

6 February 2014

Dear Editor

The Association of Banks in Singapore (ABS) thanks Mr Gary Chua for his letters “Why must home owners bear banks’ risks with loan insurance?” (Jan 14) and “Fire insurance tied to banks’ home loans does not benefit condo buyers” (Dec 24).

The fire insurance policy undertaken by the Management Corporation Strata Title (MCST) and the Mortgage Insurance Policy (MIP) serve different purposes.

The former is required under the Building Maintenance and Strata Management Act for all private apartments.

If a condominium unit is damaged by fire, the property’s management corporation would make a claim on the MCST policy and utilise the insurance proceeds to reinstate the property to the condition it was in when it was developed.

If the apartment is mortgaged, the bank may require the borrower to take up an MIP, which generally protects the outstanding loan amount and allows the bank to claim for repayment of the outstanding loan, should the borrower default on repayment following the damage.

Depending on the specific terms and conditions of the MIP, the insurer may pay the outstanding loan to the bank. The borrower is then required to repay that amount to the insurer.

Not all banks require housing-loan customers to take up an MIP.

As a value-added service, some banks recommend additional coverage that may be unavailable under an MCST policy for example, rental for alternative premises, damage to uninsured improvements and third-party liability.

Borrowers are encouraged to choose a bank that would best meet their loan needs.

The Monetary Authority of Singapore (MAS) has requested the ABS to better communicate, through our member banks, the functions of the MCST and MIP policies to potential customers so as to avoid confusion.

The MAS will support this effort by educating consumers through MoneySENSE initiatives.

Ong-Ang Ai Boon, Mrs
Director
The Association of Banks in Singapore