

# Wear and tear versus sudden loss

■ Your building is supposed to be insured against catastrophes. **Mike Addison** tells you what these are and how insurers distinguish between damage that results from deterioration over time and sudden, unforeseen disasters.

**S**ECTIONAL TITLE OWNERSHIP IS WHERE most “misunderstandings” about what is and what is not covered under the building insurance policy arise.

We need to first understand what we are insuring. The building, of course! However, there are a few definitions of “a building”.

The Sectional Titles Act says a “building” means a structure of a permanent nature erected or to be erected and which is shown on a sectional plan as part of a scheme.

Insurance policy documents set out each insurance company’s definition of a building, which is usually more or less as follows: “Buildings shall be deemed to include outbuildings and [the] landlord’s fixtures and fittings therein and thereon, including fitted carpets and lifts, with all associated equipment, transformers, motors, boilers, air conditioning, standby generators and walls (except dam walls), gates, posts, fences (excluding hedges) and sporting/recreational structures, including but not limited to swimming pools, tennis courts (including floodlights), saunas/spa baths/jacuzzis and water pumps, pool machinery borehole motors and brick, tar, concrete or paved roads, driveways, parking areas, paths or patios all [sic] the property of the insured and situated as stated in the schedule.

“Unless otherwise stated in the schedule, the buildings and outbuildings shall be constructed of brick, stone, concrete or metal on metal framework and roofed with slate, tiles, metal, concrete or asbestos.”

This tells us quite a bit about what is being

covered. It is clearly all fixed improvements made to the property over and above the land itself. However, the insurance policy by definition usually excludes items such as thatch and other materials not stated, such as building and outbuildings made of wood.

We are not talking about the contents of the building, such as tables and chairs, but rather the building itself. A good way to think of the building is as a doll’s house, and if one were to shake it, turn it upside down and let the loose items fall away, what remains is mostly insurable under the policy. We are also not talking about the land and gardens – just the buildings, pathways, fences and so on as defined above.

The buildings need to be insured as a whole under one policy. This means all sections and common property together.

## Insurable events

THE SECTIONAL TITLES ACT, BY WAY OF THE PRESCRIBED management rules, sets out the events against which a body corporate or trustees are obliged to insure a building. These events include the following:

- Fire, lightning and explosions.
- Riots, civil commotions, strikes, lock-outs, labour disturbances or malicious acts on behalf of or in connection with a political organisation.
- Storms, tempests and floods.
- Earthquakes.
- The impact of aircraft and other aerial devices, or articles dropped from them.
- The impact of any road vehicle, horse or cattle.
- Burst or overflowing water tanks, apparatus or pipes. (By this is meant hot water cylinders, valves,



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thermostats, cisterns and the hot water system).

■ Loss of occupation following an insured event and thus the need for alternative similar accommodation, or loss of rent in respect of the above risks.

■ Housebreaking or attempted housebreaking. (This could be a break in to an individual section, or forced entry or breach of a common area).

## Watery end

VERY OFTEN PROBLEMS ARISE WITH BURST OR overflowing water tanks, apparatus or pipes. To get some clarity on this issue, let's look at the policy wording on burst pipes of two of the main specialist sectional title insurers, Commercial and Industrial Acceptances (CIA) and Corporate Sure (C-Sure).

CIA's policy says: "Sudden and unforeseen bursting of water tanks, water apparatus (excluding geysers, which are more specifically insured under Section M – geyser maintenance and boilers) or water pipes, including damage thereto, but excluding loss or damage to any property caused by or aggravated by:

■ "Wear and tear or gradual deterioration, rust, corrosion, mildew or damp;

■ "Subsidence and landslip;

■ "The insured's failure to take reasonable precautions for the maintenance and safety of the property insured and for the minimisation of any destruction or damage."

Examples of reasonable precautions might be to

clear away roots and trees that are disturbing or are likely to disturb pipes, and to attend to rusty pipes and drips. It would be reasonable to attend to wear and tear by repairing seals and silicone beading before further deterioration causes a larger problem.

The insurer will determine whether reasonable precautions have been taken, and the insurer will probably base its decision or action on the recommendation of the assessor or loss adjustor. If the sectional title holder is unhappy with a decision, he or she can go to the short-term insurance ombudsman.

C-Sure's policy document says: "Sudden and unforeseen bursting, overflowing or escape of water or oil from tanks, apparatus or pipes, including any fixed-water or oil-fired heating installation, including damage to such tanks, apparatus or pipes, but excluding all damage as a result of wear and tear and gradual deterioration."

Quite clearly, a leak or drip, or something "not sudden" would not be covered, specifically a leak caused by deterioration over time.

In a nutshell, if you have a burst pipe, with resultant damage, your insurer should pay for locating and repairing the pipe, as well as for restoring and replacing any "resulting" or "consequential" damaged areas – for example, re-tiling. These areas could include damaged ceilings and carpets.

A pipe that has deteriorated over time, resulting in a slow leak and damp cannot give >>



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>> rise to a valid insurance claim, even if the leak or damp results in damage. This is because the loss is caused by deterioration, and there is no sudden water damage.

But what happens if a pipe has deteriorated slowly over time and then collapses, causing a sudden flow or pool of water? Your insurance will pay only for the consequential water damage – for example, repairing

the ceiling in the flat below if the ceiling was damaged by the gush of water.

The location of the leak, the repair of the pipe and the replacement of the tiles will be for the owner's account if the pipe is in the owner's unit.

If the pipe is in the common property, it will be for the body corporate's account.

Common water damage that is regarded as a maintenance issue, not an insurance matter, includes leaking or dripping bath taps, failure of waterproofing in showers, roots growing into waste pipes and causing damage over time, sealing that needs to be replaced, rising damp and roofing that needs to be repaired.

**Right kind of cover**

IT IS QUITE IMPORTANT THAT THE BODY CORPORATE arranges appropriate cover, preferably cover via a specially designed sectional title policy, such as those offered by C-Sure, CIA and First Property Acceptances, which is also known as FPA. These policies comply with the Sectional Titles Act and go further, including providing accidental damage cover, fidelity cover and trustees' indemnity. They may also offer cover for additional services, such as posting of guards following damage to security gates.

You should ascertain your subsidence and landslide cover needs, because this cover carries substantial additional cost and is usually subject to a geometric survey. If your building is on a slope or is situated in a higher-risk area, it is advisable to have a geometric survey done and then obtain insurance quotes.

If you own a free-standing home, the policy wording quoted above may well apply to your home via your homeowner's policy. The same or similar wording may be used as is found in the sectional title building insurance policy.

We, as insurance agents, are very comfortable with this. Your insurer is not your maintenance plan; your insurer is there to indemnify you against a clearly defined, sudden and unforeseen event as described above, such as a fire, an explosion, a storm, a burst pipe, or, indeed, a cow hitting your building! □



This is **part two** 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.



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