ADDSURE
SECTIONAL TITLE INSURANCE SPECIALISTS

Explaining the Insurance Certificate

What is an Insurance Certificate?

A certificate usually required by a lender of property finance confirming salient information in respect of a sectional title mortgagor (owner) and the mortgagee (entity / bank which lends) and which confirms the banks interest in such policy.

Why does the bank / lender need this?

In the sectional title environment, the body corporate is the insured. The body corporate usually does not own property, yet by statute, the body corporate must insure the buildings and all improvements to the common property. The owner has an interest in the buildings, as much as the bank does if so bonded, however, the body corporate is in control and thus it's insurance needs to satisfy the banker/lender that in the in case of loss, the lender's debt will be settled.

Who Requests or Arranges for the Certificate?

The mortgagee (entity / bank which lends) usually requires certification of insurance from the insurer or the insurer's agent before proceeding to register a bond and provide finance for a particular owner. The bank may also seek certification or confirmation of cover periodically over the duration of the mortgage loan. The certificate is usually requested by the banks attorney on behalf of the bank / lender when first registering the bond and the bank / lender itself periodically thereafter.

Can the bank / lender request that the sum insured be increased beyond replacement value?

Yes, because the lender / bank was authorized by the owner / borrower in terms of their loan agreement and "bond" between them. The owner has effectively given the bank power of attorney to act on his / her behalf in these matters. The trustees of the body corporate are obliged in terms of legislation to insure the buildings and all improvements to full replacement value. The "market value" and/or "mortgage bond value" is likely to differ sharply, either way. For this reason, the bankers / lenders usually request confirmation of cover for the sum of the loan to cover their interests.

Why do the different values differ so sharply?

The market value is really the price at which a willing buyer and a willing seller meet and agree on for an effective sale.
The bank's value or mortgage value is usually a conservative view on anticipated market value, traditionally benchmarked at approximately 20% of market value in the residential environment. The Municipal value is the value that the municipal valuer has attached to a ratepayers property usually based on the estimated market value at a given point in time.
The Replacement Value is usually the total cost to reinstate the buildings to their original state after total destruction – this value includes the common property, professional fees, value added tax, demolition cost and accounts for escalations.

It normally excludes the value of the land, location, views and other factors which would affect the market value.
Thus the market value of the same building structure on Property A in Larneyville with panoramic views, sought after area etc will differ sharply in market value with the same structure on Property B in an area with high crime, no schools, poor infrastructure, out of town.
Assuming the location of both have no impact on construction costs ie equal access to resources, the replacement cost may be identical.
In a soft market, we have seen units sell for less than replacement value however, replacement value is usually lower than market value.
Usually, sums insured are increased.

Who pays for the insurance certificate?

Whoever requests the certificate, should pay for it. However, there can be no doubt, there is no free lunch here and the end user will be the person or entity who or which foots the final bill.
Usually the banks attorney requests the certificate. The Insurer or the UMA (Underwriting Manager) or their agents (the insurance intermediary) will bill the bank's attorney. Bear in mind, at this stage, usually the owner to be is unknown to the body corporate and not yet a member of the body corporate.
The bank's attorney accounts for all costs in respect of the bond part of which will be for the insurance certificate. This is almost always eventually paid by the new owner.

Who should issue the certificate?

This is debatable depending on who is issuing such. Addsure is of the view that either the Insurer (principal) or the insurer's agents (Underwriting Manager or insurance intermediary) should be the recognised issuer of such certificates. Some managing agents "confirm" cover and charge for the administration of confirming, providing copies of policies and corresponding and some request the certificates from the insurer / underwriting manager or insurance intermediary and "mark-up" the cost. This is acceptable practice as the managing agent is, if requested to provide information, entitled to charge a service fee. The managing agent is in the business of administration and management and do need to earn a fee. We are of the opinion that costs / fees should be transparent and the client should know and understand what he or she is paying for.

What is the cost of such a certificate?

As at January 2020, Addsure charges R550 including VAT. It would appear that costs range from R500 to R1,500 per certificate but between R500 and R1,000 seems to be the norm.
The cost of the additional premium, if any, follows via the body corporate and is charged / recovered afterwards. See below for a further explanation.

What is involved in issuing such?

The issuing of the certificate should only be issued by the Insurer, Underwriting manager or an authorised Insurance intermediary, as with it, comes a whole lot of responsibility.
The bank usually seeks cover for a certain amount. This is often over and above the present unit sum insured.
Some of the processes involved:
An audit / check on the very latest Schedule of Replacement Values provided by the body corporate verify that it matches the latest Insurance Policy Schedule.
The Schedule of Replacement Values is amended and a copy sent to the body corporate and the insurer so that the policy is simultaneously endorsed to the new correct replacement value.
The banks interest is usually noted in the policy and is done by way of endorsement.

The bank's attorney is invoiced.
Once paid, an insurance certificate confirming the salient information is both emailed and posted or delivered to the attorney.
Addsure monitors the underwriting process until the new policy endorsement is delivered to Addsure. Once received the endorsement and insurance premium adjustment is checked and the endorsement delivered to the body corporate together with a Debit Advice voucher for the additional premium in respect of the additional sum insured.
The new owner is obliged to pay for this premium. This is prescribed.
Addsure estimates a pro-rata annual premium and advises the body corporate by means of the abovementioned Debit Advice note. The body corporate will pay the additional premium in the normal course of premium payment, however, will use this debit advice voucher as documentary evidence when charging / recovering this premium from the owner concerned.
Addsure will provide the body corporate will annual accounting in this regard.
This certificate is issued on Addsure paper to ensure that an onerous request made by the banks, which may reflect on the bank's paper, is not inadvertently agreed to. Great care is taken with the issuing of certificates and each is meticulously checked. Certificates issued by Addsure are signed by two authorized signatories.

How can I as an owner see what I am insured for?

Simple – seek a copy of the Schedule of Replacement Values. Addsure sets out the benchmark format of such schedules so that owners universally, can understand them. Read your actual Schedule of Replacement value in conjunction with the additional information
The actual cover and excesses, terms and conditions are available from your managing agent or trustees.

More about The Schedule of Replacement Values can be found via www.addsure.co.za