

## Sum Insured – still not sure?

Posted 19 January 2017



**The recent report into under-insurance in New Zealand by the Treasury estimated that we could be collectively under-insured by some \$185bn, with up to 85% of homes under-insured by an average of 28%.**

This indicates that six years on from the first earthquake in Canterbury consumers are still significantly exposed by not having the insurance cover they might need, not only for major events like earthquakes, but also for more common events such as house fires or floods.

### Why sum insured?

Most insurance companies in New Zealand moved to nominated sum insured in the aftermath of the Canterbury earthquakes. Simply put, reinsurers were unhappy at the uncapped nature of replacement cover policies and required more certainty from insurers.

That's why [CoreLogic](#) created [Cordell Sum Sure](#), New Zealand's first and only automated reconstruction cost estimation platform.

Westpac is the first business to make Cordell Sum Sure available to its customers and staff to help guide people through what used to be a complex and time consuming process.

### What does sum insured mean?

New Zealand joined the rest of the world by moving to nominated sum insured cover, where the customer names the level of insurance cover they would require to reinstate their property in the event of a complete loss situation.

This needs to include the costs of demolition, site clearance, and necessary professional and council permit fees.

Using Cordell Sum Sure or Residential Valuer is considered to be one of the steps a policy holder could take in setting their sum insured value.

### What's the difference between reconstruction cost and market value?

Many people still confuse the two. They ask, "If I just paid \$ 500,000 for this property, why would I insure it for \$ 700,000?"

It seems a reasonable question, but it misses the harsh reality that rebuilding a house on an existing section can often be far more expensive. The section needs to be cleared of debris, site prepared, plans and permits obtained before work commences on rebuilding your house.

The new house must be built to current building codes, including upgraded foundations, modern insulation, double glazing, fire safety and sanitation – all of which incur higher costs.

Even if you have just had a new house built, rebuilding that house will normally be more expensive. Also if the builder was working locally on other houses, they may have economies of scale that would not apply to a rebuilding your house.

### Cordell Sum Sure – how does it work?

Cordell Sum Sure uses "first principles estimation" – in essence the same process that a quantity surveyor or builder might use.

CoreLogic's building research teams constantly check the market to gather information on the costs of materials, labour, overheads and profits, and that information is built into a constantly updated database.

Then, based on property attributes entered into the system, the reconstruction engine estimates the total reconstruction cost.

Cordell Sum Sure takes away the guess work and time consuming data entry by prefilling the key property attributes for the user and instantly calculating an initial estimate of reconstruction cost.

In most cases, all that is needed for a fact based estimate is the property address.

Of course, if you are lucky enough to own an unusual, high value or very large home, Cordell Sum Sure may not be the best tool to use, and it may be better to use of a suitably qualified professional, such as a Quantity Surveyor or Registered Valuer to help assess your estimated reconstruction cost.

But for the majority of properties, Cordell Sum Sure will give a fast, fact based estimate.