

Knysna-fires: What if it happened to you?

I overheard two guys in the gym this weekend discussing the Knysna-fires and the one says to the other: “Did you hear that apparently insurance companies might not pay the claims as this was a natural disaster (act of God)?”

People often speculate whether insurance companies do insure natural disasters. Well, besides things like theft or car accidents, the number one cause of claims is so called natural disasters: floods and earthquakes, storm winds and runaway fires. The good news is, these events are covered.

You can get exceptions where insurers will exclude one of these events but this will only happen if the type of event becomes a common occurrence in a specific area.

A lot of people are looking at the tragedy that struck the Knysna-area where runaway fires destroyed surrounding areas within a matter of 24 hours and wonder whether these people will at least be financially compensated for their loss or whether the fine print in their policy document will get the insurers off the hook.

I would like to reassure these people. If we assume that these people insured both their homes and its content, then the following applies:

- You **will enjoy cover** with any respected insurer if your house was destroyed by a runaway fire.
- Your **house and its contents** would have to be insured separately. If you only insured the house but not the contents, you will only have a claim for the house structure.
- Make sure the cost of **architecture, demolition and debris removal** is included in the cost insured to replace your home. These costs can add up to a substantial amount.
- The insured amount should reflect the amount that it would **cost to replace** your house, not its market value. If not, you could possibly be under-insured.
- The claim for your house will be dealt with **separately** from your claim for home content. Luckily if you are under-insured for the one it will not affect the other claim.
- Speak to your insurance broker about **assistance cover**, which is normally automatically included in your cover, like for example temporary accommodation or trauma counselling after such an event.
- Other **personal items** that are insured separately will have separate claims as well and will not fall under home contents. Items like jewelry, cameras or sport equipment.
- Houses that burnt down with the cars still in the garage will enjoy the necessary cover under their car insurance. This will be paid out according to the **market value** and not the cost to replace it.
- **Important:** If the structure of your house is mostly wooden or you have a thatch-roof, you will have to make sure that you complied with **specific conditions** that would have been required by your insurer regarding safeguarding your home against such events.

If the insurer requested that you have a sprinkler on your thatch-roof, insulation in the attic and a fire extinguisher on the premises you would have had to comply with that to have a successful claim.

If you did not meet all requirements set out, chances are your claim would be rejected.

Your insurer or your broker should have made sure at the time when the policy was taken out that you fully understood any special requirements.

Feel free to contact the Author, should you have any questions or comments on this month's article in the TwoCents.

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When will your claim not be paid?

Besides specific requirements that must be met regarding thatch-roofs and wooden houses, under what other circumstances can you have problems with a claim?

1. If your premium has not been paid and your insurance has **lapsed**.
2. If the damage was caused by political uprising or protest and you do not have **Sasria-cover** in place (this is usually standard on all policies)
3. If the **owner** of the property **set the property on fire** for financial gain from an insurance claim.
4. If the owner of the house did not take the necessary **precautions** to guard his property from theft after the fire had occurred.

What impact does averages have on insurance?

As a practical example:

Assume that the cost to replace your house is R 5 million but for some or other reason it is only insured for R 3 million. Then you are only insured for 60% of the actual cost to replace your home.

There are people who believe that this is not a problem because in the case of a total loss they are willing to buy or build a smaller house that will fall within their R 3 million cover. In the case of a partial loss, they argue that the R 3 million cover they have in place, should be more than enough.

The problem comes with the latter. Let's say that you only had partial damage to your house, like only a quarter of it burnt down. Your cost to fix or replace that quarter amounts to R 1.25 million but because you only have cover for 60% of the value, your insurer will only pay out 60% (R 1.25 million x 60% = R 750 000). Many people are then furious with the insurer as they feel that they have been paying a premium for cover of R 3 million.

Beware that this does not happen to you. The couple of bucks you are saving monthly by being under-insured is not worth the risk it comes with.

The recent events have been a nasty reminder for just how quickly things can go horribly wrong and lead to massive financial losses.

Make sure you have sensible insurance and that you meet all the requirements set out by your insurance company.

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