

# THE RISKS OF UNDERINSURANCE – ARE YOU FULLY COVERED?



Being underinsured on your short-term insurance policies can have a significant financial impact on you and your family. The good news is that there are a few simple steps you can take to ensure you are adequately covered.

## HAVING INSURANCE COVER DOES NOT NECESSARILY MEAN YOU ARE FULLY COVERED

While having a short-term insurance policy in place is definitely a step in the right direction to avoid the negative financial impact of unplanned expenses, it's critical that your policy provides the right level of cover to truly give you peace of mind. If certain key household items are not included in your homeowner's policy or you neglect to adjust the replacement value of items over time, you can face a nasty surprise when things go wrong and you need to claim.

## WHAT IS UNDERINSURANCE?

Underinsurance is when the sum insured on your policy, ie the maximum amount that you can claim in the event of a loss, is less than the cost of replacing or repairing the property or particular item. This means that, in the event of a claim, the claim payout you receive won't be enough to cover the replacement or repair cost in full – you will have to pay the difference between the sum insured and the actual cost from your own pocket. Depending on the amount, this means you may not be able to replace or repair whatever has been lost or damaged.



### Example case study

- If your home is insured for R1 000 000 but the actual replacement value of your property is R2 000 000, you are effectively only insured for 50% of the loss. In other words, your home is underinsured, and you will be responsible for covering the other half of any costs.
- For example, if you suffer damages to the value of R200 000, you will receive a payout of only half this amount, ie R100 000, and you will have to fund the extra R100 000 yourself.

## HOW TO AVOID BEING UNDERINSURED



### Take responsibility

Having sufficient insurance cover in place starts with you. It is your responsibility to provide your insurer with the correct information, relating to both the items that need to be insured and the actual replacement cost.

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## Make sure the sum insured includes all the costs involved

### Your home

- The sum insured should make provision for the cost of rebuilding all the structures on the property. This includes boreholes, electrical cables, solar panels, and any pathways and walkways.
- The costs considered should be comprehensive and should include VAT. Rebuilding is often costed per square metre and should take into account the construction, finishing and fittings.

### Your household contents

Anything that is not attached to the structure of your house is part of your house contents. In addition to large items like your furniture and appliances, this also includes things like your clothes.



## Update your policy when you upgrade your home or buy new things

Make sure you inform your insurer if you make any changes or new purchases that may require an increase in your cover:

- In the case of your home, this would include any renovations or additions.
- In the case of household contents, this would include any new items you buy or install (for example, installing a new sound system).



## Review your policy every year to keep track of inflation

The prices of most household items as well as the costs of building materials and construction services increase every year due to inflation. That is why it is critical to review your policy at least once a year to make sure the sum insured is equal to the current replacement value, ie what it will cost you to replace it today, not what you originally paid for it when you bought it.



## Get an expert opinion

When taking out a policy for the first time or when adding new items to your policy, it's a good idea to have a valuation done by a professional. Some items such as jewellery may require that you have a valuation certificate – check with your insurer whether any of your goods require one.



**Bonus tip:** Don't let your home insurance cover lapse once your home loan is paid up, otherwise you will be liable for covering any losses in full.

## WE CAN HELP ENSURE YOU ARE ADEQUATELY COVERED

Our risk advisors and risk consultants can help you with:

- assessing the value of your property and assets, with assistance from valuation professionals, and the necessary documentation;
- reviewing the sums insured on your policy to ensure your assets are valued at their current replacement values; and
- drawing up an inventory of assets to ensure that new items have been added and old items removed from your policy.

We also have several tools that you can use yourself to make sure you are adequately covered:

- A building replacement value calculator – available at <https://ionline.nedgroup.life.co.za/BuildingCalculator>
- An inventory form to keep track of your assets



## Contact us for expert insurance advice

To talk to a risk advisor or consultant about your insurance needs, complete our [online contact form](#) and we'll call you back.

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