



Latent defects insurance

Cover in accordance with the Housing Transactions Act

RV 01, General insurance terms and conditions, valid as of 1 April 2020

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Pohjola Insurance Ltd (hereinafter referred to as the insurance company) undertakes to pay compensation in accordance with the Housing Transactions Act and these insurance terms and conditions as stated in Section 4 for direct material damage sustained by the object of insurance and other specifically stated expenses. This insurance policy insures the purchaser of a housing unit and the limited liability company in the event of the policyholder's insolvency, covering against latent defects that become apparent during the one-year inspection or after the time specified in the Housing Transactions Act for the performance of the one-year inspection, subject to the Housing Transactions Act and these insurance terms and conditions.

1 Object of insurance

The object of insurance is the building specified in the insurance policy.

The insurance is valid in favour of the limited liability housing company or joint-stock property company that owns the building and the shareholders of the said company.

Latent defects insurance is intended to provide coverage against latent defects that become apparent in residential, storage and maintenance buildings. Other buildings, structures, parts of plots of land (such as fences, garden equipment and roads) are not covered by latent defects insurance.

The water, sewage and subsurface drain networks on the property are parts of the building, extending from inside, beneath and the immediate vicinity of the building (such as a subsurface drain parallel to the wall and next to the foundations) up to the nearest drain or inspection pipe. An example of an exclusion to this practice applies to sewage pipes when the first drain outside the building is more than two metres away from the exterior wall. In such a case, the sewer included in the building is taken to mean the part of the pipe that extends up to two metres from the exterior wall of the building. Drains and inspection pipes outside the building are not considered parts of the building.

Heating and district heating channels are parts of the building when they are inside and beneath the building. Channels outside the building are not considered parts of the building.

Electricity, antenna and other cable networks are considered parts of the building up to the building's envelope (generally the exterior wall). Parts of the network outside this demarcation are not considered parts of the building.

2 Validity of insurance

2.1 Premium payment

The insurance will take effect when the premium has been paid and the other requirements set by insurance company have been met as insurance company has required for the

inception of the agreement. insurance company shall send a written confirmation that the premium has been paid and the other conditions have been met.

2.2 Pohjola Insurance's indemnity period

Insurance company's liability for each building begins at the one-year inspection in accordance with Chapter 4, Section 18 of the Housing Transactions Act and ends for each building 10 years after the building control authority approved the building for commissioning.

All of the areas in a building must be approved before the building is approved for commissioning. Factors such as incomplete facade work or a ban on using balconies due to a lack of railings shall not prevent the building from being approved for commissioning.

The date and time when a building is commissioned are determined for each building individually. As such, the buildings included in the same insurance contract may have different commissioning dates. Insurance company's indemnity period is correspondingly determined for individual buildings.

3 Latent defect

A building has a defect when

- it does not meet the requirements of rules or regulations that the building needed to meet when the building control authority approved it for commissioning;
- the characteristics of the housing unit cause or can be justifiably presumed to cause a health hazard;
- construction was not carried out in accordance with good building practice or otherwise not in a professional and careful manner;
- a material used in construction is not of an ordinary standard of quality in terms of its durability or other characteristics, providing that no express agreement was made on the quality of the material;
- for extensions (such as loft apartments), liability is limited up to the sum insured
 - to the buyer of a residential share
 - to the company's other shareholders
 - to the company
- irrespective of the part of the building in which the damage arising from the latent defect during construction of the extension became apparent. (Housing Transactions Act, Chapter 2, Section 19 c)

4 Loss

Loss refers to loss or damage caused to the building by a latent defect.

4.1 Covered by the insurance

The insurance covers the following necessary and reasonable costs incurred due to a latent defect found during insurance company's indemnity period:

- investigating a latent defect that has become apparent in the object of insurance;
- repairing the defect;

- repairing the damage caused to the building by the defect; and
- the extra housing expenses of the buyer of a share and his/her family for the period when the housing unit could not be used. Extra housing expenses are covered for a period of up to six months.

In addition, the insurance covers reasonable expenses that arise from mitigating or preventing an impending or realised loss that is covered by the insurance. If repairing a defect or damage would give rise to unreasonable costs in proportion to the significance of the defect or damage to the limited liability company or the shareholders, insurance company shall be entitled to pay compensation corresponding to the significance of the defect or damage instead of the repair costs.

Compensation is payable, provided that

- a founding shareholder is liable for indemnification on the basis of the Housing Transactions Act, a share sale agreement or an agreement concerning constructions;
- the founding shareholder liable for the loss has been declared insolvent;
- the loss has been caused to the limited liability housing company or joint-stock property company that owns the object of insurance or to the buyer of shares entitling the holder to occupy a housing unit therein;
- the other collateral pledged in favour of the limited liability company or shareholders does not cover the loss; and
- the loss is reported to insurance company during the indemnity period.

A founding shareholder is confirmed to be insolvent if the shareholder is declared bankrupt, the shareholder is found by a distraint procedure to have no assets or the shareholder is dissolved by means of a liquidation procedure.

5 The insurance does not cover

5.1 Defects discovered during the one-year inspection

The insurance does not cover defects that were discovered or should have been discovered by the time of the one-year inspection or, if the one-year inspection is not conducted by the deadline, within the time provided for the one-year inspection to be conducted.

5.2 Wear and tear

The insurance does not cover loss caused by ordinary wear and tear, ageing or other corresponding factors.

5.3 Inadequate maintenance

The insurance does not cover loss that is a consequence of inadequate maintenance.

5.4 Building's appearance

The insurance does not cover loss caused by the building being dissatisfactory in appearance.

5.5 Abnormal natural phenomenon, such as

- abnormally substantial and/or heavy rain
- abnormal wind or storms

The insurance does not cover loss caused by factors such as the effects of abnormally large amounts of water on the sewer or subsurface drain network, the roof drainage system and surrounding structures.

The insurance does not cover loss caused by strong wind or gusts of wind (which may be accompanied by rain or snow) if the building was constructed in accordance with regulations.

5.6 Household appliances and equipment

The insurance does not cover loss caused by defects or damage to household appliances and equipment.

5.7 Contractual liability

The insurance does not cover loss to the extent that the indemnification liability is based on an agreement or other undertaking involving a commitment to more extensive liability than required by applicable law.

5.8 Other assets

The insurance does not cover loss caused to assets other than the building that is the object of insurance.

The insurance also does not cover loss to the extent that it is caused to assets other than the object of insurance by measures taken to repair a latent defect.

5.9 Consequential or indirect loss

The insurance does not cover consequential or indirect loss, with the exception of the extra housing expenses referred to in Section 4.

5.10 Reduction in value

The insurance does not cover loss caused by a reduction in the value of the building.

5.11 Other insurance policies or warranty

The insurance does not cover loss falling within the scope of a different insurance policy, warranty or guarantee.

5.12 Costs of investigation, specialists and representatives

The insurance does not cover the costs of investigation, specialists and representatives unless the costs are expressly agreed with insurance company.

When determining whether a latent defect is subject to compensation, comparisons are drawn with the original building and the prevailing standard when it was constructed. If the object of insurance has been subject to modernisation or other work, this work shall not be taken into consideration when determining a latent defect in accordance with this insurance, and any losses incurred by such work shall not be subject to any compensation.

6 Sum insured of property and index linkage

6.1 Sum insured

The sum insured stated in the policy document is the total maximum amount of compensation payable by insurance company during the indemnity period on the basis of latent

defects that become apparent in the building that is the object of insurance. If the sum insured is not sufficient to cover all of the compensation due to the limited liability company and the shareholders, the sum insured shall be divided between the company and the shareholders in proportion to the compensation claims. However, in such cases, the compensation already paid out under the insurance shall not be clawed back from parties who have suffered losses.

6.2 Index linkage

The sum insured is tied to the construction cost index and it is reviewed every calendar year.

6.3 Sum insured after a loss

The sum insured is reduced by the amount of compensation paid.

7 Quality assurance

7.1 Commissioning inspection

After the building has been approved for commissioning, the policyholder must provide insurance company with copies of the building control authority's commissioning inspection documents. Insofar as the insurance is based on information about the quality assurance of a planned building project, insurance company shall be entitled to request a separate account of the completion of this.

7.2 One-year inspection

The policyholder must provide insurance company with an opportunity to participate in the one-year inspection. For this purpose, insurance company must be informed of the one-year inspection at least one month before it takes place.

7.3 Negligence of reports and notifications and quality deviations

If the policyholder neglects its obligations as stated in Section 7.1 or 7.2 above or if the quality standard of the construction project is found to fall below the standard of quality assurance declared in conjunction with the insurance application when quality assurance takes place after the commissioning inspection, insurance company shall be entitled to charge an additional premium as it considers reasonable. The additional premium can be no greater than the original insurance premium.

8 Action to prevent loss and to preserve the buildings' characteristics

Founding shareholders must ensure that a use and maintenance manual has been prepared for the building. The housing company and the residents must look after the property with the help of this use and maintenance manual. By following the manual, the characteristics of the building and structural components should be preserved throughout the design life of the building.

Extracts from part A4 ("Use and maintenance manual") of the National Building Code of Finland (valid as of 1 May 2000):

- 3.2 The party undertaking a construction project is responsible for ensuring that appropriate content is included in the use and maintenance manual. In its final inspection, the building control authority must verify that the building's use and maintenance manual has been prepared appropriately. A note of this matter shall be entered into the final inspection protocol.
- 2.1 The use and maintenance manual includes initial information, objectives, tasks and instructions for owners and maintenance organisations on servicing, maintaining and caring for the building and structural components, as well as instructions that must be provided to residents and users of the premises.

If an owner, resident or other occupant notices defects or shortcomings in the building or part thereof, this party must immediately take measures to rectify the defects or shortcomings and avert further damage.

9 Action in the event of damage

9.1 Mitigation of loss

In the event of a loss or the impending threat of loss, the owner and residents must, to the best of their ability, take the action necessary to prevent or mitigate the loss or damage.

9.2 Loss report

The non-performance of a founding shareholder in the event of a realised or impending defect or loss must be reported to insurance company immediately. As the situation develops, additional information must be delivered to insurance company whenever relevant matters occur, such as pending liquidation proceedings affecting a founding shareholder.

Information, contracts concerning construction, minutes, reports and any other available documentation concerning the onset of a latent defect must be provided in the greatest possible detail.

Insurance company must be provided with the personal and contact details of the party/parties who have incurred loss.

9.3 Loss inspection

Insurance company shall be entitled to have a defect or loss inspected to determine the extent and cause of the loss.

9.4 Repairing damage

Before any action is taken, insurance company shall be entitled to issue instructions on repairing damaged property. Insurance company shall be entitled to decide on the repair procedure and the scope of the repair, and it shall be entitled to select parties to carry out the repairs.

If the owner of the building or a resident does not follow insurance company's instructions, insurance company's liability shall be limited to the costs that would have been incurred if the instructions had been followed.

Insurance company may also demand that repair work be completed within a reasonable time in order to prevent damage from spreading and costs from increasing.

Upon receiving a claim settlement decision, the housing company must immediately begin investigating and repairing the latent defect/damage. The claim settlement decision may include instructions (such as consulting specialists). Compensation will not be paid under latent defects insurance for any exacerbation and/or spread of damage caused by delays.

10 Calculation of property value and amount of loss

10.1 Amount of loss

The amount of loss and the value of the property are generally calculated in accordance with the replacement value using the price level at the time of loss. However, if the current value of the property was less than 50% of the replacement value immediately before the loss, the compensation will be calculated in accordance with the current value. When this rule is applied, each item of damaged property will be assessed individually.

10.2 Amount of loss based on replacement value

The replacement value is the amount of money needed to acquire similar or equivalent new property to replace the old item. The amount of loss based on the replacement value is calculated by deducting the residual value of the property from the value of the property immediately before the loss. Both values are calculated in accordance with the replacement value. If the damaged property can be repaired, the amount of loss equals the repair costs.

10.3 Amount of loss based on current value

Current value refers to the amount based on the reduced value of property, as a result of age, use, decrease in usability or similar reasons, deducted from the replacement value. Any decrease in the property's suitability for use due to changed conditions in the locality in question, such as termination of the business conducted or other similar reason, is also taken into account.

The amount of loss is the proportion of the amount of loss in accordance with the replacement value given by the ratio of the current value of the property to the replacement value.

If the damaged property can be repaired, the amount of loss is the proportion of the repair costs given by the ratio of current value to replacement value.

The purpose of indemnifying the loss is to restore the building that is the object of insurance to the state it would have been in if the latent defect had not occurred. The development of construction technology, the quality of building products, practices or other corresponding matters shall not cause the object of insurance to have a higher standard of construction or quality than the original standard when subject to compensation for a latent defect.

10.4 Value added tax

Provisions governing value added tax are taken into account when calculating the amount of loss. Accordingly, the tax will not be paid if it is saved by the beneficiary in its taxation.

11 Payment of compensation

Compensation is paid when the defect or damage has been repaired and insurance company has approved it.

12 Deductible

12.1 Deductible amount

The compensation payable on the basis of one loss shall be reduced by the deductible stated in the policy document for the limited liability company and the purchaser of the share. Compensation will only be paid if the owner of the building or other party suffering loss has paid the deductible.

The limited liability company's deductible will be subtracted from the compensation if a latent defect arises in the parts of the building for which the company has a maintenance responsibility. If a latent defect arises in a part of the building for which a shareholder has a maintenance responsibility, the shareholder's deductible will be subtracted. When the deductible is subtracted, the division of responsibilities provided for in the applicable version of the Limited Liability Housing Companies Act shall be adhered to, irrespective of any provisions in the Articles of Association calling for derogation from the division of responsibilities.

Any loss incurred due to a defect detected while investigating or repairing a latent defect and reported during the indemnity period shall be considered a single incident of loss if the defects affect the same building. If such defects arise in parts of the building for which the limited liability company has a partial maintenance responsibility and the purchaser of the share has a partial responsibility, only the limited liability company's deductible will be subtracted from the compensation.

12.2 Index linkage

The deductible is tied to the construction cost index and it is reviewed every calendar year.

13 Index adjustments

The sum insured and the deductible are adjusted by as many percentage points as the adjustment index deviates from the base index. The base index is the index for September in the year preceding the insurance commencement year. The adjustment index is the index for September in the preceding year.

14 Pohjola Insurance's right of recourse

The right of the recipient of compensation under the insurance to receive compensation from the party with an indemnification liability shall be transferred to insurance company up to the amount paid in compensation.

15 Emergency conditions and nuclear accident

The insurance does not cover any loss incurred by

- a state of defence or emergency conditions as referred to in the Emergency Powers Act,
- nuclear fuel, radioactive products, other sources of radiation from a nuclear plant or the detonation of a nuclear weapon,
- terrorism.

16 Force majeure

Insurance company shall not be liable for losses that may arise if the investigation of loss, payment of compensation or repair of the damaged property is delayed due to war, industrial action, confiscation, orders by the authorities or other force majeure independent of insurance company.

17 Appealing a decision by Pohjola Insurance

The policyholder or claimant has several ways of appealing against a decision taken by the insurance company. If the matter remains unsettled after he/she has contacted the insurance company, he/she can consult the Finnish Financial Ombudsman Bureau for advice and guidance or request a decision recommendation from the relevant board. A policyholder or claimant who is dissatisfied with the insurance company's decision may also bring action against the insurance company in court.

17.1 Right to correct

If a policyholder or claimant suspects that the insurance company has made a mistake in its claim settlement decision, he/she has the right to obtain more information about the matters that led to the decision. The insurance company will revise the decision if the new investigations give cause to do so.

17.2 Finnish Financial Ombudsman Bureau and boards issuing recommendations

If a policyholder or claimant is dissatisfied with the insurance company's decision, he/she may consult the Finnish Financial Ombudsman Bureau for advice and guidance. The Bureau is an impartial body tasked with advising consumers in insurance and claim matters. The insurance company's decision can be submitted to the Finnish Insurance Complaints Board within the Bureau. The Board's function is to make recommendations for decisions in disputes which concern interpretation and application of the law and insurance terms and conditions in an insurance relationship. The insurance company's decision can also be submitted to the Consumer Disputes Board, which provides recommendations for decisions on the basis of consumer protection legislation.

These boards will not accept cases that are pending in court or that a court has already ruled on. The counselling services and board statements are free of charge.

17.3 District court

If the policyholder or claimant is dissatisfied with the insurance company's decision, he/she may bring action against the insurance company in the district court of his/her domicile in Finland, of the insurance company's domicile or of the place of loss in Finland, unless otherwise provided by Finland's international agreements.

Action against the insurance company's decision must be brought within three years of the policyholder or claimant being informed in writing about the insurance company's decision and the time limit. The right to bring action ceases once the time limit has expired. Handling of a case by a board will interrupt the time limit for the right to bring action.

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