

Sum Insured: What it is and why it matters

Your house is probably your biggest asset so it's important to make sure it's properly insured. If you don't have enough insurance cover and your house is severely damaged, you may find you're not able to rebuild your house to the same size and standard it originally was.

What it is

Your sum insured is a dollar amount you choose that represents the maximum your insurer will pay if your house is severely damaged or destroyed.

Each house is different to the next and the cost to rebuild will be different too. Your sum insured is calculated using information specific to your house, including:

- The size of the physical building(s)
- Features of the building – such as how many bathrooms it has, what it's built of and whether it's built on a hill
- Fixed chattels – such as stoves, heat pumps and fixed carpets
- Outdoor features – such as retaining walls, driveways, paths, decks, pools and tennis courts
- Geographical location
- Utility connections – such as electricity, gas and phone lines
- Demolition costs and professional fees, and compliance costs.



Sum Insured Calculations

Some insurers will pay more than a sum insured up to a capped amount if you can prove you used their online calculator or sought advice from a registered, qualified professional. Talk to your insurer to find out if they offer this option.



Check out our guide to working out the area of your house here:

<https://www.icnz.org.nz/understanding-insurance/consumer-guides/>



The sum insured you choose should be based on reliable estimates that considers all this information.

Why it matters

Your sum insured should cover the cost to demolish what remains of your house, plan and consent a new house and outbuildings to match the ones you lost and rebuild them.

You should also regularly review your sum insured to factor in changes to rebuilding costs or significant changes such as alterations or additions and ensure you have the appropriate cover if your house is severely damaged.

What it isn't

Your sum insured is not:

- An agreement that your insurer will always pay your sum insured, even if the damage can be fixed for less
- The market value, purchase price or rateable value of your house – these values don't indicate the cost to rebuild the house, even if the house is brand new.

How to calculate your Sum Insured

There are several ways to calculate a sum insured. You could use:

1. Professional advice from quantity surveyors who will calculate the full cost of rebuilding your property
2. A valuation for insurance purposes from a registered valuer
3. An estimate of what it would cost to rebuild your home from a licensed builder.
4. An online calculator provided by your insurer that uses information about your house as a guide to work out how much it will cost to rebuild your home

Many factors influence what it will cost to rebuild a house and there is no guarantee that any of these methods on their own will provide a 100% match to the real cost should your house be destroyed.

To make sure you have the appropriate cover you need, we recommend using more than one of the above methods and reviewing your sum insured each year.



Check your policy

Insurers will offer different cover under each of their policies. Some will have sub limits (maximum amounts they will pay for individual items or groups of items) and some will have exclusions for certain features.

To find out what you're covered for, talk to your insurer.

Disclaimer

The information herein is provided as a general guide only. It is not a substitute for seeking your own professional advice.