Are you Covered?

PROTECT WHAT IS IMPORTANT TO YOU

YOUR FIRST GUIDE TO HOUSE AND CONTENTS INSURANCE

www.covered.org.nz

ICNZ Insurance Council of New Zealand

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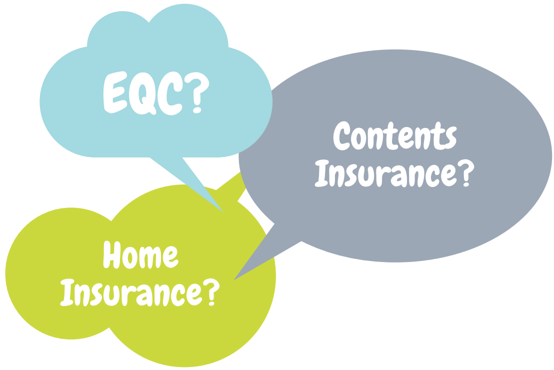


Your new home

So you're thinking about buying a house?

Your house is probably going to be one of your most valuable assets, and you will want to look after it. There is always the risk that things outside of your control can happen, causing damage to your house and the contents inside of it. Damage to your house can involve huge financial losses, and be inconvenient and stressful while you sort it out.

There is a way to protect yourself from the financial loss that these risks might have on you and your family – **Take out home and contents insurance!**

What is insurance? *Insurance is a product which you can buy to protect you against risk. You pay an insurance company, and they promise to repair, replace, reimburse or help you when something goes wrong.*

This booklet will guide you through the main things you will need to know to insure your home, and the contents in it.

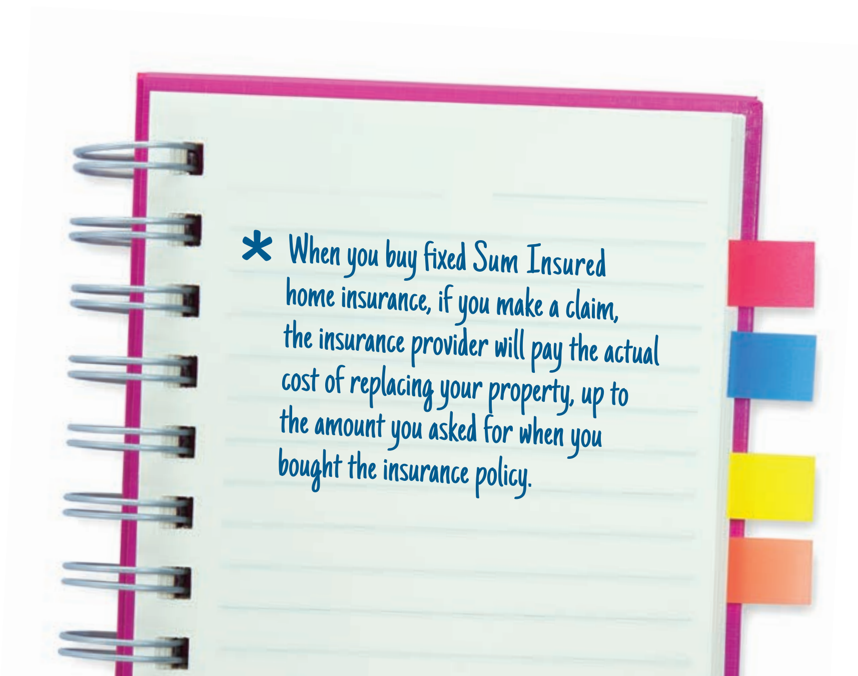
If you rent a house, then the owner will insure the house, but you will still need to think about insuring the contents that you own and your liability for any damage you may cause to the landlord's house.

Insuring your house is particularly important because most home loans require you to have insurance. Banks often won't lend you money to buy the house unless you can prove to them that you have insurance.

Home Insurance

Since the Canterbury Earthquakes, there have been some changes in the type of home insurance you can buy.

- In New Zealand right now, the fixed **Sum Insured** cover is the most common type of home insurance. You decide how much cover you want (based on the full rebuild cost of your home) and this amount should become your Sum Insured – if your house is destroyed, they will pay you up to the amount which you have specified.
- You can also opt for **Indemnity** insurance cover. Your insurance provider will pay what the house was worth (not including the value of the land) just before it was damaged. They will take into account wear and tear, and your insurance payout will probably not be enough to rebuild or replace everything that gets damaged. Some older homes (e.g. pre 1945) may only qualify for indemnity cover, unless they have been modernised.
- Before the earthquakes, **Total Home Replacement** insurance was common. The amount you paid for the insurance cover was based on the size of the house, and the insurance provider would cover the entire cost of replacing your house. Some companies still offer this.

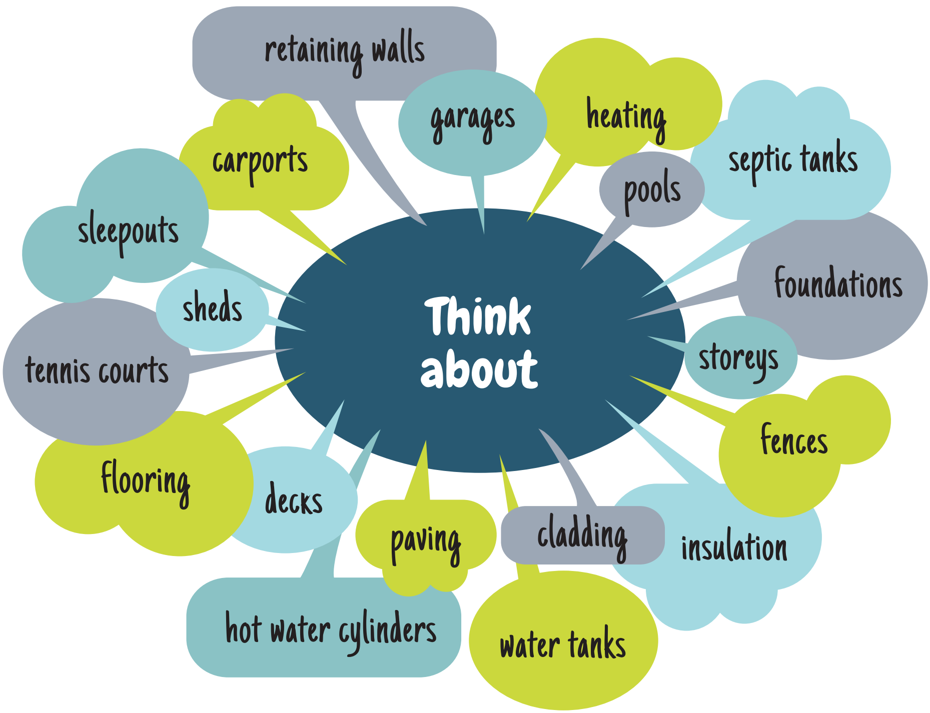


How much cover do you need?

If you underestimate how much it would cost to rebuild your house, then you will have to pay the extra money yourself to replace it, or you will have to build a smaller, lower cost house than the one you had. If you over estimate your rebuild costs, then you will end up paying more than you need to for your insurance cover. Don't use what you paid for your home or the current market value to set your sum insured - it may cost more or less than that to rebuild!

So it is really important that you **figure out how much it would cost to fully rebuild your home**. Does the house have fancy awnings, or a brand new kitchen? Does it have insulation? Is the house sitting on a massive retaining wall? Is it one storey or two? Does it have a swimming pool?

It's not just the things you can see that you need to take into account. You need to include hidden cost such as demolition, professional fees, underground pipes on your property, waste water and sewerage.



Many insurance companies have online calculators, which ask some simple questions to help you figure out approximately how much it would cost to replace your home.

However, these online calculators may not take into account all the special features of the house. If you want to be sure that you've insured your house for the right amount, you may want to hire a **qualified Quantity Surveyor** or **Valuer** to help**.**

These websites might be helpful:

- New Zealand Institute of Valuers: www.property.org.nz
- New Zealand Institute of Quantity Surveyors: www.nziqs.co.nz
- Registered Master Builders: www.masterbuilder.org.nz

Some questions to ask your insurance provider:

- If my house is destroyed, will I be covered for the cost of getting new resource consents or floorplan designs?
- If my house is destroyed, will I be covered for any extra cost to build a new house to fit with any new legal requirements (such as earthquake strengthening)?

* The more detail you can give to your insurance provider, the better the insurance policy will be for your specific needs.

Leaky Buildings

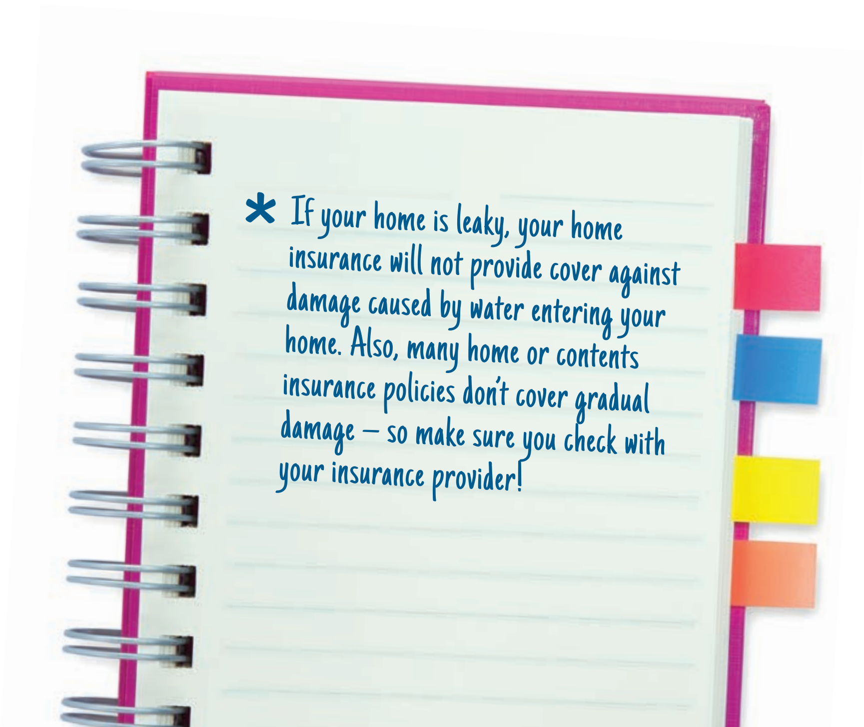
During the mid 1990s to mid 2000s there was a leaky building crisis in New Zealand. Problems with cladding, roofing, untreated timber and ventilation meant that some houses built during this period have become severely damaged or unhealthy.

For peace of mind before buying a home:

- Get a Builder's Report from a registered builder – they will check if there are signs of leaking
- Get a LIM (Land Information Memorandum) from your council, which will tell you of any problems with the land the house is on.
- If you are worried about what weathertight issues mean for your insurance, ask your insurance provider.

If your home is leaky, you may be able to apply to the Weathertight Homes Tribunal for disputes resolution. You may also be able to apply for funding from the Financial Assistance Package to help with repairs.

Check www.weathertightness.govt.nz for more information on what you can apply for, and check www.consumer.org.nz/articles/buying-a-house for information on how to ensure that you aren't buying a leaky home.



Flooding or Storms

Flooding can be a confusing term when it comes to home and contents insurance. A flood is generally defined as 'sudden wide area storm water inundation' to your property, while damage caused by a leaking pipe within your home is generally viewed simply as internal water damage.

If your house is water damaged because of a leaking pipe, depending on the period of time the leak occurred and for the damage to appear, the loss might be classed as either:

- **'gradual damage'** - if the damage to your home and contents took time to occur. Gradual damage is excluded by insurance, but some limited cover might apply to your insurance cover. More information can be found at www.icnz.org.nz/for-consumers/domestic-insurance/gradual-deterioration-and-resultant-damage
- **'sudden damage'** - if the damage to your home or contents was immediate

Check with your insurance provider to see what your policy will cover (and the limits that might apply) and what it won't cover.

It is also very important to tell your insurance provider if your house is prone to actual flooding. This is another reason why a LIM (Land Information Memorandum) is important – if the LIM says that your land is prone to flooding, you might find it difficult to get cover for flood damage.

FAQs about home insurance

What happens if I make alterations to my house?

Tell your insurance provider before you alter or carry out any construction work on your house. Your policy may exclude cover while alterations are being carried out, but your insurer may be able to arrange separate cover for this time. When work on your home has been completed, you will need to contact your insurer to increase your home Sum Insured for the added replacement value.

If I sell my house, when should I cancel my home insurance?

You will still be liable for any damage to the house right up until the official handover, when you give the keys to your buyers. So it's a good idea to wait until you have handed your keys over before you cancel your house insurance.

What happens to my insurance if my land value goes up?

Nothing. Insurers do not cover the land your house sits on.

Contents Insurance

Your contents includes things like your household possessions, furniture, clothing, personal effects and appliances – essentially anything you normally keep inside your house that isn't an attachment or fixture to your house. Insurers will generally provide cover for the majority of household items that you may have.

There are two types of contents insurance

- **Replacement**: your insurance company will pay you enough to replace or repair the damaged item. For example, if your television was destroyed, they would pay enough to replace the television with a new one of the same specifications or as close as possible to the same specifications as the old television – even if the one you had was old and shabby. You choose the amount of contents cover you need and you get full replacement up to that limit.
- **Indemnity** (also called market value): your insurance company will pay what your contents were worth when they were damaged, by depreciating their value over time taking into account their age and wear and tear. For example, if your contents are worn down or second hand, they will pay you how much those things were worth up to the limit you have insured for – which might not be enough to pay for replacements.

With contents insurance, it is really important to tell your insurance company about any specific valuables that you own, that have values that exceed the limits shown in your policy wording or on your policy schedule. For example, you should tell your insurance company that you have an expensive laptop or valuable jewellery, otherwise those things won't be covered (or will be covered but only up to the limit(s) in your policy).

* Even if you have full replacement insurance, some of your contents items may only be covered for indemnity value e.g. clothing.

* Some items may have full replacement for only a specified period of time, then revert to indemnity e.g. bikes after two years. Check your policy.

Insuring jewellery

Take a look at these top tips for insuring your jewellery from the Insurance & Financial Services Ombudsman Scheme.

1. Read your insurance policy carefully to see what is covered, and what limits your policy has for special items - often for jewellery, there will be an item limit (e.g. $2-3,000) and an event limit (e.g. $15,000).
2. Make sure you specify high value or special jewellery items on your insurance schedule.
3. Get regular valuations for high value or special jewellery items - this might be a requirement of the policy.
4. Keep receipts and valuations in a safe place, so you can prove purchase and/or ownership.
5. Lock up or remove your jewellery during open homes or house renovations – you may not be covered if someone on the property "lawfully" walks away with your precious items!

To find out more, see:
www.iombudsman.org.nz/assets/Uploads/Jewellery-Info-Sheet-30-April-2015.pdf

FAQs about contents insurance

What if I have children or teenagers living away from home?

Children and teenagers living away from home temporarily may be covered by their parents contents insurance policy. This includes children at camp, boarding schools, visiting relatives, holidaying, staying at a university hall of residence or flatting. Different insurers provide different levels of cover. Always check with your insurer.

Will my possessions still be insured if I take them outside my house?

Yes, usually your contents will still be insured if temporarily taken outside of the home, such as when you take them to school, work or on holiday with you – unless you take them outside of New Zealand. Check your insurance policy or ask your insurance company because some insurers do not provide this extension.

What happens if my flatmate accidentally breaks my possessions?

Usually your possessions will still be covered if accidentally damaged by someone else, as long as you have made an effort to protect your belongings. It's a good idea to check with your insurance company to make sure though.

What happens if I accidentally damage my landlord's property?

Your contents policy includes public liability cover (generally $1m-2m) which pays for damage you accidentally cause to other people's property e.g. if you accidentally cause a fire in your flat or scratch your neighbour's car with your bike.

What happens if I break my flatmate's possessions?

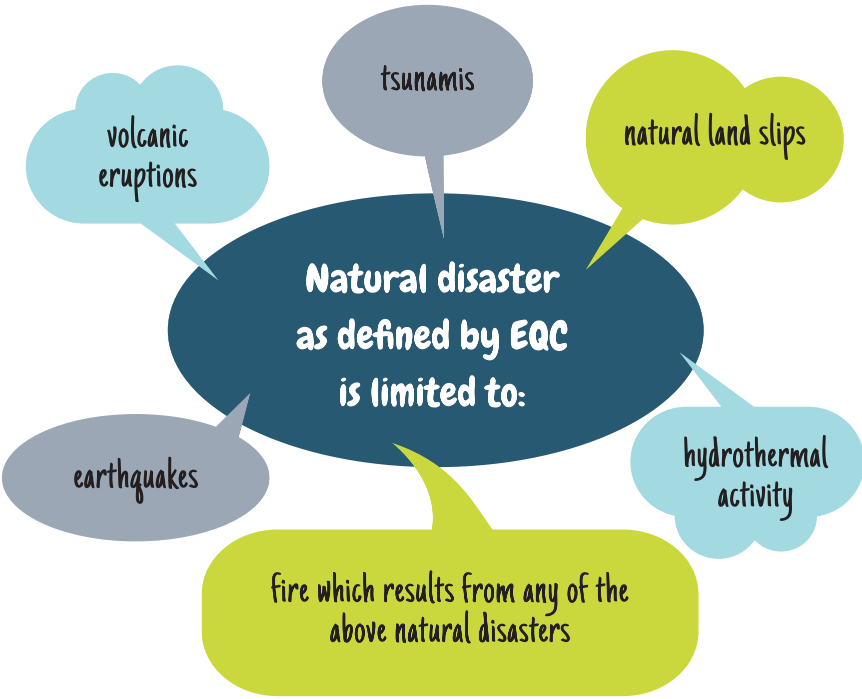
The liability cover in your contents policy will cover you if you accidentally damage your flatmate's property.

EQC

EQC is the Earthquake Commission.

EQC provides natural disaster insurance, which can cover homes, land and household contents. EQC supplements your own home and contents insurance, in the case of a natural disaster.

- If you get home insurance which **includes fire cover,** EQC would automatically provide limited cover for your home in the case of a natural disaster. EQC would also provide limited cover for land damage, but your Insurer would not.
- If you get contents insurance which **includes fire cover**, then EQC would automatically provide limited cover for your contents in the case of a natural disaster.



EQC is guaranteed by the New Zealand government.

All home and contents insurance in New Zealand provides cover for loss or damage arising from fire (unless an insurer specifically excludes fire cover for your home), and if so you will also have EQC cover.

- The **maximum** amount EQC will pay for your dwelling is up to $100,000 plus GST per claim.
- However, if you have home replacement insurance for less than $100,000, they will pay you less (i.e. if you have home replacement insurance for $50,000, they will only pay $50,000 per claim).
- The **maximum** amount EQC will pay for contents is $20,000 plus GST, or less if your insurance policy is for less than $20,000.
- The maximum EQC cover for your land is more complex, depending on your particular piece of land. Visit the EQC website or contact EQC directly if you have any questions.
- Your home and contents insurance premium will include the amount of premium payable to EQC for EQC cover.

For more information on what EQC covers or does not cover, visit: www.eqc.govt.nz

Or read their Householders Guide to EQCover: www.eqc.govt.nz/what-we-do/eqc-insurance/householders-guide

How do you get insurance?

If you decide you need home and/or contents insurance, there are a couple of different ways to find out where to buy it from. It is often cheaper to get your home and contents insurance as a package deal from the same provider because discounts apply.

- Look online at different insurance companies' websites.
- Call an insurance company for a quote.
- Talk to an insurance broker – they are independent (they don't work for any insurance companies in particular) so they can give you advice on what might work best for you.
- Visit an insurance agent – they are not independent. They often work for one or more insurance companies in particular, but can still give you advice on insurance.

Note: *Agents and brokers commission or fee is included in the cost of insurance.*

You may want to get quotes from more than one insurance company before you make a decision.

What your insurer will need to know for home insurance

The insurer will probably need this information to be able to give you a quote, so make sure you have it handy before you call them.

- ▢ address of property
- ▢ age of the home (older homes have higher risk of loss or damage from fire)
- ▢ what the house is made of (specific questions will be asked about internal wall lining for older homes, as materials such as 'sarking' or 'scrim' increase the fire risk to a home)
- ▢ size of building in square metres, including decking, garaging and outbuildings (for those insurers who do offer area replacement policies)
- ▢ any high value or special features
- ▢ if your home has a heritage listing
- ▢ if anyone living at the home has had a criminal conviction
- ▢ your insurance history (including claims history)
- ▢ past damage
- ▢ the value of the house
- ▢ the condition of electrical wiring or plumbing – the risk is higher if an old house has not been rewired or re-plumbed

When do you get insurance?

- Before you purchase a property, check with an insurer that it can be insured. You don't want to commit to buying a property that for some reason cannot be insured. You will need insurance arranged for the day of settlement on the purchase of your property, as the lender will need to know that the house is insured before clearing the loan for you to buy the house.
- Before you move into a flat, contact an insurer to get your contents insured.
- You can also get your contents insured when putting them into storage.

How do you make a claim

You have insurance and something has gone wrong – now what?

You will need to put in an insurance claim with your insurance company. Do this as soon as you possibly can.

Depending on the severity of the loss or damage, claims can take a little while for your insurance company to process, but insurers will work with you to ensure that a speedy claim settlement is achieved. Sometimes you will need to prove to them that you own the property and what damage has been done to your possessions or home.

Home/contents insurance claims

If you need to make a claim, call your insurance company and tell them what has happened.

You may need to prove what damage has been done to your home or contents. They might want things like photographs, warranties, receipts or serial numbers. Remember to tell them the truth about what happened, how it happened, and how old your possessions were. They may want to send an assessor or investigator around to see and assess the loss or damage.

If there has been an accident, then note down the details of anyone else involved. Your insurer, and possibly the police if it is an accident or theft, will need to know.

- If part of your home/contents has been damaged or stolen in a break-in, then you will need to report this to the police. They will note down what has happened, and give you an incident number which you can then give to your insurance company.
- If there has been a natural disaster, you will need to make a claim through EQC. EQC will give you a claim number, which your insurance company will need.

Sometimes your insurance provider will give you a list of approved tradesmen for you to choose from to fix your home for you. They may also make you take your possessions to a certain place to get them fixed.

* Wait until after you have spoken to your insurance company before you arrange to get your possessions or house fixed.

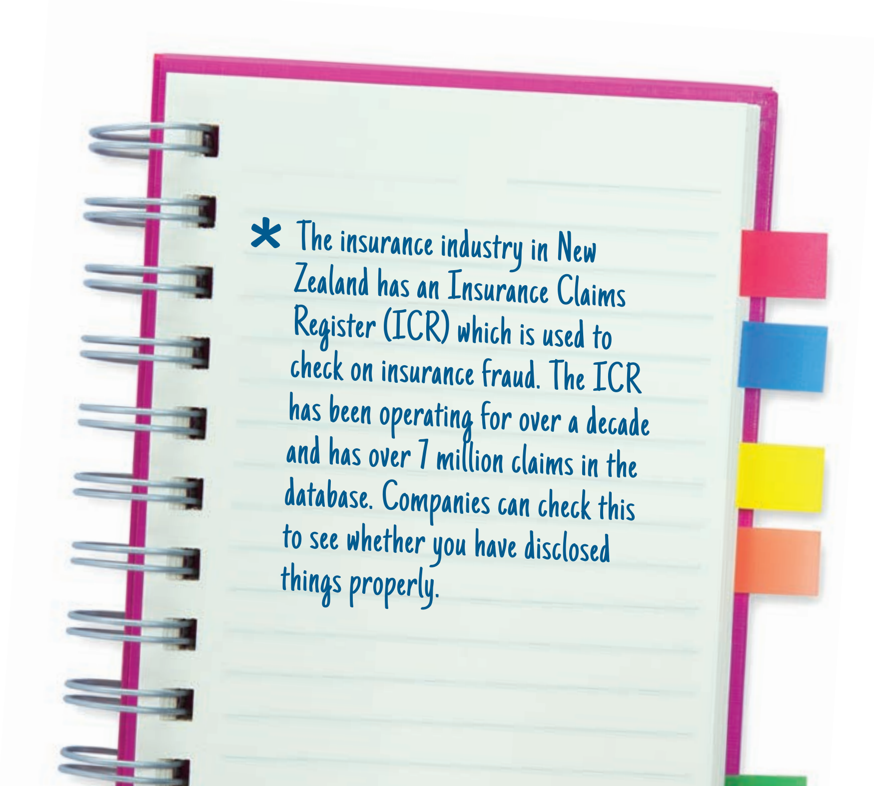
Excess

When you claim on your insurance, you will have to pay an **excess**. The amount varies depending on your insurance contract. An excess is the contribution which you pay towards the loss or damage, and your insurance company will pay the rest up to the policy limit(s).

By increasing the amount of excess, you can reduce the amount of premium you have to pay for your insurance policy. The premium for a policy with a low excess will cost more than one with a high excess. Choosing an excess that suits your circumstances is part of your decision of assessing the risk.

Honesty

It is very important to tell your insurance company the truth. If you lie, your claim can be declined, and you can be charged with insurance fraud. You can be prosecuted and face severe penalties (and also be declined insurance cover by any company in the future). Without insurance cover on your home, your lender may not wish to continue offering you a home loan. Therefore, insurance fraud has wider implications.



The Fair Insurance Code

All members of ICNZ are signatories to the Fair Insurance Code. From 1 January 2016 the new Fair Insurance Code commits ICNZ members to higher standards of service in all their dealings, not just with respect to claims.

Key changes to the new Code include:

- Enhanced, effective communication with the insured, particularly concerning up-front disclosure of key information.
- Insurers committing to act reasonably when faced with the non-disclosure of relevant information by the insured.
- Introduction of best-practice timeframes for communicating with the insured at claim time (insurers will acknowledge your claim within five business days, determine whether to accept your claim within 10 business days, or for more complex claims will update you at least every 20 business days).
- Insurers will train their staff and agents about the Code so they can fulfil their responsibilities as well.

If you have a complaint

If you have complained to your insurer and it hasn't been resolved, then you can complain to a dispute resolution scheme.

Dispute resolution schemes resolve complaints about insurance and financial services. They provide a free and independent service. For more information see:

Insurance & Financial Services Ombudsman: www.ifso.nz

Financial Services Complaints Ltd: www.fscl.org.nz

If you need more help

If you need further help, here are some websites you can check out:

- Are You Covered: www.covered.org.nz
- Insurance Council of NZ: www.icnz.org.nz
- Citizens Advice Bureau: www.cab.org.nz/Pages/home.aspx
- My Insurance Guide: www.myinsuranceguide.co.nz
- Sorted: www.sorted.org.nz/a-z-guides/insurance
- Insurance and Financial Services Ombudsman: www.ifso.nz
- Financial Services Complaints Ltd: www.fscl.org.nz

It might also be worthwhile talking to someone else about your insurance policy/contract if you aren't sure about it. You could talk to your parents, other family, or friends if they have experience in buying insurance, and figuring out their risks. You can also get help from other places. The Citizens Advice Bureau (CAB) has offices throughout New Zealand, and can talk to you about any problems for free.

You must always read your insurance policy, as well as your policy schedule, as they both contain crucial information relating to the insurance of your assets. They tell you what is and what is not covered, and if any limits apply, so don't leave it until after a loss happens before reading them.

Also, contact your insurer immediately if you need to correct anything within your policy schedule, or if you need to declare any information relating to your home or contents.

Glossary

Some of these terms that show up in insurance contracts and policies can be a little confusing.

Claim: You are making a claim when you ask your insurance provider to repair, replace or reimburse you when something goes wrong. You usually put in an insurance claim by calling the company up. They will ask you some questions, and then process your claim. They will check to see if it fits within your insurance contract, and if it does then they will approve your claim.

Cover: The types of events that the item you have insured is covered for, such as fire or theft.

Duty of care: When you take out insurance, you must look after (care for) the things you have insured. If you don't care for your things, then your insurance company may decline your claim.

Excess: Is the amount of money which you agree to pay your insurance company if you want to make a claim. The excess is the first part of your insurance claim – your insurance company will pay the rest. Your insurance contract will say how much of an excess you must pay if you make a claim.

Indemnity/Market Value insurance: Your insurance company will give you money for the value of the item that gets broken or stolen at the time it was lost or damaged. It is the depreciated value, taking into account the item's age and wear and tear.

New for old/contents replacement insurance: The insurance company will pay you enough money to replace a broken or stolen item with a brand new version.

No claims bonus: If you have never made a claim on your insurance before, sometimes insurance companies will offer you a 'no claims bonus' – this is often a discount on how much you have to pay for your premium (it will likely be reduced or removed by the insurer should you make a claim).

Policy: It is a document which the insurance company will send you prior to paying the insurance premium as it is a contract agreed to in advance. It will outline what you are covered for, and what isn't covered.

Premium: Is what you pay to an insurance company to get insurance. It's basically the money you pay to 'buy' your insurance.

Underwriter: Is a person from an insurance company who writes their rules and guidelines for insuring property. They decide what things you can be covered for, what your terms and conditions are, and decide how much the company will charge you for that cover.

Utmost good faith: Is a legal concept requiring you and your insurance company to be truthful, honest and act 'in good faith' to each other.

For more definitions, see the New Zealand Insurance Council website: www.icnz.org.nz/for-consumers/glossary/

www.covered.org.nz

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