

Protecting Your Shelter: Understanding Property Insurance



CENTRAL BANK OF
TRINIDAD & TOBAGO



Property Insurance



CENTRAL BANK OF
TRINIDAD & TOBAGO |



TABLE OF CONTENTS

1 Property Insurance

2 Master Policy

3 Individual Policy

4 Homeowners and Householders
Comprehensive Policy

9 Homeowners Comprehensive
Policy - Additional Coverage

Public Liability

Alternative Accommodation

Architects' and Surveyors' Fees

Cost of removal of debris

Accidental breakage of fixed glass

11 Average Clause and Reinstatement

14 Householders Comprehensive Policy

16 The Sum Insured

18 Some Notable Extensions of Cover



FOREWORD



Over the past few years, the Central Bank of Trinidad and Tobago in collaboration with the Ministry of Finance has intensified efforts to upgrade the country's financial infrastructure and to improve the financial literacy of the population. Notable interventions in this ongoing policy thrust include:

- (i) Amendments to the Insurance Act to bring the insurance industry under the regulatory control of the Central Bank; and
- (ii) The passage of the Financial Institutions Act 2008 (FIA 2008), the first phase of a broader reform of existing banking legislation.

In 2003, the Central Bank in collaboration with the Bankers Association of Trinidad and Tobago, established the Banking Services Ombudsman to deal with consumer complaints about banking services. In 2005, this was expanded to allow the Office of the Banking Services Ombudsman to

treat with complaints against insurance companies and was renamed, the Office of the Financial Services Ombudsman (OFSO). A major intervention took effect in early 2007 when the Central Bank launched the National Financial Literacy Programme (NFLP). Over the last two years, the OFSO and the NFLP Secretariat have worked closely on improving the level of financial literacy of the population through various interventions including lectures, pamphlets, advertisements and publications as well as electronic media all geared to consumers of specific financial services.

In 2007, the OFSO and the NFLP Secretariat released **“Dollars and Sense”**; a compilation of information on banking instruments and processes. In 2008 **“In the Driver’s Seat: Understanding Motor Insurance”**; the first in a series on insurance tips and information was released. This booklet, **“Protecting Your Shelter: Understanding Property Insurance”** is the second booklet in the series. The booklet provides a useful guide to homeowners as they make important decisions in the area of property insurance.

I would like to thank Mrs. Judy Chang for initiating this project when she headed the Ombudsman’s office. Her advice and support even after she left office was most helpful in the completion of the booklet. Special thanks are also due to Mrs. Rani Lakhan-Narace, President of the Association of Trinidad and Tobago Insurance Companies (ATTIC), who provided full and enthusiastic support; Mr. Bernard Aquing, Insurance Consultant, who

served as Consultant and was responsible for producing the first draft of the document and Mr. Bertrand Nicholas, Insurance Consultant, who reviewed and provided input to the document.

Finally, my sincere congratulations go out to the Central Bank team responsible for the final editorial and production work. This group includes Mrs. Jennifer Greaves, Senior Manager, National Financial Literacy Programme, Ms. Ann Marie Narine, Financial Services Ombudsman, Mr. Al Alexander, Graphic Artist, National Financial Literacy Programme and the Editorial Committee, who were members of the Central Bank Staff.

Editorial Committee

Elizabeth Austin
Penelope Forde
Jennifer Greaves
Narissa Lezama

Victor Maloney
Ann Marie Narine
Avinash Ramlogan
June Stewart



This booklet entitled, ***Protecting your Shelter: Understanding Property Insurance***, is the second in a series of insurance tips and information produced by the Office of the Financial Services Ombudsman (OFSO). It forms part of the OFSO's contribution to the National Financial Literacy Programme (NFLP) launched by the Central Bank of Trinidad and Tobago.

The aim of this booklet is to simplify homeowners insurance so that consumers can understand the coverage they buy and how the insurance companies administer policies. Consumers should then be in a better position to make informed decisions.

Note: *This booklet should not be considered as a replacement for your insurance policy contract which must be interpreted according to the specific terms and conditions contained in the policy document. The terms and conditions outlined in your policy contract would determine how the insurer treats with any claim which may arise under your insurance policy.*

PROPERTY INSURANCE

The purpose of property insurance is to assist you in restoring your home and/or property if damaged by natural disasters or other perils. As a property owner, it is advisable that you purchase homeowners insurance.

Once you have borrowed funds under a mortgage arrangement to purchase your home, the lender will insist that you (the borrower) buy, as a minimum, fire and other perils insurance to cover your property in the event of any disaster. Under such arrangements, the proceeds of **any claim** are assigned to the **lender**. If your home is completely destroyed, the proceeds are paid directly to the lender to be applied to the outstanding loan amount. Any surplus funds are then paid to you, the borrower.



Master Policy

It is common practice in Trinidad and Tobago for lenders and in particular, mortgage companies, to have an arrangement whereby all their borrowers can obtain insurance coverage under a master policy either with one insurer or a group of insurers. The purpose of this is two-fold:

- It allows for easy administration by mortgage companies since they do not have to track different expiry dates of insurance coverage for each of their borrowers, as the master policy has a common expiry date for all members.
- It allows for some negotiation of competitive premiums since each borrower receives only a *Certificate of Insurance* rather than a policy document, resulting in a reduction of the insurance company's costs. The lender can also earn a volume discount as all borrowers are covered under a single contract.

The Master Policy, normally called a *Houseowners Insurance Plan*, is retained by the lender as the policyholder. As a borrower, you can request to view the terms and conditions of the policy contract.

Individual Policy

Once you own a house, it is advisable that you purchase homeowners insurance to cover your home.

If a mortgage exists, but the value of the property increases in keeping with the existing market, the home owner should arrange to upgrade the sum insured so that in the event of a total loss, compensation would be adequate.

Helpful Hints

- Exercise due care in safeguarding your assets, such as your home or household contents.
- Minimize the risks of loss or damage to your home e.g. by installing security systems (including 'burglar-proofing') and fire extinguishing devices.
- Carefully examine the terms and conditions of the policies of various providers before choosing an insurer that best meets your needs.

HOMEOWNERS and HOUSEHOLDERS COMPREHENSIVE POLICY

The *Homeowners Comprehensive Policy* covers *buildings*, while the *Householders Comprehensive Policy* covers *household contents*.

Homeowners Insurance

Insured Property

The insurer considers the insured property to be the actual building, walls, gates, fences and any fixed carpets and air-conditioning equipment. Any building attached to the main building that is deemed to be part of the location will also be covered. Swimming pools and retaining walls are not normally included under this policy and the homeowner must declare its existence to the insurer and set a value to be used as a 'sum insured' to obtain coverage.



Insured Perils

Some of the main perils that can cause loss or damage to the insured property include :

- Fire, including underground fires, lighting bolt, explosions, thunderbolts
- Riots, strikes, lock-outs and/or labour disturbances and/or persons of malicious intent (this is commonly known as the *riot strike and malicious damage extension*)
- Aircraft or other aerial devices or any article dropped from them
- Water damage resulting from busted pipes or taps or overflowing water tanks
- Theft including burglary, house breaking and larceny
- Impact on property by a motor vehicle, horse or cattle (must not be owned by/or in the care and control of the policyholder)
- Breakage or collapse of radio or television aerials or antennae masts. What is covered is the damage caused to the home by these items not replacement of the aerial or antenna
- Falling of trees or branches (covers damage to the home)
- Smoke
- Catastrophe perils such as earthquakes, volcanic eruptions, cyclones, windstorms and floods
- Floods that result from other causes beside hurricanes or wind-related perils
- Collapse due to subsidence or landslip.

Uninsured Perils

Some perils that can cause loss or damage to the insured property but which are **not covered** under the policy include:

- War
- Radioactive and nuclear risks
- Malicious damage caused by someone lawfully on the property
- Terrorism and consequential loss

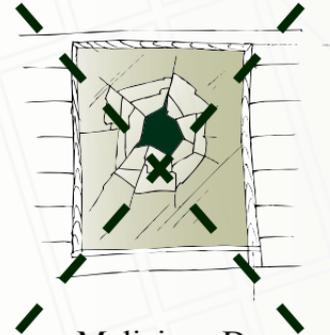
Helpful Hints



War



Nuclear Risks



Malicious Damage

Note - Perils covered may vary from one insurer to another.

- Insurers usually impose a policy excess of between \$500 - \$1,000 for any claim for “riot, strike and malicious damage” caused by someone not lawfully on the property.
- The cost of repairing the burst water line is not covered. Coverage is for damage caused by the water only.
- Policies normally include a clause which states that the building (property) must not be left unoccupied for an extended period of time, usually not more than 30- 60 days. This clause may vary from one insurer to another.
- In the case of a theft or burglary claim, there is an excess and compensation is confined to repairs to the building.
- Damage caused by fallen trees is covered where it is as a result of an insured peril e.g. windstorm. Policies will not cover the cost of removing fallen trees or branches, damage caused to gates and fences by fallen trees and branches if the damage is caused by you, the policyholder, or someone working under your control cutting branches or felling trees.
- Insurers may decline flood coverage under Homeowners policy if your property is situated in a flood prone area.
- Insurers do not deem gradual cracking of a building over a period of time to be damage caused by subsidence. Damage must be sudden and accidental and may require engineering evaluation.
- Damage to your building caused by river erosion or landslide is excluded.
- Perils other than fire, lightning, explosion, thunderbolt, subterranean fire and aircraft

damage all have deductibles of varying sums or percentages of the sum insured.

- You may ask your insurance company to provide additional coverage for items not included under the basic policy. However, you should note that the premiums are usually high because of the risks that may be involved. The insurance company has the right to refuse cover if your requests are considered too risky or unreasonable.

Treatment of Excess:

- For claims caused by catastrophe perils, there is normally an excess of 2% of the sum insured, with a minimum amount, whichever is greater.
- In the case of a wind-related claim, the excess may be 1% of the sum insured
- For earthquakes, the excess is no less than 2% of the sum insured.

For example, if the building is insured for \$500,000, the catastrophe excess of 2% of the sum insured means that the insurer will pay a claim only if the damage is more than \$10,000. Similarly, if the sum insured is \$1 million, the policy excess would be \$20,000.



Homeowners Comprehensive Policy-ADDITIONAL COVERAGE

Insurers generally provide additional coverage under the **Homeowners Comprehensive** policy as follows:

Public Liability

Generally, public liability insurance covers the risk of injury or damage to someone visiting your home, caused for example, by slipping on a wet floor or bumping into your glass door. As the homeowner, you may be legally liable to provide compensation. Limits of liability vary from one insurer to another but are normally restricted to \$500,000.00 per event.

Alternative Accommodation

In the event that your building is damaged and becomes unfit for occupancy, the insurer will pay reasonable rent for alternative accommodation while your building is being repaired, up to a limit of 10% of the sum insured.

If however, your building is tenanted and becomes unfit for occupancy as a result of damage caused by an **insured peril**, the insurer will compensate you, the policyholder, up to 10% of the sum insured for the loss of rental income.

Architects' and Surveyors' Fees

Fees incurred in rebuilding following damage or destruction of the building caused by an *insured peril* are usually covered but limited to 10% of the sum insured.

Cost of Removal of Debris

The cost to demolish and remove debris when a building is damaged or destroyed will be reimbursed by the insurer up to a limit of 10% of the sum insured.

Accidental Breakage of Fixed Glass

Glass forming part of the building or fixed sanitary ware and bathroom fittings are covered under this extension to the policy. Such policy extensions are usually subject to a fixed sum per policy year.

Personal Liability

Personal liability covers the risk of injury or damage to you, the homeowner, in the insured property caused for example by slipping in your bathroom. Limits of liability vary from one insurer to another. You may need to obtain a separate policy for this type of coverage.



AVERAGE CLAUSE AND REINSTATEMENT

There are two important conditions in the homeowners policy that require explanation. They are the Average Clause and Reinstatement Condition.

Average Clause

This clause penalizes you, the policyholder, if your property is under-insured. Insurers normally accept 85% (some 75%) of the current value as full insurance and consider this sum as adequate for the sum insured.

For example, a property valued at **\$500,000**, but insured for **\$425,000** is considered to be fully insured. In the event of a claim, the average clause will not apply as the sum insured is 85% of the value and you, the policyholder will receive payment in full less any applicable excess.

$$\mathbf{\$425,000 / \$500,000 = 85\%}$$

However, a property valued at \$600,000.00 but insured for \$425,000.00 is considered to be under-insured. In this instance, the sum insured is only 71% of the property and the average clause will be applied in the event of a claim.

$$\mathbf{\$425,000 / \$600,000 = 71\%}$$

e.g. For a claim of \$50,000, the insurance company will pay:

$$\frac{425,000 \times 50,000}{600,000} = \$ 35,417, \text{ less any applicable excess}$$

Helpful Hints

- Be familiar with the contents of your insurance policy as “average” varies from one company to another.
- The maximum payment you can receive is based on the sum insured and not property value



Reinstatement Condition

You can insure your building on a reinstatement basis. Insuring your building on a reinstatement basis means that in the event that your building is destroyed or damaged, the following conditions will apply:

- Your coverage represents the true replacement cost
- Your property is fully insured
- You will reinstate the damaged property
- No deduction/depreciation for wear and tear will apply.

If you are unwilling or unable to reinstate your damaged property, the Reinstatement Condition will not apply and the settlement of the loss will take into account depreciation and wear and tear. For example, if the sum of money you are eligible to receive from the insurance company cannot meet the cost of reinstating your property, the insurance company will give you a cash amount, from which, an amount representing depreciation of assets, will be deducted.

HOUSEHOLDERS COMPREHENSIVE POLICY

Most insurers will issue combined Homeowners (covering building) and Householder (covering contents of your home) under a single policy. The building and contents will be covered against the same perils and the same extensions wherever applicable.

House Contents include:

- Your household goods and personal effects, even in the case of rental property.
- Personal effects of family members living permanently with you.
- Fixtures and fittings, removable carpets and rugs.

Helpful Hints

- The same perils covered under the **Homeowners policy** are also covered under the **Householders policy**.
- Insurers grant various extensions to the cover so it is important to review your policy as they vary from one insurance company to another.

- Generally, if there is a break-in and several items are stolen, the damage done to the property is covered under the **Homeowners policy** and the loss of items under the **Householders policy**, subject to any applicable excess.



THE SUM INSURED

It is important that you take a detailed inventory of the contents of your home in order to arrive at a realistic **sum insured**. More often than not, buyers of insurance select a sum insured that is less than the market value of the property which is therefore inadequate for any loss that may be incurred. Any claim will therefore be subject to the application of the Average Clause.

In addition, if not specifically listed, insurance companies normally place a limit of liability on valuable items of 5% of the sum insured; for example, items of jewellery, television and electronic equipment. In most cases, the 5% limit will not cover the cost of replacing these items. You should therefore itemize and report them to the insurer to avoid the application of the Limit of Liability.

Replacement Value- Permits the insured to receive a '**new item for old**' as a like item will be permitted in the event of a claim.

Helpful Hints

- You should declare any item that is valued more than 5% of the sum insured, in particular, works of art, pictures, stamp collections and other valuables. It is important to note that insurers will limit the loss for a single item, if you fail to declare it.
 - o One should note that unless you declare each item individually, articles of gold, silver, precious metal or jewellery will be limited to \$500 on any one item and a maximum of \$2,500 in total while kept on the premises of the insured property.
 - o Television sets, video, stereo or electronic equipment will be limited to \$1,000 on any one item and a maximum of \$2,500 in all.



SOME NOTABLE EXTENSIONS OF COVER - SUBJECT TO LIMITS

- **Cash** – Your currency notes and stamps (but not forming part of a stamp collection) are covered against loss caused by an insured peril but there is a limit of e.g. \$1,000.
- **Removal of Property** – Inform your insurance company (insurer) of any temporary removal of contents up to 15% of the sum insured. In addition, contents held in a bank or safe deposit box, (while it is being transported to and from the bank) will be covered by this extension.
- **Servants' Contents** – Damage to clothing and personal effects (excluding cash) of domestic servants while in your private dwelling by any insured peril but there is a limit of e.g. \$2,500.
- **Alternative Accommodation** – If the building is damaged and you have to find alternative accommodation while the building is undergoing repairs, the insurer will pay for amounts actually spent up to 10% of the sum insured.
- **Compensation for Death** – Insurers will pay for the fatal injury to you, the policyholder or spouse arising from violence caused by burglars or fire up to e.g. \$5,000.
- **Freezer contents**- Insurers will pay for deterioration of freezer contents up to e.g. \$500 but the power supply must be lost for a minimum of 12 hours.
- **Lost Luggage** – Insurers will pay for luggage lost during private travel within the Caribbean only and there is a limit of e.g. \$1,000.

If you are dissatisfied with the settling of your insurance claim, you may consult the Office of the Financial Services Ombudsman (OFSO).

Making a Complaint

- The complaint must be in writing on the prescribed form. (Forms are available at the OFSO office or can be downloaded from the OFSO **website www.ofso.org.tt**).
- The form must be signed by the complainant and the authorized representative, if necessary.
- It must state the names and addresses of both the complainant and the branch of the bank or insurance company.
- The facts pertaining to the complaint must be supported by any relevant documents. You should also include the nature and the extent of the loss suffered and the relief being sought from the OFSO.



You should purchase insurance from registered insurance companies only. See www.central-bank.org.tt or website www.ofso.org.tt for a list of registered insurance companies.

Glossary

Average Clause – a condition which encourages homeowners to insure their property for the correct value. You, the homeowner, will be penalised by not receiving full coverage for damages if your property is under-insured. You would not benefit if your home is over-insured.

Claimant - the individual who makes a claim for payment of benefits under the terms of an insurance contract.

Excess – the agreed sum or percentage of the claim which the policy-holder would be required to bear before the insurance company pays out any benefits on the claim.

Fully Insured – If your property is fully insured, it means that it is covered for the current market value. Regular valuations of your property and adjusting your insurance premiums to ensure that you have adequate coverage (fully insured) is advisable

Homeowners policy & Householders Comprehensive policy – Homeowners policy covers actual buildings whereas Householders policy provides coverage for contents.

Master Policy – the legal contract between an insurance company and a group insurance policyholder that provides coverage for a particular group of persons.

Reinstatement Basis – Insuring your property on a reinstatement basis means that in the event of any disaster, you will be able to restore your property to its position before the damage occurred.

Sum Insured – the maximum sum that the insurance company will pay on a claim. In other words, the sum insured is an upper limit of the funds that a claimant is eligible to receive.

True Replacement Cost – the actual cost to repair or replace your home at current market prices.

NFLP Contact Information

Address: National Financial Literacy Programme

Central Bank of Trinidad and Tobago

Eric Williams Plaza

Independence Square

Port-of-Spain

Tel: 625-2601 ext. 2815

Fax: 623-6514

Website: www.national-financial-literacy.org.tt / www.nflip.org.tt

Email: nflip-info@central-bank.org.tt



CENTRAL BANK OF
TRINIDAD & TOBAGO

