

WHAT CAN HAPPEN WHEN A STRATA PROPERTY IS UNDERINSURED?



We recently received this question on underinsurance from [LookUpStrata](#), an Australian Property Blog Dedicated to Strata Living. Our response below has been prepared by Renee Cassidy | Claims Manager, Resolute Property Protect.

Scenario:

I believe the Building Sum Insured on my Strata Insurance policy is insufficient, and I am worried about how this could impact us in a claim...

I'm having difficulty convincing other lot owners to pay for a new valuation for our 21 unit complex to reflect the building's current value.

Although our last valuation was performed in 2014, I believe that our current sum insured isn't accurate, and would like to make sure that we're insured for the full replacement / reinstatement value.

While we've recently increased the Building Sum Insured on our Strata Insurance from \$6M to \$7M, this was only a guess as we are not experts. I've expressed many times that I'm very concerned about guessing the sum insured, but the other lot owners believe that

we have a sufficient Building Sum Insured in place. As they won't assist in paying for a valuation, I'm hoping VCAT will be able to review and overturn their decision.

Can you please explain what would happen in the following scenarios?

- a) *If our building is underinsured and several of the 21 units burn down, would the Strata Insurance still provide cover?*
- b) *If our building was underinsured but a total loss event occurred, how would being underinsured affect the claims settlement?*

Answer:

When it comes to Strata Insurance, the claim amount paid for any loss / damage to the building will not exceed the total Building Sum Insured noted on the policy schedule.

If a Strata property is underinsured, it means the **Building Sum Insured on the insurance schedule is less than the total amount it would cost to reinstate and replace the building** in the event a total loss.

UNDERINSURANCE AND STRATA

In order to determine the correct Building Sum Insured, and avoid breaching the Owners Corporation Act 2006, a **Professional Property Valuation should always be sought**.

What can happen if a Strata property is underinsured?

Scenario A

A partial loss occurs and the building is underinsured

The Strata Insurance claim payment to reinstate the unit will never exceed the total Building Sum Insured noted on the policy schedule.

If the building is underinsured by \$1M, and a single unit burns down, but the cost to rebuild is less than the total Building Sum Insured, the unit can be reinstated.

Alternatively, if the cost to rebuild is more than the Building Sum Insured noted on the Strata Insurance, it's likely the insurer will simply pay out the total Building Sum Insured amount to the OC or Strata Manager, to be distributed to affected lot owners.

The lot owners will then need to make a decision on how to proceed forward with replacement of the unit.

Note: The latter is highly unlikely unless the building is grossly underinsured.

Scenario B

A total loss occurs and the building is underinsured

If a total loss occurs and the Building Sum Insured is insufficient, all lot owners would be out-of-pocket.

In this scenario, we anticipate that the insurer would pay out the Building Sum Insured noted on the policy schedule to the OC or Strata Manager, who would then allocate the claim settlement to each owner based on their 'lot liability'.

It would then be up to the owners to decide how to proceed, and whether they can even afford to reinstate the whole property.

In such circumstances, it is likely that owners may commence legal action to recoup their financial losses, alleging a breach in professional duty by the OC, Committee Members and / or Strata Manager.



UNDERINSURANCE AND STRATA

The OC, OC Committees, and Strata Managers have a legal obligation to ensure adequate Strata Insurance is in place.

Strata Insurance requirements in Victoria, and the Owners Corporation Act 2006 both stipulate the following:

All Owners Corporations' have a legal responsibility to take out Strata Insurance that is sufficient to reinstate and replace all buildings on the common property.*

Unless the sum insured is at least equivalent to the cost required to replace, repair or rebuild the property to a similar pre-loss condition, plus incidentals, the OC will be in breach of its obligations.

To avoid breaching legal obligations, it is prudent for the OC to obtain a Professional Building Valuation, ensuring adequate Strata Insurance sums insured are noted on the insurance schedule.

Read more on legal requirements – [click here](#).

**Two Lot Strata Properties are exempt from this.*

Potential legal exposures

If no professional valuation is sought, and a loss occurs that is greater than the Building Sum Insured noted on the insurance schedule, numerous parties could be held liable for a breach of professional duty.

If no professional valuation is sought, and a loss occurs that is greater than the Building Sum Insured noted on the insurance schedule, numerous parties could be held liable for a breach of professional duty.

Lot owners who suffer financial loss as a result of inadequate insurance could take legal action against:

- The OC entity
- Committee Members
- The Strata Manager (if applicable)

Recommendation

Obtaining a Professional Valuation comes at a fraction of the cost when compared to the financial losses and litigation that could ensue after an underinsured loss at a Strata property.

Based on this, engaging a Professional Valuer to provide a property valuation, almost becomes a no brainer.



After more information on avoiding underinsurance, and ensuring your Strata property has the correct Building Sum Insured?

Contact your Strata Manager, or one of Resolute's Strata Insurance specialists today on 1300 668 033.

This article is not intended to be personal advice and you should not rely on it as a substitute for any form of personal advice. Please contact Resolute Property Protect ABN 53 157 850 827 Licence Number: 425 966 for further information, or refer to our [website](#).