Ombudsman is clear about home insurance

An important point that is clarified by the consumer information documents issued by the Ombudsman for Banking Services, is the difference in the insurance that the banks are entitled to require of anyone taking out a home loan.

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Mike van Alphen, national manager of Rawson Finance, said that the Ombudsman's easily understood statements make it clear that two types of insurance are enforceable by law.

The first is home owners cover (HOC), an insurance policy covering the home against damage caused by fire, floods or any other calamity or disaster. The home owner is entitled to take out his own policy for this, but if he does so the bank is allowed to charge an extra amount on its monthly service fees to monitor the payments. This extra sum may not, however, exceed the maximum set down by the National Credit Act and currently this is R50 per month.

Rights of banks

The bank has the right to inspect such independently acquired policies to ensure that they are as comprehensive as they should be and that they offer sufficient cover. There is always the temptation, which should be resisted, to opt for a less expensive but less efficient home insurance cover policy.

One of the conditions of insuring through the bank is that they will usually deduct the full premium for the year from the home loan, thereafter getting the bondholder to pay back this sum monthly over a year in addition to the premium payments. Should the bondholder want to avoid the extra interest charges, he can pay in cash for the full 12 months to come.

The Ombudsman makes it clear that, if the bondholder does his own insuring, it is essential to check that the monthly payments are being paid. There have been cases where payments had ceased and the policy had lapsed - but this was not discovered until the disaster or damage had occurred. It is also important to ensure that the insured value of the house keeps pace with the regular value increases that property will experience under most economic conditions.

Life cover

The second type of insurance that can be insisted upon by the banks may be life cover. Such policies cover the bondholder and again the bondholder is allowed to make their own arrangements or can cede an existing life policy to the bank, the conditions being subject to the bank's approval.

A life policy will cover the full amount of the bond or of the amount still owing on it if the bondholder has paid off a substantial sum on their bond. If however the bondholder then applies via the access bond facility for a further loan, the bank may insist on the life cover once again being increased.