What you must know about insurance you will require

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An essential first step after acquiring property is to insure it.

If you have a mortgage, the mortgage lender will require you to carry fire insurance to at least cover the amount of the mortgage. But you should not limit yourself to just protecting the mortgagee's interest. The amount of the mortgage may be significantly less than the value of the property and it is just as important to protect your own interest, too.

In deciding on how much fire insurance to carry, don't overlook the implications of the optional settlement clause contained in all policies. This clause enables you to have losses settled with no reduction for depreciation if you are carrying insurance equal to at least 80% of the replacement cost of the building.

Replacement cost is the cost of putting up a building with "material of like kind and quality."

This is the 10th article in a new FP series on the risks and rewards in real estate investment.

On completion of the series, all articles will be reprinted in book form. Orders for this new book, Real Estate for Profit, are being accepted now at $3 per copy. Write to: The Financial Post, 481 University Ave., Toronto 101.

With an older house, especially, it is not easy to determine the replacement cost. Contracting or engineering firms can provide appraisals, but normally it should not be necessary to go to this expense.

As a rule of thumb, you can take the market value of the property and subtract an amount for the cost of the lot. The resulting figure should be close to the replacement cost.

Remember, of course, that you need not limit yourself to 80% of the replacement cost — if the house burns to the ground, you will be a lot happier if you had it insured for 100% of the replacement cost.

Fire insurance policies usually cover loss or damage caused by fire or lightning, explosion, falling objects, glass breakage, impact by aircraft or land vehicle, riot, rupture of a heating, plumbing or air-conditioning system or escape of water from such a system or from a public water main, smoke, vandalism or malicious acts, theft, and windstorm or hail.

Some hazards — such as glass breakage, rupture of heating and other systems, water escape and windstorm or hail — usually are subject to a $50 deductible on each claim. If the loss is more than $500, the deductible may not apply.

Water escape coverage does not apply if you are away from your house for more than four consecutive days (96 hours) and have not taken precautions to prevent freezing of pipes. Recognized precautions include draining the water system, or arranging for someone to come into the house daily to ensure that the heat is on.

There is no coverage for any type of damage if the house is vacant for more than 30 consecutive days. But "vacant" does not include situations in which the house is unoccupied while, for example, you are away on vacation. To be considered vacant, the furniture must be out.

Installed broadloom is considered part of the building if you own your house, part of the contents if you rent the house but own the broadloom.

Awnings, storm and screen windows and doors and air-conditioning systems are also considered part of the building for insurance purposes if you own your house.

Most dwelling insurance is written on a package basis with coverage for the building, contents and personal liability all included under one contract — usually called a homeowners policy.

Don't overlook the importance of personal liability insurance. If you own property and someone is hurt, or their property damaged on or about your premises, you can be sued.

The basic policy limit of $25,000 applies if you are legally liable for injury or damage. This means the injured party would have to prove negligence on your part.

But the policy also provides for a voluntary payment of $500 for medical bills incurred by an injured third party, and $250 for damage to his property, regardless of whether you are legally liable.

If you own a condominium, there are some extra complications in providing property insurance.

Insurers say there is no problem in providing contents and personal liability insurance. But the fact that exterior walls, corridors, balconies and other common elements (FP, Dec. 5) are owned by all the owners together presents difficulties.

Many insurers take the view that the easiest solution is to have the whole building insured under one policy in the name of the condominium corporation.

When a unit is sold, a transfer and consent form is prepared which becomes, in effect, an individual policy within the master policy. The premium can be allocated to each owner and included in his monthly maintenance charge.

Along with insuring your property against physical damage and protecting yourself against lawsuits arising out of the ownership of your property, you can also insure the title to your property.

Title insurance protects the insured against loss or damage arising out of defects in, or liens against, his title to the property.

When you buy property, your lawyer makes a search of all transactions affecting it to make sure that you will acquire good and clear title (FP, Oct. 24). Title insurance does not replace the services of your lawyer. Indeed, title policies are issued only after reports on the title have been received by the insurer from outside lawyers.

A title insurance policy complements the services of your lawyer by protecting you against title defects of which you cannot expect your lawyer to be aware. Basically, your lawyer's certification of good title is based on his search of recorded transactions and his check of certain specific unrecorded interests in the property, such as outstanding taxes and judgments.

But these checks may leave other factors affecting

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