

Houseowner/householder takaful

Introduction

This is an introductory guide to help you understand how houseowners/householders takaful works. It gives you some basic information so that you can ask your takaful operator the right questions, understand the answers and make the right choice before you participate in any takaful plan.

What is Houseowner/householder takaful?

Houseowners takaful covers your residential property against loss or damage caused by perils such as flood or earthquake. The houseowners takaful covers not only your house, but also the garage, outbuildings, walls, gates and fences around your property, as well as permanent fixtures and fittings. It does not cover buildings used for commercial purposes, such as a restaurant, factory or place for storing merchandise.

Householders takaful covers the loss or damage to the content of your residential property, and provide coverage for fatal injury to you as a participant.

You may participate in a houseowners takaful or a householders takaful, or both.

Mortgage takaful

When you take a financing to purchase a residential property, the financial institution will require you to participate in houseowner takaful as well as mortgage takaful. Mortgage takaful is a family takaful plan which will automatically settle your house financing in the event of your death or permanent disability. Once the financing has been redeemed, the ownership of the property will be released to you or your beneficiary.

You will pay a single contribution for the mortgage takaful when the financing is taken. The contribution rate will depend on your age, the amount, profit rate and term of financing.

If you decide to sell the house or redeem the financing earlier, you are entitled to a pro rata refund on the unexpired period of takaful.

Takaful concept in houseowner/householders takaful

When you participate in houseowners/ householders takaful, you contribute a sum of money to a general takaful fund in the form of participative contribution (tabarru'). You undertake a contract (aqad) for you to become one of the participants by agreeing to mutually help each other, should any of the participants suffer loss or damage to his property or contents.

At maturity, you are entitled to a share of the surplus in the general takaful fund, if you did not make any claim during the period of takaful. The surplus will be shared between you and the takaful operator under the concept of surplus sharing according to a pre-agreed ratio.

Example: A takaful operator has a total surplus (S) of RM4 million and total general contribution (GC) of RM10 million. Your contribution (C) for the year is RM1,000 and the surplus will be shared between you and the takaful operator at a pre-agreed sharing ratio (PSR) of 50:50. The share of surplus that you will receive is calculated as follows:

$$\begin{aligned} \text{Surplus-sharing ratio} &= \text{PSR: } 50\% \times \frac{\text{S: RM4 million}}{\text{GC:RM10 million}} \\ &= 20\% \end{aligned}$$

$$\begin{aligned} \text{Surplus attributable} &= \text{Surplus sharing ratio} \times \text{C: RM1,000} \\ \text{to you} &= \text{RM200} \end{aligned}$$

Types of cover

The coverage provided under the respective takaful plans are as follows:

Houseowners takaful –
Covers Section 1 and 3

Householders takaful –
Covers Section 2 and 3

Houseowners takaful and householders takaful –
Covers section 1, 2 and 3.

Section 1: Buildings

This section covers loss or damage to the building by any of the following perils:

- a) Fire, lightning, thunderbolt, subterranean, fire
- b) Explosion.
- c) Aircraft damage
- d) Impact damage by road vehicles or animals.
- e) Bursting or overflowing of water tanks, apparatus or pipes (the takaful operator will not be liable for the first RM50).
- f) Theft by forcible or violent entry or exit.
- g) Hurricane, cyclone, typhoon or windstorm.
- h) Flood

For (g), (h) and (i), the takaful operator will not be liable for the first 1% of the sum covered or RM200, whichever is lower.

The cover may also be extended to the following perils, subject to additional payment:

- a) Subsidence or landslip
- b) Riot, strike or malicious damage

Section 2: Content

This section generally covers loss or damage caused by any of the perils stated in Section 1 to the contents, including your household goods and personal effects, belonging to you, your family members or domestic servants.

This section also pay compensation for your death in the event of fatal injury caused by thieves or fire, up to a maximum of RM10,000 or one half of the total sum covered, whichever is lower.

Section 3: Other contingencies

Loss of rent – This section covers for loss of rent or additional expenditure that you incur due to damage to the building by any of the perils stated in Section 1, making it uninhabitable. The compensation paid will depend on the following:

- If you live in your own house, you will be paid for reasonable additional expenses incurred if you have to move to a hotel whilst your house is uninhabitable; or
- If your house is rented to someone else, you will be paid the actual loss of rent, if the tenant moves out while the house is uninhabitable.

You will receive compensation only for the period that the building is uninhabitable as a result of the damage. Compensation will not be paid for the period after the house has been completely repaired and made habitable again, even though there is no tenant as yet. The cover under this section is limited to 10% of the sum covered.

Public liability – This section will pay compensation to a third party for accidents in your house where you are found to be legally liable resulting in:

- Death or bodily injury to the third party; or
- Damage to the third party's property.
- The third party can be any guest to your house other than your family members, household or anyone employed by you. The maximum amount payable under this benefit for any one claim, or series of claims arising from one cause, in any one period of takaful is RM50,000. The cover is only valid at the premises mentioned in the certificate schedule.

How much should I cover?

Make sure that the amount covered in your homeowners takaful plan reflects the rebuilding cost of your house. If the amount covered is less than the rebuilding cost, the average condition will apply in the event of a claim. The average condition is a penalty for underinsuring the house. Underinsuring means the sum covered at the *time of loss* is less than the actual rebuilding cost.

Example: The total cost to rebuild a house is RM100,000, the sum covered is RM80,000 and the loss is RM5,000. The average condition will be calculated as follows:

$$\frac{\text{Sum covered: RM80,000}}{\text{Rebuilding Cost: RM100,000}} \times \text{Loss: RM5,000} \\ = \text{RM4,000}$$

The takaful operator will only pay RM4,000 instead of RM5,000 for the loss. You have to bear the difference of RM1,000.

Cancelling your certificate

You may cancel the certificate by giving 14 days written notice to the takaful operator. Upon cancellation, you are entitled to a pro rata refund of the takaful contribution on the unexpired period of takaful.

The certificate will be invalid once the house has been sold to another person. The new owner will need to take new takaful coverage.

How do I make a claim?

- Notify your takaful operator by telephone as soon as possible. You will be asked to complete a Loss Notification Form and send it to the takaful operator. Be ready to provide the following basic information:
 - Date, time and place of loss;
 - Brief description of how the loss or accident occurred or how the loss was discovered (provide police report, if available);
 - Information on the degree of involvement of third parties (if any) and the extent of their injury and damage sustained; and
 - Brief description of the loss and/or damage.
- Make a police report immediately, especially if you suspect theft or malicious damage.
- Take reasonable actions to protect the building from further loss or damage and keep damaged items for inspection by the takaful operator.
- If a third party makes a written claim against you, the claim should be sent immediately to the takaful operator. In such an event, you must not admit or deny responsibility for the claim, or negotiate or settle any claim, unless notified by the takaful operator in writing. The takaful operator will decide whether to negotiate, defend or settle any claim made against you by a third party.

Settlement of claims

The amount of compensation you get depends on the basis of the cover:

Indemnity basis (old for old) – It will pay the cost of repairing the damaged building *less* the amount for wear, tear and depreciation; or

Reinstatement value basis (new for old) – It will pay the full cost of repairing the damaged building *without* any deductions being made for wear, tear or depreciation, provided that the sum covered is adequate to cover the total cost of reinstating the building.

The takaful operator has the option to settle the claim for partial loss (repairable damage) on the following basis:

- Payment of cost of repairs;
- Payment of cash amount of loss or damage; or
- Reinstatement or replacement of the partially lost or damaged property.

Unless the certificate states otherwise, the cover is normally considered to be on indemnity basis. If you want to be covered on reinstatement value basis, the certificate should have the relevant clause attached to it.

Do's and don'ts

When applying for takaful plan

Do	Don't
<ul style="list-style-type: none">▪ Disclose all material facts on the risks to be covered.	<ul style="list-style-type: none">▪ Leave any question in the Proposal Form unanswered.
<ul style="list-style-type: none">▪ Read the 'Important Notice' on the Proposal Form.	<ul style="list-style-type: none">▪ Use ticks & dashes to answer the questions requiring full answers.
<ul style="list-style-type: none">▪ Answer all questions fully and accurately.	<ul style="list-style-type: none">▪ Withhold or misrepresent any material fact. Otherwise, the certificate issued will be void, meaning that the claim can be repudiated.
<ul style="list-style-type: none">▪ Complete and sign the Proposal Form yourself.	
<ul style="list-style-type: none">▪ Pay the contribution.	<ul style="list-style-type: none">▪ Underinsure, as you will be penalised by the application of 'average condition' in the event of a claim.

After a loss or damage

Do	Don't
<ul style="list-style-type: none">▪ Notify the takaful operator immediately.▪ Report to the police all cases involving theft.▪ Send all writs or claims from third parties immediately upon receipt to the takaful operator.▪ Cooperate with the takaful operator and loss adjuster.▪ Communicate with the takaful operator in writing.▪ Take reasonable action to mitigate further losses or damage.	<ul style="list-style-type: none">▪ Admit liability, pay or negotiate with the third party on claims.▪ Deliberately inflate the claim with the belief that the takaful operator will systematically reduce the claim. This is untrue and could also cause the claim to be forfeited.▪ Leave the damaged building exposed to further losses without taking reasonable precautions to ensure its safety.
