

YOU AND YOUR PROPERTY

BY RESIDENTIAL PROPERTY LAWYER
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One of the most significant changes to New Zealand's insurance market is currently underway. The change has the potential to have a dramatic impact on every homeowner in New Zealand.

The majority of New Zealand insurers are moving from *actual replacement* policies to *sum insured* policies. Until recently, the majority of insurance policies for New Zealand houses were based on actual replacement value. Actual replacement value was calculated based on the square metreage of the house. There might be some distinction between garaging and living areas, but in substance the insurer was agreeing to construct a house of a certain square metreage on the site in the event of total loss.

The Christchurch earthquakes changed all this. New Zealand insurers and overseas reinsurers took a hammering. The overseas reinsurers (who insure the insurers) formed the view they needed to know the maximum possible risk they could be exposed to in a New Zealand context. The collective response has been to adopt the new sum insured model. This allowed the New Zealand insurers to report to the overseas reinsurers what their total risk was.

The insurers who have adopted the new sum insured model are now advising each of

their existing customers of the sum insured that the insurer believes is appropriate for each home owner. This figure is calculated based on databases of information held by that insurer or obtained externally. Once the new sum insured policy is in force the sum insured will then be the maximum sum an insurer is obliged to pay the homeowner in the event of total loss. If the sum insured is inadequate to rebuild the property, the homeowner will have the option of either building a smaller property within the funds available, or to fund the shortfall from their own resources.

In the past week I received a letter from my insurer which set out in very plain text the need for me to fully consider the implications of the sum insured value they had placed on my property. My immediate reaction was it was grossly inadequate and as such I immediately instructed a valuer to provide an insurance valuation on my property. That insurance valuation is broken down into multiple parts including replacement of the house itself, replacement of any driveways and pathways, replacement of retaining walls and demolition costs. It also includes an inflation adjustment. This is a buffer the valuer recommends be included in the sum insured to allow for inflation in replacement costs from the time the sum insured is agreed.

It will be important to revisit the sum insured on a regular basis. It is my view many New

Zealanders are under-insured for their contents policies. We accrue a substantial amount of assets during our lifetime and the cost of total replacement would be significant. I have been an advocate for people reviewing their contents policy coverage to ensure they have adequate coverage. The advent of the sum insured policy will require home owners to regularly review whether the sum insured is an accurate reflection of the value of their properties. Increasing the sum insured will increase the premium payable. In the event the increase in premium makes the policy unaffordable, the premium can be reduced by increasing the excess payable in the event of a claim.

It is tempting to make the assumption the insurer has got it right. However, the data the insurer is using to calculate the sum insured will in many cases be erroneous. I consider it imperative each property owner gets a valuation of their property to ensure they have adequate cover.

"If you would like a copy of previous articles on property written by Michael email him on michael@homelegal.co.nz."

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