



<http://understandinsurance.com.au/do-you-have-enough-insurance>

## Do you have enough insurance?

Insurance is about protecting yourself and your family, or your business, from a loss from which you wouldn't otherwise be able to financially recover.

However, many Australians don't have enough insurance, and unfortunately don't realise this until it's too late.

Underinsurance or non-insurance can happen because some people don't properly value their assets. You can [minimise your risk \[ http://understandinsurance.com.au/identifying-and-managing-your-risks#tab-1 \]](http://understandinsurance.com.au/identifying-and-managing-your-risks#tab-1) of being underinsured by taking some sensible steps.

Sometimes people are underinsured or don't have insurance at all because they think insurance is not affordable or accessible, they don't consider their assets worth insuring, they don't understand how insurance works, or they believe they can self-insure.

When purchasing or renewing insurance it's important to strike a balance and make sure that you make an informed choice.

Consider what would happen to your life and your family if you didn't have insurance and your property is badly damaged or destroyed. How would you rebuild?

If something unexpected happened, such as a fire, how would you replace your clothes, furniture, white goods and electronic items without the help of insurance? Would you have enough savings, or would you have to rely on family, friends and charities to recover?

## Non-insurance

The Australian insurance market is [ ] highly competitive and offers a wide range of products for most consumers. These products have various levels of cover and product inclusions and exclusions to meet most needs, and there are many ways you can manage the cost of the premium.

Unfortunately, non-insurance is a significant problem. Most Australians do not routinely have enough savings to rebuild a badly damaged or destroyed house or pay off a mortgage, or cover a large medical bill if they are injured overseas.

The [Australian Bureau of Statistics \[ http://www.abs.gov.au/ \]](http://www.abs.gov.au/) estimates about 1.8 million Australian homes (23 per cent) have no home and contents insurance – that's almost the same number of homes found in the greater Sydney or Melbourne metropolitan areas.

Some vehicle owners think they can rely only on the mandatory motor vehicle accident personal injuries insurance that they must buy when they register their vehicle. However, this form of insurance covers only injuries to other people caused by you in a car accident. It does not usually cover damage to your vehicle, or other people's vehicles or property, in an accident (though some insurers may offer additional benefits).

Many Australians don't take out insurance for various reasons. These can include cultural explanations, income and family structure (couples are more likely to buy insurance).

If a lot of people in the community choose not to take out any insurance, this can have a flow-on effect to governments and ultimately on all taxpayers in the event of a natural disaster.

In recent years, some governments have offered limited financial assistance to individuals and households who were victims of large disasters and did not have insurance. This assistance usually only happens when there has been a natural disaster with many people affected. However, though the bill to governments sometimes runs into hundreds of millions of dollars, disaster assistance is usually relatively small and covers only initial emergency needs, such as food and temporary shelter. It is usually not enough to help replace contents or rebuild a property.

### **Peter Monds**

Peter's home burnt to the ground when a bushfire swept through Glenmaggie.

## Underinsurance

Underinsurance is when the value you have insured your property for under your policy is not enough to cover the value of the items you are insuring.

Underinsurance can occur in any type of insurance policy, though it is more commonly reported in home and contents policies.

Best practice suggests a property is underinsured if an insurance policy covers 90 per cent or less of the rebuilding costs.

If you are underinsured, it means you have paid for an insurance policy that doesn't cover the full cost of your potential loss or the financial impact on yourselves and your family or business.

That means you will have to pay for the additional cost of replacement over the level of the policy should you suffer loss or damage.

Some contracts have averaging provisions that reduce the sum paid out by a certain percentage when the sum insured is less than the value of the insured object.

For instance, if you insure your contents for 25 per cent less than their true value and lodge a \$30,000 claim, the insurer may reduce your claim by \$7500. This is called [averaging](http://understandinsurance.com.au/types-of-insurance/contents-insurance#tab-2) [ <http://understandinsurance.com.au/types-of-insurance/contents-insurance#tab-2> ] .

Being uninsured or underinsured may ultimately not be a cheaper option, as the cost of an event will be carried by someone – whether that is you, your family, your friends or the community at large.

Not having insurance can erode your savings and investments, deplete your assets or result in significant financial hardship.

Taking the time to make sure you have enough insurance and knowing what's covered means you know where you stand in the event of a loss.

### Lachlan Fraser

Victorian GP Lachlan has rebuilt his life after his home and clinic were wiped out in the Black Saturday bushfires.

## Factors contributing to underinsurance

Some factors that can contribute to underinsurance are:

- **Increasing value of possessions**  
The number and value of things that we own can grow significantly over time. For example, buying a new television, appliances, furniture, technology items and clothing. Add up the replacement cost of your possessions on a room-by-room basis and the total cost can often be a surprise.
- **Replacing household items**  
Over time we tend to replace household items and belongings with better quality and more expensive items. After a major renovation or upon upgrading your household items, consider whether your level of insurance should be increased.
- **Choosing a premium level**  
Some individuals may choose a premium they want to pay and then live with an arbitrary level of coverage that this provides. This is not the same as working out the value of your assets and then insuring for that value.
- **Increasing building costs**  
Building costs increase each year. New building regulations and bylaws may need to be complied with since the construction of your original building, adding further costs. You should also consider that after a major event impacting many households, trades may be scarce, pushing up the cost of your rebuild further.

## Ways to minimise your risk of underinsurance

- Use home and contents [calculators](http://understandinsurance.com.au/calculators) [ <http://understandinsurance.com.au/calculators> ] to work out how much cover you may need. Many insurers now offer calculators on their websites or even downloadable smartphone and tablet applications
- If the amount the calculator shows is different to your sum insured, consider reviewing all your assets in greater detail by carrying out a room-by-room inventory. An inventory may also be useful if you need to make a claim
- Making an inventory of all of your belongings allows you to work out how much it would cost to replace the existing contents with brand new items. Understand Insurance has a household inventory [checklist](http://understandinsurance.com.au/calculators) [ <http://understandinsurance.com.au/calculators> ] .
- The resale value of your property may be quite different to the rebuilding cost. A builder or a professional valuer can help you work out the cost of rebuilding your property and any external structures such as sheds or fences. Also consider common additional costs such as demolition, debris removal and architectural, engineering and council costs. Include external structures such as fences or sheds
- Check your cover regularly. Review the sum you have insured on your policies each time you renew them to make sure your cover doesn't get eroded by inflation
- Make sure you understand the insurance product you have chosen by carefully reading the Product Disclosure Statement, which sets out the policy

that your insurer supplies

- Understand the difference between a total replacement policy and a sum insured policy
- Understand the difference between defined events and accidental damage