

Consumer guide to calculating your sum insured

About this guide

This guide provides information to support you when you decide the sum insured (the amount of cover) for your standalone home.

It is based on the most common type of policy sold, which is a replacement cover (new for old) with a maximum amount of cover, called a sum insured.

Note: This is intended as general background information only. For information specific to your policy please check with your insurer or broker.

Help for selecting your sum insured is available. Because a home owner knows their own property best, it's sensible that you decide how best to arrive at deciding a sum insured. Various forms of help are available to you – Please read this guide even if you intend to seek professional help as it provides other information that you will find helpful.

If you have a typical home, many insurers and banks provide an online calculator tool which you will find useful to estimate a rebuild cost.

You can also seek professional help:

- Professional valuers provide a 'valuation for insurance purposes'.
- Quantity surveyors also provide a 'reinstatement estimate for insurance purposes'.
- Structural engineers, architects and qualified builders may also be able to offer you some guidance.

If your home is large, complex, expensive or is architecturally designed, or the land is steep or known to be subject to natural hazards then professional help is appropriate.

If your home is newly built, the building costs (not the purchase price) can often be used as a basis to estimate the rebuild cost part of your sum insured. If it was built as part of a group build, the rebuilding cost on its own may be substantially higher.

Why is the sum insured so important?

Selecting your home policy sum insured is one of the most important things you need to decide on when you purchase insurance.

Not having enough cover to fix a seriously damaged home would be a hugely worrying situation. Having enough cover will help you avoid this avoidable financial stress and insecurity.

The extra premium cost of purchasing enough cover is often less than you might think. Buying ten percent more cover is unlikely to cost you ten percent more. If you need to purchase cover within a limited budget, then check if your insurer offers higher excess options in return for reduced premium – this is a popular and safer way of protecting your property than being under-insured.

Home Policy Cover

In a major disaster such as an earthquake or landslip, your entire property can be destroyed. Your sum insured should therefore represent the maximum amount that you will need to replace all the property insured by your policy.

A range of property is typically included in your home policy cover. You should include in your sum insured calculation the extra cost of replacing all of the following items.

- Your dwelling and outbuildings such as garages, plus all permanently fixed items that are typically sold with the building, such as stove, heat pumps and fixed carpets.
- Decks, fences, driveways and retaining walls.
- Recreational features and utility services, such as swimming pools and your home connections to power, gas and telephone lines.

Each insurance company policies are different. Full information about policy cover will be available on request.

Note that policies can limit or exclude coverage for some items - you should check if this applies to your cover. For example, retaining walls and swimming pools may have a standard maximum limit

automatically included (which you may be able to increase on request) and uncommon features such as a bridge or cable car may need to be added to your cover if insurance is required.

What needs to be included in your sum insured

- Rebuild cost
- Compliance & professional fee costs
- Demolition estimate
- Inflation.

Rebuild Cost

The key component of your sum insured is the 'rebuild cost' which includes construction materials and labour costs.

A replacement policy normally pays to repair or reinstate your home to its condition when new, typically using modern building materials and to modern standards. This can be a lot higher than the current sale price for the home.

Compliance costs and Professional and other fees

A range of other costs and fees are typically necessary for home building.

- Policies typically include increased costs necessary to meet current building standards (Provided the structure complied when it was built or later altered). For example, a new building may need to meet increased standards for such things insulation and double glazing.
- If your property has been identified by your Council as being susceptible to a particular natural hazard, this may require you to meet additional design requirements or standards. Your Council web site can be a good starting point in identifying if your section lies within an identified area of concern or request a LIM report for your property which will identify specific risks.
- It is not uncommon to need all or most of the following professionals – Architects, geotechnical engineers, structural engineers, drainage engineers, surveyors.

- A range of fees Resource consent and building consent fees, legal fees, project management fees.

A suitable allowance for these items needs to be allowed for in your sum insured.

Demolishing the home and removing the debris

An allowance is needed to provide for the cost of demolition, removal and disposal of debris from the damaged home. If your home includes any asbestos products, then these costs could be significantly higher than usual.

The Effect of Inflation

If your home needs to be rebuilt, inflation can affect the cost of rebuilding it.

Inflation that happens during the time your policy is in force and inflation that occurs during the time it takes to rebuild your home means that a sum insured based on today's building cost will leave you underinsured.

You can research 'building cost inflation' on the internet to estimate the amount of allowance you need to apply to your building cost. As a minimum, two years of inflation should be allowed for, or more if your home is larger or more complex.

Some policies automatically provide an additional inflation amount where a widespread disaster leads to extended rebuilding periods beyond what might typically apply.

Note that using the consumer price index (CPI) is not appropriate as it includes a range of other non-building items within the index.

Other situations

Shared property

This is where the legal ownership of a feature, such as a retaining wall, driveway, fence or utility services, is shared between owners or with the local council, etc.

In these situations, it will be necessary for the sum insured to include an amount for the "wholly owned" property plus an allowance for a proportion of the jointly owned property.

Multi-unit buildings

In the case of cross leased property, the ownership shares of shared property are often stated in the Certificate of Title.

It's a very good idea to discuss insurance cover with the other owner(s) of the shared property to try to ensure it is fully covered between insurers.

In a cross lease multi-unit development where the units have shared floors roofs and/or walls, all property owners should be insured with the same insurer. This saves so many problems and so much time in a rebuild because of the complexities that arise with different insurers having to work together and match their wordings and policy terms and conditions.

Body Corporate

This is a type of ownership title, common for attached units or blocks of units. There are specific requirements for insurance of Body Corporate property set out in the Unit Titles Act 2010, and this should be handled through the Body Corporate Secretary with agreement of the unit owners. (In the case of small Bodies Corporate with no formal secretary appointed, for example two joined units, unit owners will need to agree on a representative).

In brief, Body Corporate property should be insured all together under one policy (or one policy per block, depending on individual insurer practice) on a replacement basis. The sum insured should include the rebuild cost of all units (including unit features such as paths, patios, decking and all property included in the policy cover), as well as the common property areas such as driveways, walls, fences, parking, utility services, swimming pool, retaining wall(s), etc.

Legislation does allow, in certain circumstances, insurance on Body Corporate property to be taken out on a market value basis. If this is to be considered, it is strongly recommended that professional advice (legal and valuer) should be sought to ensure that the interests of all unit owners are adequately covered.

Historic Homes/Heritage Sites

Special considerations apply for repairing a historic home. Due to the special nature of these requirements it is best that you discuss your insurance needs with your insurer or broker.

Other types of products

These policies apply when a replacement value policy is not available for properties e.g. for older houses.

For market value cover policies:

- For a new purchase, the price, less land value, could be used.
- A market valuation could be obtained.
- An opinion from a real estate agent.
- The government valuation for rating purposes could be a guide only – be aware that these are not actual market valuations as such, and rapidly fall out of date.

For Depreciated Value cover policies (sometimes called indemnity cover):

- Use the same method as for replacement value sum insured cover, but depreciate the final rebuilding cost to only allow cover for depreciated value.

Full Replacement cover policies:

- Some companies still offer this type of cover in which case you will need accurate floorplan measurements.

Renewing a policy – and the “default” sum insured

What has become known as a “default” sum insured is the figure an insurer shows on the policy renewal. This is often last year's sum insured that has been increased by a general estimated allowance. It's known as a “default” because if the customer doesn't ask for it to be changed it becomes the sum insured for the next year.

It must be appreciated that this is a best guess on the part of the insurer and is in no way an actual appraisal of a rebuild cost. It's calculated on a general basis to enable an insurer to send an offer to renew a policy.

At Renewal Time

The sum insured needs to be considered afresh when the policy renews, and this is still the responsibility of the property owner. Insurers are happy to discuss updating the default figure. You can obtain a sum insured valuation from any of the following sources:

- your insurers' sum insured calculator on their website
- a builder
- a valuer
- a quantity surveyor.

Every year at renewal, your sum insured may be auto adjusted, but ultimately this will get out of date. It is the property owners' responsibility to ensure that this is still sufficient to rebuild.

It is strongly recommended that the default sum insured not just be accepted. It should be tested against the insurer's rebuild calculator sum, or a valuation from a quantity surveyor or registered valuer.

If you have any queries about your sum insured, don't hesitate to contact your insurer, broker or insurance adviser.

What not to do

Avoid relying on the following methods for deciding on your sum insured as they are inappropriate and can therefore result in significant financial loss.

Sale price or Rating valuation (CV)

Both of these values include the cost of land and are sales related which is irrelevant for your insurance cover. For example, two similar homes in different suburbs might have very different sale prices but need the same sum insured.

Mortgage value

Your finance lender will often require that you insure for the full replacement cost of your home. Just

insuring for the mortgage value may mean that after, say, a fire, you end up with nothing.

Helpful friends

While qualified friends may be useful to provide you advice, we recommend that you do not take advice from well-intentioned unqualified friends. Building is complex, and this is likely to be your major asset so it is best to avoid the risk of taking incorrect advice.

Material and labour costs only

It is not uncommon to just think about the actual labour and material costs for building your property. There are a number of other factors which this guide explains, that you need to include on top of that.