

## Making Sense of Property Insurance

For most of us, buying a home is probably the biggest investment in our life. The destruction or damages to the home or any of our valuable personal properties due to fire, theft or other unforeseen circumstances could often cause substantial loss and severe financial hardship. To manage the financial impact of such loss, we could purchase appropriate insurance policies to cover such event. Having appropriate property insurance can also give you peace of mind. In this issue, MoneySENSE brings you some case stories on commonly encountered issues faced by consumers regarding property insurance, as well as tips on what you should look out for when buying property insurance. Do note that property insurance is designed to indemnify the loss that you have suffered. It does not mean that the more property insurance you purchase on any one property, the higher the amount you could claim in the event of loss.

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*This information is provided by the Monetary Authority of Singapore and the General Insurance Association of Singapore as part of the MoneySENSE national financial education programme.*

## **CASE #1 - What Type of Insurance is Suitable for my Home?**

Mrs Jenny Teo has recently moved into her new condominium and spent a substantial amount of money to renovate it. As a proud, new home owner, Mrs Teo wants to make sure that the insurance policy she is buying will cover any loss or damage to all her valuable antiques, jewellery, furniture as well as the entire apartment and the renovation costs she had put in. She consulted her insurance agent. The agent advised her to buy a fire insurance policy to cover any improvements or renovations, such as flooring or built-in cabinets. He also advised Mrs Teo to buy a contents insurance policy to insure the contents of her house, including furniture, carpet, TV, kitchenware and personal effects.

### ***Tips***

#### **Insurance Cover for Private Apartments**

- If you are the owner of a private apartment, it is likely that the apartment block has been registered as a Management Corporation Strata Title property. If so, it is the legal responsibility of your Management Corporation to insure the building and the common property for fire damage. However, any improvements or renovations you make to the property, such as flooring or built-in cabinets, will not be covered in the policy taken up by your Management Corporation and you will need to buy a separate fire insurance policy. In Mrs Teo's case, the Management Corporation policy will only provide cover for the fire damage to common areas in the condominium.

#### **Insurance Cover for HDB Apartment**

- If you are the owner of a HDB apartment, the HDB is responsible for providing cover for fire damage to common areas. However, you are responsible for the well being of your flat. The HDB offers a competitively priced fire insurance scheme for HDB apartments through its appointed insurer. It is important to note that any improvements you make to your apartment may not be covered and you may wish to buy additional or separate fire insurance coverage.
- When buying an insurance policy on your apartment, it is important to ensure that the policy covers damage to your renovation, fixtures and fittings. Most insurance policies would provide cover either on a standard sum insured or specified sum insured basis. However, do ensure that the amount you insure on your property is adequate, as it is the responsibility of the policyholders to insure at the full cost of rebuilding their damaged property.

## **Insurance Cover for Contents of Your Home**

- Besides providing cover for your renovations, your insurance policy on contents can also provide cover for items such as your, furniture, household appliances, personal valuables and money. A limit may apply to each of these items unless they have been individually declared to your insurer.
- For household contents, the replacement value or worth at the time of the inception of the policy may be taken as the sum insured. It is important to ensure the policy limits are adequate to fully recover your loss. Always check carefully and make sure you understand what is covered before taking up a policy. Note that a contents insurance policy is usually issued separately from your fire insurance policy, although some insurers issue a combined policy.
- You should take the time to compile an inventory listing of your home contents; it will save you precious time and frustration later. List down all the items you are going to insure with detailed description, year of purchase, original cost of the item and current estimated value. Submit the listing to your insurer.
- In the event of a loss, it makes it easier for you to file a complete and prompt claim. The list should be supported with accurate documentation. It also helps the insurer to determine the replacement cost of your lost or damaged possessions and to settle the claim quickly.
- Remember to update your listing regularly as you purchase new items and add them on to your policy coverage. If the value of an item has increased, be sure to increase your sum insured at the same time to ensure that you have adequate cover to replace it with a similar item.
- If you own a number of “priceless” items, such as antique jewellery or original works of art, it is important to note that most general insurers would only insure such items with limits applied to each item. You may want to seek clarification with your agent, broker or insurer on such limits. It is wise to have these appraised to establish their value. In the event of a loss, you will be able to receive an insurance settlement that is appropriate to the value of these items and avoid any dispute with your insurer.
- Always remember to ask for a copy of the policy wordings from your insurer before you buy any policy. Read and understand what the policy covers. If in doubt, clarify with your insurance agent or insurer.

### **CASE #2 - How Much Should I Insure For?**

Mr John Tan is the owner of a \$2 million landed property with reinstatement value of \$1 million. He took up a fire insurance policy with sum assured of \$500,000 as he thought that it was unlikely that a fire would destroy everything at one time. When his entire family was out on a vacation, a fire broke out and caused \$100,000 in damage. Mr Tan tried to claim the \$100,000 damage from his insurer, but his insurer told him he could only get \$50,000 as his policy was underinsured by 50%. This ‘condition of average’ is a standard condition that appears in most policies that will only allow the policy to pay for a rateable proportion of sum assured due to under-insurance.

### Tips

- Ensure that the sum insured for your property is adequate. The sum insured is the maximum amount an insurer will pay if it is totally destroyed. The sum insured should reflect the cost of rebuilding the insured property (also known as the reinstatement cost) to its original condition (or its equivalent) at the time just before the damage occurred. As a general guide to estimate the sum insured for your property, refer to the replacement cost table for Private Residential Developments available at [www.gia.org.sg/consumer\\_faq.php#fire](http://www.gia.org.sg/consumer_faq.php#fire). This table estimates the replacement cost of your property based on the gross floor area and the type of development of your property. You should also seek the assistance of a qualified property valuer or quantity surveyor.
- Be aware of what amounts may be claimed under your insurance policy. If the sum insured is less than the full reinstatement cost, the insurance company will pay the full sum if there is a complete destruction of the property. If the property is partially destroyed, the insurance company will pro-rate the payment according to the proportion of under-insurance. This is known as the condition of average, which is a common feature internationally for fire insurance policies.
- The amount to be paid will be computed using a formula that takes into account the insured amount, the value at time of loss and amount of loss. In Mr Tan's case, the total cost of reinstating his property is \$1 million but the property is only insured for \$500,000, there is an under-insurance of 50%. The fire that broke out in his house resulted in partial damage, costing \$100,000, to the property. In computing the amount of claim, his insurer uses the following formula:

The amount that the house is insured for  
\_\_\_\_\_ X The cost of damage  
The reinstatement value of the house

$$\$500,000/\$1,000,000 \times \$100,000 = \$50,000$$

- Review the insured amount for your property at least once a year or when renovations are carried out and make sure that the amount is adequate throughout the policy period. Note that it does not mean that the more fire insurance policies you buy, the higher the amount you could claim in the event of fire damage. The total claim amount is limited to the total cost of the property or reinstatement.

### CASE #3 - What should I Do After a Fire?

Mr David Teo bought an insurance policy for the contents in his home. A fire started in the kitchen due to a short circuit on an overloaded electrical extension shared by several household appliances. Although Mr Teo extinguished the fire quickly, the fire gutted his kitchen. Most of his kitchen appliances including the kitchen bathroom were damaged. After the fire was extinguished, Mr Teo immediately made a police report. However he was unsure of what he should do next and how he should lodge a claim under his insurance policy.

## **Tips**

You should take the following action after the fire:

1. **Report the Loss Promptly**

Inform your insurer of the fire and the extent of damage immediately. Your insurer will be able to guide you through the steps of making a claim. You should lodge a police report if you have reason to suspect that you are a victim of a crime.

2. **Protect Property from Further Damage**

Take steps to protect your property from further damages. If necessary, make reasonable temporary repairs such as boarding up broken windows to protect your home and property from theft and weather damage. Remember to keep an accurate record of all temporary repair expenses, like bills, receipts and invoices so that you can include these to your claim. Permanent repairs should be carried out only after insurance representative/adjuster has a chance to review the damage.

3. **Determine the Extent of Damage**

Start by assessing the damage in broad categories, such as by location of damage - kitchen, living room, bedroom etc). Based on these categories, you can make a written list of the items damaged with as much details as possible. For example, identify manufacturer, brand name, place and date of purchase, purchase price.

If possible, place all the damaged items in a secure area. This will speed up the loss inspection process when your insurer's representative or loss adjuster arrives. (Note that Steps 2 and 3 only apply if the scene of fire is not cordoned off by the Police for investigation.)

4. **Loss Inspection**

Your insurer will usually send a representative to inspect the damaged property. In some cases an independent adjuster may be appointed to investigate the circumstance and extent of the loss, especially for large scale fires. You will be given the contact details of the adjuster if one is appointed.

5. **Filing a Claim**

Your insurer will ask you to submit a written claim form to formalize the claims notification. This is an important step as the claims form serves as a written record for your insurer to investigate and eventually settle your claim.

6. **Settling a Claim**

Once the loss investigation is completed, your insurer will offer to settle the claim. You will be requested to sign a claim discharge form stating your consent of claim settlement. It is always better to prevent a fire from occurring than to fight one. You may wish to conduct a quick check in your home to spot potential fire hazards and take action to reduce or eliminate them. For more information on fire prevention, please visit the website of National Fire Prevention Council at <http://www.nfpc.gov.sg>

#### **CASE #4 - What does my Policy Cover?**

Mr James Tan purchased an insurance policy for his home contents. His policy provides coverage for loss or damage to his home contents which includes theft due to violent and forcible entry into the premises. Recently, Mr Tan returned home after a late night movie to discover that his house had been broken into. The burglars had pried open the front door and stolen Mr. Tan's cash and his wife's jewellery. The cost of property stolen amounted to \$5,000. Mr Tan lodged the claim with his insurer. His insurer had agreed to settle his claim as it was proven that the loss resulted from violent and forcible entry into his home and within the sum insured limit for theft coverage. However as Mr Tan's policy was subjected to an excess of \$500, his insurer deducted this amount from the total claim and a final settlement was made at \$4,500.

#### ***Tips***

- A policy excess, also commonly known as deductible, is the cost you are required to bear if you make a claim against your policy.
- When you purchase a home insurance policy, take time to understand the scope of coverage, terms, and conditions before making your purchase.
- In addition to checking the insurance premium, you should also check the policy excess as this will directly affect you when you make a claim.
- Most insurance companies provide brochures designed to explain the policy coverage and features in simple language to help you understand the product.
- It is quite easy to obtain the above information. You can ask for a copy from your agent or broker, or obtain the brochure directly from the insurance companies or through its websites.
- Seek clarification with your agent or broker, or the insurance company if you do not understand the coverage or have any questions.

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