



PROPERTY  
INDEPTH™

THE KIWI HOMEOWNERS GUIDE TO  
**GETTING THE RIGHT  
SUM INSURED**  

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TO MATCH YOUR NEEDS

“Become informed.  
Understand your situation  
and have peace of mind,”

Property InDepth co-founder, Steve Tucker.



## THE COST OF REBUILDING YOUR HOME MAY SHOCK YOU

**Most New Zealanders want to protect their biggest financial asset – their home – but many are now confused about how their home insurance really works and more importantly how to calculate the actual amount they should be insured for.**

We all want to ensure that our havens from the stresses of everyday life, our homes, and belongings are adequately protected and insured against the threat of natural disasters, fire and theft. We'd all like our largest financial investment to be 'safe as houses' as the saying goes but there is now growing unease that this may be a thing of the past.

Many homeowners dread their house insurance premiums arriving. Not only because of the financial expense involved, but because the onus of responsibility now rests firmly with each of us to ensure that our homes are adequately

insured as well. The cost of replacing or rebuilding our homes may also come as a nasty shock.

**Generations of Kiwis have relied on their insurance companies to identify how much it would potentially cost to rebuild their homes. As a result most people know very little about their insurance or the various ways their sum insured could be assessed.**

Unless you are buying or selling a home or arranging a mortgage, the 3-yearly Rating Valuation is probably the only valuation you've seen. City or district councils use these valuations to apportion your share of their annual rates demands. The method used to assess this value is very different to how your insurance-related 'Sum Insured' is assessed. (Rates demands also warn people against using rates valuations for insurance purposes).

## THE BIG WAKE UP CALL— FROM UNCERTAINTY TO CERTAINTY

In recent years, and largely as a lasting legacy of the Christchurch earthquakes, the way people are being asked to insure their houses and properties has radically changed. Knowing the accurate 'Sum Insured' figure of your home is more important than ever. Since July 2013, insurance companies have put the onus back on homeowners to state the maximum dollar amount they want to insure their homes for.

### So why IS this the case?

Well, the quakes were a big wake-up call for the insurance industry with claim payments ballooning out way past what they expected. At the time of the earthquakes the amount the insurance company would pay out for the rebuild of a house was not capped to a maximum so it was extremely difficult for the insurers to identify what their potential liability would be.

The insurers now require New Zealand homes to be insured for a specific financial amount, this being the maximum they will pay out in the event of a claim.

This is called the '**Sum Insured**' and getting that amount right is now more important than ever.

**"The move to 'Sum Insured' was driven by the need to keep home insurance available and as affordable as possible. The reinsurers want to understand the top figure that will be required to rebuild properties after a significant event that triggers the use of reinsurance." – AA Insurance.**

Source: AA Directions magazine, winter, 2014.

As a result residential homeowners now need to advise insurers what '**Sum Insured**' figure they want on their property.



Many homeowners are now confused, yet the financial cost to them of not understanding their insurance options could be very high, especially if they get their specific financial equation wrong.

Property InDepth is very concerned about this—especially in light of how much this new situation could cost unsuspecting homeowners.

If an under-insured home is destroyed in either a fire or by a natural disaster, the homeowner may, in the worst case scenario, be left **hundreds of thousands of dollars out of pocket.**

The homeowner(s) may be left unable to replace it with anything like they had before, while still having the balance of their pre-existing mortgage to pay. The real irony is that increasing the value of insurance on a home may only increase an annual insurance premium by a nominal sum.

In turn, some people are over-insuring their homes and may have an unrealistic expectation of what pay-out they will receive. What their property would cost to reinstate and what their insurer would pay out may be vastly different sums.

This insurance-related confusion has prompted several high-profile warnings directed at residential homeowners.



## YOUR BIGGEST ASSET AND BIGGEST FINANCIAL RISK

“Your biggest asset—your home—shouldn’t be allowed to become your biggest risk...You need to weigh up how much you can afford to pay out towards your claim should you make one.” – **Consumer NZ.**

Source: Consumer NZ, August, 2014.

This ‘consumer self-help’ insurance system is still so new that claims associated with the arguably questionable ‘rebuild cost’ of some homes have yet to be legally tested.

Insurance & Savings Ombudsman Karen Stevens is already reportedly handling sum-insured disputes.

In February 2014 the Ombudsman also issued a useful two-page fact sheet on ‘Sum Insured’. This is available on her web site which also has an informative video produced by ‘Fair Go’ on the free service she provides.\*  
[www.iombudsman.org.nz](http://www.iombudsman.org.nz)

Property InDepth believes many insurance companies and other professionals are simply not prompting homeowners to ask themselves some important questions when assessing ‘Sum Insured’ figures. They are not getting enough information from individual home owners to be able to fully ascertain what level of insurance they want, and need, along with amount of risk they’re prepared to take.



\* <http://iombudsman.org.nz/assets/Uploads/Sum-Insured-Fact-Sheet-2.pdf>

This situation is not lost on Consumer NZ either. It has stated:

“...Consumers are being left to bear the brunt of the change to sum-insured cover. We believe the government needs to step in and investigate problems in the sector. Regulation around who can provide rebuild estimates and monitoring these providers is essential...”

Most insurance companies are providing homeowners with a base assessment or default figure at the point of their insurance policy renewals. “A large proportion of homeowners are doing nothing to review their [insurance policy] default figure and risk being under-insured,” Consumer has observed.

Other anecdotal insurance industry sources back this up, suggesting 80% of homeowners are opting for the status-quo [default sum] – accepting whatever default figure their insurer suggests. Worse still, two quantity surveying companies have independently stated they believe that 99% of the houses they have surveyed are “under-insured”, and of these, 75 % are “massively under-insured”.

Relying on this ‘default sum’ is not a safe option, especially when there are clear differences of opinion on what the real cost of the average rebuild is. Some quote \$1800 dollars per square metre, others \$2200. The reality is it could be more than \$5000. Multiply those differences by the floor area of your home and alarm bells start ringing.

**That’s why Property InDepth strongly advises homeowners to engage a registered valuer.**



## GET CERTAINTY WITH YOUR ADVICE — USE A REGISTERED VALUER WHO UNDERSTANDS INSURANCE

Getting professional valuation advice is the best solution for confused homeowners.

It may save money on your annual insurance bill, but, more importantly, it will pay real dividends should you ever need to claim for a total loss. The key is knowing exactly what you are insured for, therefore what you could expect in the event of a loss. Professional valuers are university-degree-qualified people with a specialist understanding of how to calculate the cost to rebuild your home. Most registered valuers also carry indemnity insurance. This means they have cover if they get your valuation wrong.

As a professional valuation company, Property InDepth understands why most Kiwi homeowners are simply taking the line of least resistance, insuring their homes based on default sums given to

them by their insurers. Yet it is individual homeowners who stand to lose the most!

**Steve Tucker, who co-founded Property InDepth with Steve McNamara, wants to help educate homeowners on the main insurance options available when calculating the ‘Sum Insured’ and, in turn, demystify them.** He has created a flow diagram to help people do this.

As a result Kiwi homeowners will then be much better equipped to manage their insurance, and possibly minimise some of the costs involved...

**Then, we’ll all sleep better at night.**



## THE ALL-IMPORTANT ‘SUM INSURED’

The flow chart at the back of this publication leads people through a process of determining the ‘Sum Insured’ option that best suits their particular insurance needs.

If you want a more accurate understanding of the ‘Sum Insured’ value of your property then you need to consider engaging a registered valuer. The flow chart we have developed runs you through 4 DIFFERENT potential methods to calculating your ‘Sum Insured’ figure. These are:

- 1 FULL REPLACEMENT including special & character features.**  
This involves working out the cost of rebuilding—including all the unique, original period-style features such as rimu floors, timber joinery etc. If this is your preferred option then you are going to need professional valuation advice.
- 2 FULL REPLACEMENT using modern construction methods & materials—similar size and quality.**  
This involves working out the cost to rebuild a modern home of similar size and quality.
- 3 FULL REPLACEMENT using modern construction methods & materials—lesser size and/or quality.**  
This involves working out the cost to rebuild a modern home to a size and quality that may better suit your circumstances.\*\*
- 4 INDEMNITY VALUE—an existing house.**  
Under this scenario if you lost your house in a fire or a disaster you might consider buying another similar valued property elsewhere.\*\*

\*\* These are uncommon options and we strongly advise you seek advice from your insurance advisor if you are contemplating them.

**NOTE:**

It is important that you firstly discuss the option that best suits your needs with your insurer or advisor. You will then need to advise your valuer of this so they can complete the required report.

Most valuers and online calculators determine property values according to **FULL REPLACEMENT including special and character features**. Yet, when asked, most people will want to insure under **FULL REPLACEMENT using modern construction—similar size and quality**.

## WHAT DO I REALLY NEED TO REBUILD?

We suggest you stop to think, “What do I really need to rebuild?” because the answer to this question seriously affects the amount of insurance cover need to obtain. You need to be informed and smart about this. A valuer who understands insurance will offer you the certainty you need.



## ONLINE CALCULATORS & THEIR LIMITS

Sum-insured values provided by online calculators are more accurate than the default sum insured figures that insurance companies are providing but, again, they are only intended as guides.

Consumer NZ has found “significant differences” between what the sum insured calculators come up with and what a registered valuer may estimate.

Property InDepth believes homeowners are still NOT being asked critical questions.

It is imperative when assessing the ‘Sum Insured’ for a home that the homeowner understands the various insurance options, namely what he/she wants in the event of a total loss and, on that basis, how to calculate an appropriate ‘Sum Insured’ figure. The answer to these key questions may put a substantially different dollar figure on the sum insured.

**Online calculators also don’t accept any responsibility for the accuracy of their figures.** Cordell Information Pty Ltd’s online calculator states: “calculators use estimates to cover the cost of items involving rebuilding. There is a huge scope for variation including such things as location, delivery of an item and lead-in time. This may not suit some homes...” Online calculator users were finally advised to contact “...a suitably qualified professional for an accurate assessment.”

In a recently publicized case a Wellington registered valuer uncovered a 64% difference between the rebuild sum calculated by his insurance company, on his standard 1960s home, and what he professionally assessed the rebuild cost to be. The insurance company said \$536,000 but he calculated rebuilding his home would cost \$880,000— **representing a \$344,000 shortfall.**



## WHO IS TAKING RESPONSIBILITY?

**For its part the insurance industry seems to be taking little (if any) moral responsibility for the plight many Kiwi households could ultimately face.**

Insurance Council of New Zealand’s chief executive Tim Grafton has publicly stated it’s **“the homeowner’s responsibility to seek specialist help if they think they need it.”**



AA Insurance freely admits it is worried that 75% of its customers have made no attempt to respond to the changes despite its ‘extensive communications’.

IAG, in turn, reports 80% of its customers have not made any changes.

When asked “who can you trust?” Consumer NZ explains that both the Property Institute of New Zealand and the New Zealand Institute of Quantity Surveyors have lists of members who can undertake residential insurance valuations. However, Consumer NZ also warns that as the law stands anyone can set up shop, providing insurance valuations on a “no qualifications needed and no questions asked” basis.

All Property InDepth valuers are members of the Property Institute of New Zealand and they all carry at least \$1 million in professional indemnity insurance.

## DO YOU KNOW...

### how New Zealand's Earthquake and War Damages Commission (known as EQC) fits into the picture?

This is also important as homeowners need to understand what they would do if their homes were totally destroyed.

EQC is New Zealand Government agency that provides natural disaster insurance to residential property owners as part of their insurance.

In the event of a major disaster such as an earthquake, a landslide or a tsunami, EQC's insurance—called **EQCover**—insures residential buildings such as houses, garages, sheds etc and services including water pipes, electrical cables etc up to 60 metres from your home.

It also insures residential land (within limits) against storm and flood damage and also for fire caused by any of these natural disasters.

You automatically have EQCover if you have a private insurance policy for your home that includes fire insurance (and most do).

For further info on EQC visit [www.eqc.govt.nz](http://www.eqc.govt.nz) which also provides a 'Householders Guide to EQ Cover'.



## MANAGING YOUR RISK

There is some good news. Fewer than 400 New Zealand homes are totally destroyed by fires each year and natural disasters are relatively rare.

It is all about managing your level of risk, so what is your risk tolerance?

- If you are under insured and you have a small or partial loss to your home then the insurer will pay for the full cost of repair—up to the sum insured amount. So how big is the risk to you of being under insured?
- The repairs to land extending 8 metres from the foundations of your house and driveway (within limits) are covered by the EQC in the event of a loss. Repair to the rest of the land is not covered by Insurance. If you have features such as a pool or tennis court which sit outside this line, repairing the land is not insured.
- So what is the potential of the pool or tennis court being damaged without land damage? Clearly, you may need to pay for the repair to the land. Is it worth insuring these items? What's your level of risk?
- In the event of a total loss what will your priorities be? Are they having a home? Or having exactly what you previously had?
- Most insurance policies allow the insurer to settle your claim to minimize the amount they pay out. This may include suggesting a payout that would see you move into an existing dwelling rather than rebuilding yours. Would this suit you?

**PLEASE CONTACT US IF WE CAN HELP YOU FURTHER.**



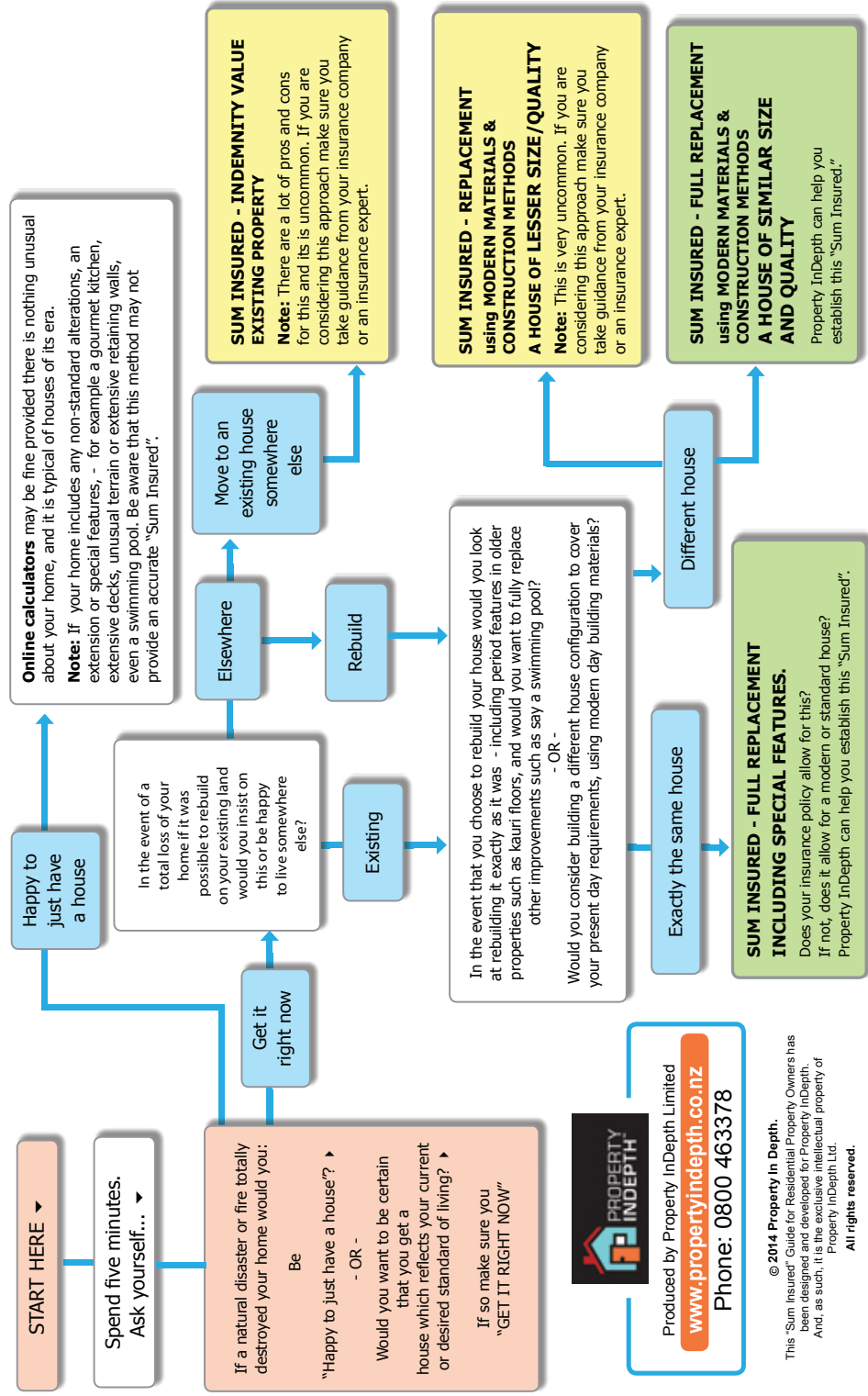
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## A GUIDE FOR RESIDENTIAL PROPERTY OWNERS - What is the BEST OPTION for calculating your "Sum Insured?"



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