

Home and contents insurance and the risks of under-insuring

Most people decide on the choice of insurer for the home and contents each year, using one single criteria – the cost of the premium.

If they get a cheaper premium than the one their current insurer has offered on renewal, they feel they have succeeded.

Generally speaking however, they are probably getting less cover and have rarely taken into account that their sums insured may need to be increased.

Let's look at some simple facts:

- The costs of building goes up almost every year
- We buy more things and fill our house with more contents every year

Clearly, each year, we have more to lose and should be reviewing our sums insured on both our house and the contents. If you do not increase your sums insured every renewal, you are likely under-insured.

So what! You say???

Well why take insurance at all if you are not going to insure yourself properly.

Here are some simple facts that could help you assess how much you should be insured for:

Building costs for residential houses range from \$1,500 per square metre to over \$4,000 per square metre to build, depending on quality and materials used – so if for instance your house was say 30 squares (in the old language) or around 285 sqm, then the house could cost from \$427,500 right up to over \$1,100,000 to rebuild. Add to this all the other structures that are part of your “house” from the insurer’s point of view – such as detached sheds, in ground pools, pergolas, fencing, fixed lighting, spas, fountains, pool pumps and air conditioning compressors etc, and you can see that simply putting a value on the house will not be enough.

Contents is the next area most people under-insure – did you know that insurance statistics show the average person has \$3,000 of clothing. Carpets, curtains, linen etc are all contents. We should not just think about TV's and furniture as contents.

Collectables and collections – most people rarely consider these. They may be unique – and standard contents insurance only provides very small sub-limits for covering these so you could easily be left out of pocket - unless you specify them and pay an extra premium for them

Valuables that you take away from the home are not covered in most cases – unless you specify them and pay an extra premium for them.

So what can you do about it?

Firstly, stop looking at only the premium cost – that should be the last consideration. Next Every 4 or 5 years, get a qualified builder to give you an estimate on the costs of rebuilding your house – and don't forget all the detached buildings and fences etc.

The next remedy is to get a pad and pen and go around your house, writing a list of everything in it – don't forget the garage and the shed (those mowers and whipper snippers and hand tools are expensive). Remember to include artwork, rugs etc. Even the contents of the bathroom vanity can be expensive. Put a realistic replaceable value on it – remember anything over 15 years will be generally be covered “new for old” so put the new replacement value down.

Do a separate list for any collections or collectables or antiques and get professional valuers to work out what they are worth. List them on your policy and pay the extra premium and then if there is a loss, you are fully covered.

Write a list of the jewellery and watches and iphones and Laptops and other valuable items you take out and about. They are generally not covered under your car insurance so don't relay on that. List them and pay the extra premium and then if there is a loss, you are fully covered.

Any reputable builder can give you a value to rebuild your home. Don't base it on the prices for house packages that you see in the Sunday papers – they are not “rebuilding costs” – they are subsidized due to mass-reproduction of materials and services.

If you can't get a builder, Companies like Cordell's and Reeds offer on-line valuation services.

For contents (particularly if you have collectables and antiques) try companies such as Lawson's Valuers – they come to your home and do a full valuation of the contents.

What happens if I under-insure:

If you are under-insured, you might be in for an unpleasant surprise if you ever need to make a claim. Even in situations of partial claim or loss, it is likely that you will be deemed to be carrying a percentage of risk and you will not receive a complete pay out. Business and home policies have one of the highest incidences of under-insurance and it is estimated that over 70% of policies have some form of under insurance.

To show the impact of under-insurance, we include the following example based on a policy with 80% co-insurance:

Adjusted Loss = (Declared / Value) x Loss

If insured for \$500,000 and the value at risk was \$1,000,000 with a loss of \$200,000, the claim would be adjusted as follows.

Adjusted Loss = (\$500,000 / \$800,000) x \$200,000

Adjusted Loss = \$125,000 - In this example, the uninsured loss would result in a \$75,000 lower payout.

The cost of insuring properly is only perhaps a few hundred dollars extra to most people but the cost of underinsuring could ruin your life – really !!!

***So stop making insurance decisions based on price only
and get your cover right.***

