



Home Insurance - Setting Your Sum Insured

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Notes

This document has been produced to assist you in setting the right sums insured under your home insurance policy.

Please be aware that this is a generic document applicable to the majority of home insurance policies. Each insurance contract can vary and the guidance given here may not necessarily be appropriate for your policy. If you are unsure as to whether the information below is relevant to your policy or if you have any queries please contact our office and we will be happy to provide relevant advice. Please bear in mind that whilst we will give advice on insurance contracts, we are neither building surveyors nor property valuers and therefore cannot calculate sums insured for you or provide figures specific to your property.

Please note that this document has been produced to provide generic guidance and as detailed in our Terms of Business (www.tidballinsurance/documents) RTIS do not accept any responsibility for ensuring that any sum insured selected by you or any limit applicable under your insurance policy is adequate, sufficient or suitable for your needs.

What is Buildings and What is Contents?

When setting your sums insured, you will need to know what to consider as 'Buildings' and what to consider as 'contents'. In simple terms Buildings are the fabric of the building and everything you would leave behind if you were moving out of the property, whereas Contents are everything that you would take with you. There are a few exceptions to this, such as carpets, curtains and aerals which are considered as contents.

Buildings should include:

- The main buildings of your home
- Fixtures and fittings which wouldn't be taken with you if you were moving home (e.g. fitted kitchen appliances such as ovens, windows, fitted wardrobes etc.)
- Mains services (pipes, meters etc. serving the home)
- Garden Fixtures which would remain with the property if you moved home (e.g. water fountains, garden walls etc.)
- Domestic outbuildings (sheds, garages etc.)

If you are unsure as to whether an item should be insured as 'buildings' or 'contents' please ask a member of our team and we will be happy to advise or clarify the position with your insurers on your behalf.

Buildings

How Much Should I Be Insured For?

For the majority of UK home insurance policies, the cover provided for your home is on a 'reinstatement' basis. This means that in the event of an insured incident, your insurers will:

- a. Where repair is possible – pay the costs of repairs to your property
- b. Where repair isn't possible – pay the costs to completely reinstate (rebuild) your home from the ground up

This means that the sum insured under your policy needs to be adequate to completely reinstate your property following a major incident (e.g. a fire). It therefore needs to include:

- Any costs for shoring up damaged property to make the site safe
- The cost of clearing debris from the site
- The cost of architect's fees (and any other relevant fees) for producing plans for the rebuild
- The cost for professional contractors to rebuild the property
- Any additional costs involved in reinstating your property due to it being a listed property or being sited in a conservation area, such as:
 - Sourcing specialist materials for the contract which may no longer be widely available
 - Using specialist contractors due to the materials used or the contracting methods required
- Any other relevant cost specific to the reinstatement of your property, such as additional costs due to the area being difficult to access.
- Inflation costs – bear in mind when you take out a policy that this policy is usually an annual policy which covers your property for a year. A claim may occur on the last day of your policy-year and the property may then take a further year to rebuild. Therefore, the sum insured needs to take into account relevant inflation across this time.

Where Can I Get Help?

The 'average person' looking for home insurance often doesn't have a clue where to start when it comes to assessing the appropriate sum insured on a reinstatement basis (as set out above). However, there are a number of different ways for you to get help with this:

1. Appoint a Buildings Surveyor

The right surveyor should visit your home and provide you with a report which should include a reinstatement sum insured.

Whilst their services do come at a price, appointing an appropriately qualified building surveyor is the best way to ensure you have an accurate figure for the reinstatement cost of your home. For most of us our home is the most valuable asset we will ever own and the cost involved is likely to be significantly less than the consequences of being underinsured in the event of a claim.

You may be able to get more informal advice from a local contractor, however please make sure you/they consider all of the relevant costs as detailed under 'How Much Should I Be Insured For?'

2. ABI Rebuilding Calculator. - <https://abi.bcis.co.uk/>

The Association of British Insurers (ABI) recognised that the average UK home-owner couldn't easily assess the sum insured they needed, so they appointed the Building Cost Information

Service (BCIS) of the Royal Institute of Chartered Surveyors (RICS) to provide general guidance to help you check the adequacy of your sum insured.

This service can be accessed using the above link. We are unfortunately not authorised to use this service on your behalf, however it is simple and free to use. All you need to use this service to provide guidance for your property is a valid email address and relevant details about your property.

3. Choose a 'Bedroom-Rated' Policy

Traditionally home insurance policies require you to provide a sum insured which is used (along with standard risk features such as construction, post-code, claims experience etc.) as a basis to calculate the premium due. This means that, for example, if you requested a sum insured of £200,000 you may pay £200, whereas if you requested a sum insured of £400,000 the premium would increase to £400.

More recently many insurers have started to issue 'bedroom rated' or 'standard sum insured' policies. For these policies, the insurers use the number of bedrooms (along with standard risk features) as a basis to calculate the premium due rather than requiring you to provide a sum insured. The policy then provides a standard sum insured which is generally a figure higher than the insurers think is likely for that type of property. Typical examples of the sum insured provided by bedroom-rated policies are £350,000 for one- or two-bedroom properties and £500,000 or £1,000,000 for three, four- or -five-bedroom properties.

As the number of bedrooms is an essential part of the premium calculation and acceptance criteria for this type of property it is essential that this is correctly disclosed. Generally, insurers ask for the number of bedrooms that would be advertised if the property were being sold. Therefore, rooms used as office rooms, storage rooms, etc. will likely need to be included in the 'number of bedrooms' disclosed.

Whilst these policies are designed to help people avoid underinsurance, it is still essential that you have considered whether the limit provided by the policy would be sufficient for the reinstatement of your property. Therefore, if you ask us to provide you with a quote we will ask what sum insured you require. If you would like a 'bedroom-rated' policy please advise us of this and advise the minimum sum insured you would like.

What Happens If I Get It Wrong?

The consequences of being under-insured can be severe in the event of a claim. A simple error on your part in selecting a sum insured can leave you in significant financial difficulty as insurers will likely refuse to pay the entire cost of the claim and in extreme circumstances may refuse to pay any contribution to a claim.

The Average Clause

Many people wrongly assume that if they have insured their property for £200,000, they will be covered for any insurance claim up to £200,000 and therefore any claim up to £200,000 will be met in full. However, in order to understand their exposures and set premiums which accurately reflect the risk, insurers insist that the sum insured disclosed to them must represent the full reinstatement cost of the property. Virtually all policies contain an 'Average' condition which means that if you have under-insured your property they will only pay the proportion of any claim that your sum insured represents to the actual value at risk. This is applied whether you have underinsured your property deliberately or accidentally. Whilst this may sound confusing, it's actually a simple concept which is best explained using an example.

Example of the Average Being Applied to a Claim

A property suffers severe storm damage with repairs costing £50,000. The property was insured with a reinstatement sum insured of £200,000. On investigation the insurers calculate that the actual reinstatement value (i.e. the amount that should have been insured) was £400,000. The insurers would say that only 50% of the risk was insured and therefore only 50% of the claim will be paid. Therefore, the insurers would pay £25,000 (less any policy excess) leaving the policyholder to pay £25,000 plus their excess themselves.

Contents

How Much Should I Be Insured For?

When assessing your sum insured for contents, again it is important to understand that this is the maximum amount your insurer will pay for your contents in the event of a 'total loss' (e.g. a fire which destroys all of your property). Just like your buildings insurance, being under-insured can result in serious financial difficulty in the event of a claim – see 'What Happens If I Get it Wrong?' below.

Contents are generally insured on a 'new-for-old' basis. This means that if, for example, your sofa was to be destroyed in a fire, your insurers would pay the cost for replacing your sofa with a similar NEW sofa, rather than a second-hand sofa. This means that when you are calculating your sum insured for each item you need to consider the figure to replace the item as new. The only exception to this is clothing for which insurers would usually deduct an allowance for 'wear and tear'.

To ensure you have an idea of the correct sum insured you need we suggest you take a notepad and go through your house room-by-room (not forgetting any hallways, under-stairs cupboards, contents in any outbuildings etc.) and write down a 'new-for-old' value for the items in each area. Particularly note down any items which would be classed as a 'Valuable' (see below). At the end of this process the total of all of the items should be a suitable figure for your contents sum insured.

As well as the total sum insured being the limit your insurers will pay in the event of a total loss, your policy will also have 'inner limits' for certain items. For example, most policies will have a limit for:

- 'Valuables' (see below)
- The maximum which will be paid for any one item
- Contents in Outbuildings

Now that you have a list of all of your items, you should be in a position to ensure that the limits applied under your specific policy are suitable for your needs. If the limits applied by your insurers are not sufficient, you may need to specify items under your policy or switch to a different insurer/policy.

Valuables

Whilst each policy has its own definition for valuables, it is common for this to include:

- Jewellery, watches, gold, silver, precious metals and gemstones
- Furs
- Pictures, curios and other works of art
- Furs, Stamp, coin and medal collections

Some definitions may also include televisions, radios, home computers, audio and home computer equipment although this is less common with recent policies.

What Happens If I Get It Wrong?

The consequences of being under-insured for your contents are virtually identical to the consequences of being under-insured for your buildings. Your insurers will likely refuse to pay the entire cost of the claim and in extreme circumstances may refuse to pay any contribution to a claim.

The average clause would be applied in exactly the same way as detailed under 'Buildings' above. A quick example of this is below:

- A property suffers a fire in the kitchen, damaging kitchen equipment and the adjoining dining room.
- The contents of the property were insured with a sum insured of £20,000 and a £100 excess.
- The insurers appoint a loss adjustor who assesses that to replace the damaged contents will cost £12,000
- The loss adjustor also assesses that the 'value at risk' (i.e. what should have been insured – the total value of the contents) was £80,000
- The insurers would say that only one quarter (25%) of the contents were insured and therefore they would only pay one quarter (25%) of the claim less any excess.
- The insurers would pay 25% of £12,000 = £3,000, less the £100 excess = £2,900
- Leaving the insured to pay the remaining £9,100 themselves.