

Beware of underinsurance risk as you search for value

The internet is a wonderful thing that allows people to shop around to find the best bargain when they're making just about any sort of purchase. Being able to read through user reviews and form an opinion based on the experiences of others has also helped good businesses rise up.

A proliferation of search aggregators — sites that take your request and push it through a panel of service providers so you don't have to obtain quotes individually — has also changed the online shopping experience for consumers. If you're purchasing something like a flight, or a physical item, then it's the most efficient way to go.

With insurance on the other hand, it presents clear risks. As insurance policies vary from provider to provider, and are each a complex set of protections with a number of potential variances, buying insurance cover online — and in the pursuit of the cheapest price — opens up a real risk of underinsurance.

Underinsurance occurs when someone has an insurance policy that will fail to cover the cost of replacing the items if the policy must be claimed upon — or doesn't have a policy to cover items like the contents of their home at all. It can happen at the creation of a policy, or from a policy rolling on year-to-year without revisiting the value of underlying asset being insured.

Knowing the value of the items you want to cover is the first step, and the family home is a great example. In Australia over the past five years, property values have increased across the board, but in Sydney and Melbourne they have jumped by about 40 percent. If you have an insurance policy to cover your home that hasn't been revisited in the past two or three years, it is likely that the policy payout could not cover the value of the home today.

The Insurance Council of Australia estimates that 40 percent of policy holders in Australia fail to correctly assess the value of their home and contents.

Underinsurance isn't a small problem. The David Murray Financial System Inquiry found that 29 percent of homeowners and a huge 67 percent of renters have no contents insurance at all. Almost seven out of 10 renters in Australia have no cover should their rental property burn down or be burgled.

As renting has become an increasing common option for young Australians, this trend is a concern.

Underinsurance also has a far greater risk than simply not being able to claim for the full value of a home or item. Should you make a claim on a policy that is underinsured, the insurer may only have to pay a portion of any loss because the asset was underinsured in the first place.

For example, imagine you have a car worth \$50,000, and insure it for \$30,000. The car is stolen and set on fire. You want to claim for the \$30,000 — but the insurer may be able to argue that because you had only insured it for 60 percent of its value, it only has to pay out 60 percent of the claim. That \$30,000 becomes an \$18,000 payout — clearly nowhere near what would be required to pay to replace a \$50,000 car.

Underinsurance is a big problem in Australia, so if you're shopping online be cautious of pushing those sliders down on the website to insure for a lesser value. Aside from not receiving the payout you actually need in the event of an accident, you may not get the payout you think you will at all.

To ensure your valuables are insured correctly, speak to one of our brokers.

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