Body Corporate Insurance & Trustees

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If you are a trustee in a sectional title scheme, I strongly recommend that you consider – for your own personal interest – the following two questions:

1. Do you know when, how and by whom the sum insured of your sectional title scheme was determined originally as well as for the current policy?
2. Are you aware that the trustees are directly responsible to ensure that the scheme buildings and improvements are insured to full replacement values (1)

One of the most vital duties of a trustee – as part of the fiduciary responsibility that comes with the position – is to ensure that the buildings and improvements to the common property are adequately insured, thereby safeguarding every unit owner's life investment in the event that your complex should be struck by disaster. Not only does the trustees' duty entail selecting a suitable insurance advisor – preferably one that specialises in sectional title insurance – but also declaring the desired sum insured as neither the insurance broker, nor the managing agent can be expected to shoulder this enormous responsibility.

What trustees do not always realise is that the sum insured for their complex is not determined by simply adding up the market values of all units but by what it would cost to restore the complex or any part thereof to its former state in the event of damage or total destruction, including demolition, rubble removal, professional fees, VAT and other related costs. This concerns not only the individually owned sections but also the common property, which often makes up a substantial portion of the insurance value.

Therefore, in order to determine the true sum insured, a professional valuer or quantity surveyor should be appointed to measure up and assess all individually owned and common property. A reputable insurance advisor will be able to recommend a suitable and qualified service provider in this regard. Here too, it is vital that the appointed assessor is specialised in sectional title valuations and is familiar with sectional title insurance.

After having had the insurance value of a complex determined by a qualified professional, bodies corporate will often find that they are underinsured, thereby running the risk of having a claim pay out reduced by the percentage of under-coverage, even when suffering only partial damage (a.k.a. claim-averaging).

Alternatively, bodies corporate may be surprised to find that they are over-insured and thus overpaying on premiums. This may be as a result of applying a fixed double-digit escalation rate year after year, while in fact the escalation of building costs may fluctuate anywhere between zero and 15% during any given 12-month period. For example, the BER (4) forecasts a national average escalation of building costs of approximately 44% from January 2010 to January 2016, while many sectional title policies saw a whopping increase of 77 – 131% over the same 6-year period, i.e. at a fixed rate of 10 – 15% per annum.

Therefore, if there is any uncertainty as to how the current sum insured was derived or when your complex was last valued, it is very likely that it is not insured for true replacement value. This must be remedied immediately and should not wait until the next AGM.

Footnote from Compeg:

The views in this article are those of the author and do not necessarily represent the views of Compeg.
Don't forget, you can visit our website to check your latest statements and as trustees, you can view levy rolls, disbursement statements and investment statements

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