Trustees must keep sectional title scheme insurance up to date

It is important for owners to not only attend the annual general meeting, but to personally check whether the insurance cover is right for their scheme and their own unit, says Willem le Roux, director at the sectional title finance company Propell.

Insurance cover in sectional title schemes is not an option; it is required by the Sectional Titles Act. Section 37 (Section 1 of the new Act) stipulates that, among the duties of the trustees are:

- to insure the building or buildings and keep it or them insured to the replacement value thereof against fire and other such risks as may be prescribed;
- to insure against such other risks as the owners may by special resolution determine.

Management Rule 29 deals with insurance in greater detail, stipulating the sub-rules with regards to what needs to be insured - including the buildings, public liability, fidelity cover, and SASRIA (South African Special Risks Insurance Association) insurance. In addition, it stipulates how to deal with excesses payable.

Insurance must cover full replacement value of all units

The rule also stipulates that the insurance must cover the full replacement value of all units. The replacement value of each unit value must be specified separately. It is important that the insured value ties up with the sectional plans, the value of the units, and the participation quota of the units. The participation quota might vary from unit to unit (because of their sizes), so this must be checked thoroughly.

Owners should check that their units are insured for the correct replacement amounts – particularly if they have renovated or added value in some way to their unit – as the extra value might not be covered. The usual practice is that the body corporate covers the cost of insuring a standard unit's participation quota but any additional cover needed must be paid by the owner.

Insured values on sectional title schemes should be updated regularly to be sure that the insurance policy keeps up to date with the market related replacement value, advised le Roux.

Consult a valuer

In establishing the amount to insure the scheme for, a schedule will be drawn up to determine the full replacement value of the scheme. In this schedule, the units' worth will be listed (including all improvements), the garages, the tarred or landscaped communal areas, the walling, all the foyers and stairwells, the lifts, swimming pool and other communal facilities, such as laundry room, clubhouse or gym. Then professional fees must be added, along with a demolition cost and VAT, plus possible redesign and reconstruction costs.

Because it is not as straightforward as just adding the units' value together to establish an insurance value, it is advisable to consult a valuer and, possibly a managing agent or insurance broker specialising in sectional title insurance, to establish the cover needed.

Once the replacement value has been determined and accepted by the trustees, this should be minuted in the AGM minutes to the effect that the chairperson has explained the way the replacement costs were derived and that the majority of the owners agree to the amount. The additional sums should also be explained to the owners, so that they cannot say later that they disagreed with or did not understand the determined values.

“Dealing with the insuring of a sectional title scheme may seem onerous or complicated, but if done properly, need only be updated every couple of years to keep in line with the market,” said le Roux.