

*Pravin Pather, technical and risk specialist at Centriq Insurance looks at insurance and building replacement costs*

If an unforeseen disaster such as a fire or flood were to damage or completely destroy your property, you would have to deal with the stress of rebuilding aside from the trauma the loss. If the building was bonded, you would also have to continue paying the instalments on an asset that no longer exists.

“Owning a building, whether a home or commercial property, is one of the largest investments that can be made, which is why it is important that your building insurance adequately covers you in the event of the building being destroyed or damaged by fire, earthquake, flood and/or other insured events,” says Pravin Pather, technical and risk specialist at Centriq Insurance.

Building insurance is required by law on any property that has been financed, although property owners can elect with whom the building is insured. Pather explains that building insurance covers damage or replacements to the actual building and all the fixtures and fittings therein and does not include contents within the building or business risks etc.

“The importance of adequate building insurance,” says Pather, “is that there is a difference between the market value of the property, which includes the stand, its location, as well as the age and condition of the property, and the actual replacement cost of the building.”

It generally covers the immovable structures on your property such as walls, roofs, satellite dishes, aerials, your swimming pool, gates and gate motors, underground pipes and cables).

Buildings insurance usually provides cover for:

- fire, explosion and earthquake
- acts of nature such as wind, thunder, lightning, storm, hail, flood and snow
- bursting and overflowing of geysers and water pipes
- theft
- lightning and thunderbolt impact
- accidental damage to glass and sanitary ware
- alterations and additions
- fire brigade charges
- subsidence, heave and land slip
- temporary accommodation
- liability to other people including domestic employees

With today’s cost cutting measures featuring strongly in most businesses and households, every monthly payment and premium is being carefully scrutinised. But think again if you are considering cutting out or reducing your building insurance premiums. Pather notes that building insurance is one of the cheapest types of insurance around, costing approximately R20 per R100 000. Therefore Pather advises that property be insured for its true replacement value. This is because being over-insured means that you get the same benefit as you would for a lower premium. “It’s also not worth risking any shortfall to save on the monthly premium,” he says, “because if you are underinsured, the insurance payout will be less than the cost of rebuilding should disaster strike.” Pather also advises that homeowners remember to increase the value insured to cater for costs such as demolition and professional fees.

One factor that many property owners don’t take into account when it comes to their building insurance is building cost inflation. A recent report by Industry Insight, a company that provides relative information to the construction industry, states that with an 8% average increase in the cost of labour (as per CPI expectations), commodity price inflation of between 10% and 15%, diesel price inflation of between 20% and 30%, and mitigated by softer domestically produced material price

increases, the overall input cost inflation - a measurement of material and labour costs in the building industry – is expected to increase by between 8% and 12% in 2010.

Remember too that any improvements you have made to the property need to be accounted for in the building insurance, no matter whether it is a sectional title or full title property. Pather says your broker should be kept up-to-date with any renovations or additions or any items that increase the replacement value of your building.

Pather also advises that if you are shopping around for building insurance quotes, an accurate valuation of the replacement cost of your building is vital. “The valuation serves as a basis from which future cost escalations, among others, are determined.”

In addition, Pather says that if insurance companies are quoting on different valuation figures, premiums are bound to vary and you won't be able to compare apples with apples, so to speak.

Pather also advises that in some cases, additional items such as air-conditioning units or solar heating panels may be best insured on an all-risk basis. Thatched roofs or wooden structures need individual attention, while a commercial or business insurance policy will be required for residential properties that operate as bed-and-breakfast establishments, or if a business is operated from the home.

“Rather be safe than sorry,” says Pather. “If you are in doubt, check with your broker or insurance company if you should increase your cover,” he concludes.