FAQs – Fire Insurance for Condominiums

1. When I take up a housing loan, what are my obligations as a borrower in the event of damage to my mortgaged property?

When your condominium unit is mortgaged to the bank as collateral for the loan, you are obligated to repair / reinstate the property if it is damaged and continue to make the loan repayments to the bank.

2. What is the basic insurance coverage for my condominium unit? How does it affect me?

Your Management Corporation (MC) will take up a fire damage policy to cover the condominium estate. Your condominium unit will be covered under this policy, commonly referred to as the MCST policy. If the property is damaged, the MC can claim and expend the insurance monies under this policy (subject to the terms and conditions fulfilled) to repair or reinstate the damaged property usually to the condition prior to the damage.

3. What is a Mortgagee Interest Policy (MIP)? Why do I have to take up a MIP when there is a MCST policy?

If the condominium unit is mortgaged, the bank may require the borrower to take up a MIP, which generally protects the outstanding loan amount and allows the bank to claim up to the loss amount, the sum insured or the building reinstatement value (whichever is the lower) following the damage. However, not all banks require their customers to take up a MIP.

As part of the terms and conditions for taking up the housing loan to purchase the property, you have agreed that the financial interest of the lending bank would be protected by insurance should any damage and loss occur to the mortgaged property.

As provided under the Building Maintenance and Strata Management Act, the insurer who has made the payment to the bank to discharge your loan, either fully or partially, will take over as the mortgagee or will be added as a sub-mortgagee respectively. You will continue to repay the outstanding loan:

(a) to the insurer if the amount of the claim equals the amount necessary to discharge the mortgage; or

(b) to both the bank and the insurer if the amount of the claim is less than the amount required to discharge the mortgage. There is no double coverage.

4. Can I take up a MIP with any insurance company of my choice?

When the customer takes up a MIP on terms arranged by the bank, barring non-acceptance of the risk on renewal by the insurer, the policy will renew automatically each year. Both the customer and the bank save time and expense communicating with each other on policy requirements to facilitate the policy renewals.

When the bank agrees to accept a MIP from an insurer not arranged by the bank, the renewal is processed manually. The bank has to check the policy terms to ensure they meet the bank's requirements on coverage, follow up with the customer on renewals, and then check the renewed policy terms upon receipt. If the renewed terms are not acceptable, further time and expense are incurred by both the customer and the bank in reaching an agreement on terms. All these time consuming steps are not necessary when the MIP is taken from an insurer whom the bank has agreed terms of coverage with.

Hence, the bank will levy an administrative charge when the customer elects to obtain a MIP from an insurer not arranged by the bank.