



homeowner's and household contents cover

As with any other insurance contract, there are specific terms and conditions applicable to homeowner's and household contents cover.

In this issue we highlight clauses which often form the basis of contention in disputes before this office.

Underinsurance and the application of average

When applying for insurance for a house and its contents, the prospective policyholder is required to stipulate the sum insured, which is the amount for which the property is to be insured for.

There is a misconception that the sum insured is related to the market value of the property or the purchase price of an item. Rather, the replacement value represents the cost to reconstruct or replace the building (from scratch) or the item insured.

The policy will often define the replacement value, providing clarity on how the sum insured should be calculated.

If at the time of loss it is discovered that the policyholder is underinsured, i.e. the replacement value for the property or its contents is determined to be greater than the sum insured, average will be applied and the insurer will only indemnify the insured for its proportional share of the loss.

Policyholders may have noticed that when the policy is renewed, the insurer may automatically increase the sum insured by a nominal amount for inflation. However, the onus remains with the policyholder to ensure that the sum insured on the policy schedule represents the true replacement value of the property.

Policyholders are urged to review their policies to make sure that they are familiar with the obligations on them and that the cover is adequate. If the risk address has changed; the property has been renovated; the security has been improved; or additional contents obtained, etc. the policy must be updated accordingly. If the policyholder is unable to determine the replacement value, an expert should be appointed for that purpose.

What does the policy cover?

Policyholders who approach our office for assistance often feel aggrieved because they paid a premium and therefore believe that they should be indemnified for all losses.

Homeowner's insurance can be peril based or exclusion based.

With peril based policies, the insurer is only liable on the happening of certain events that are listed in the policy, for example fire, storm, hail, theft, subsidence or landslip. In addition, certain events are expressly excluded from cover under the policy.

In order to claim against the policy the insured must demonstrate that an insured event occurred and that the property was damaged as a result.

In the event of a loss, the insurer will investigate the claim to determine the proximate or dominant cause of the loss. If the loss was not caused by an insured event, alternatively, if the proximate cause of the loss



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is one that is excluded from cover, for instance, wear and tear, the insurer will not be liable.

Exclusion based policies will cover any damage that is sudden and unforeseen, unless it is specifically excluded.

OSTI relies on the expert evidence presented by both parties in order to assess disputes of this nature.

Warranties and endorsements

A warranty in the policy is usually an affirmation by the insured that something is true. It is a condition that must be satisfied before the policy becomes binding on the insurer. The most common warranties in homeowner's and household contents policies relate to alarm system and security requirements.

Warranties or endorsements relating to firefighting equipment are another example.

A failure to comply with a warranty in the policy may result in the claim being declined and/or the policy being declared void.

When assessing complaints about claims rejected on the basis of a breach of warranty, OSTI considers the materiality of the breach to the loss, in other words the existence of a link or a connection between the breach and the loss.

Endorsements are changes made and recorded in the policy schedule after the contract is concluded. An endorsement changes the original contract by adding to, removing or limiting the existing provisions in the policy.

The manner in which an endorsement is implemented is one of the issues considered by OSTI when reviewing matters which relate to policy endorsements.

The importance of reading the policy documents has been emphasised by OSTI consistently throughout the years.

