8 408 342

SOURCE: MIKE ADDISON

There is also the big question: who pays the excess and when? Prescribed management rules as they stand are not very clear on this, hence there is an ongoing debate.

It comes down to the interpretation of prescribed management rules or, if the body corporate has been proactive and has made an amendment to its rules, it will depend on how this rule was amended.

There are two schools of thought:

1. The owner should pay for excesses if the cause was from within his or her section and not from common infrastructure, such as a common pipe; versus

2. The body corporate should pay all excesses except hot water cylinder excesses.

Thus, as it stands, you need to find out from the body corporate how it deals with this issue. As many experienced managing agents agree, we prefer that the owner pays for excesses for damage from within a section. However, this is often challenged. This will change though, because legislators are already well

into the process of clearing away the grey areas.

But back to valuations. From the owner's perspective, you should also use common sense. If you are adding value to your section by, say, re-fitting your kitchen for R200 000, increase your cover by that amount. It is as simple as making a phone call to your managing agent.

Should you wish to change the use of your section – perhaps by running a business from home – check with the body corporate's insurance to find out whether you would be fully covered. If your body corporate has a domestic/residential policy and you are running a restaurant/commercial enterprise from your section, you need to do something about changing the policy. Often it is quick and simple. If you run a bed and breakfast from home, make sure the managing agent informs the body corporate's broker on your behalf.

At the end of the day, it really is this easy. And it is nice to know what the schedule really means. □