THE ADEQUACY OF THE SUM INSURED OF A STRATA TITLE PROPERTY

Under the **Strata Management Act 2013**, Section 94 (“Amount to be insured”) provides:

- The building must be insured for at least the **reinstatement value**.
- That reinstatement value must be supported by a valuation prepared by a **registered valuer** at least once **every five years.**
- The cost of the valuation shall be **paid from the maintenance account.**

Who is legally responsible?

The legal duty falls on the person or body responsible for maintaining and managing the building, namely:

1. Joint Management Body (JMB)

2. Management Corporation (MC)

3. Subsidiary Management Corporation (where applicable)

Summary of Responsibilities

Party	Responsible
JMB/MC	Legal duty to ensure the building is adequately insured
Property Manager	Assist and advise, subject to the management agreement.
Insurance Agent/Broker	Advise on insurance needs and recommend valuations, but are not responsible for determining the reinstatement value.
Professional Valuer/Quantity Surveyor	Assess and certify the reinstatement value.

If the building is **underinsured** or **not insured at the correct reinstatement value**, the consequences can be significant:

- **Breach of statutory duty by JMB/MC.** Failure to do so may constitute non-compliance with the Act.
- **Insufficient insurance payout**. If a major fire or other insured event occurs, the insurance proceeds may not be enough to rebuild the building.
- **Financial burden on owners**. If rebuilding costs exceed the insured amount, every parcel owner may be required to contribute.
- **Possible legal liability**. The JMB or Management Corporation could face claims from parcel owners if it failed to exercise reasonable care in arranging adequate insurance.

Example

Actual reinstatement value: RM100 million

Building insured for: RM70 million

Fire destroys the building.

The insurer will generally pay up to the policy limit of RM70 million (subject to policy terms), leaving a RM30 million shortfall. The owners may have to finance this amount themselves if they wish to rebuild.

Best Practice

The management body should:

1. Obtain a professional reinstatement valuation every 3–5 years, or sooner if there are significant changes in construction costs.

2. Review the insured value annually to account for inflation and increased rebuilding costs.

3. Ensure the policy includes appropriate extensions such as debris removal, professional fees, escalation of rebuilding costs, and compliance with current building by-laws.

For insurance agents and property managers, ensuring compliance with the Strata Management Act is not merely a regulatory requirement—it is an important risk management measure that protects the collective interests of all parcel owners.

Contact us now for a free consultation:
1.) Mr. Chap : 012 – 286 1817 / Ms. Syafiqah : 012-890 1328

2.) Office : 03 – 2162 2515
3.) Email : insurance@edindings.com