Home underinsurance:
Could your sum insured be out of date?

Many homeowners assume that if their house is insured, they are fully protected.

However, one detail that is easy to overlook is the sum insured. This is typically the maximum amount available under your policy to rebuild your home following a total loss, subject to your policy's terms, conditions and any additional benefits.

The challenge is that a sum insured can gradually become outdated, even when nothing obvious about the property has changed.

And unfortunately, the worst time to discover your sum insured is too low is after a major loss.

What your sum insured actually represents



One of the most common misconceptions about home insurance is that the sum insured should match a property's market value.

In reality, your home's market value, council valuation and mortgage balance may all be very different from its rebuild cost.

The purpose of the sum insured is generally to reflect the estimated cost of rebuilding the home, not what it might sell for on the open market. That rebuild cost can include far more than simply replacing walls and a roof. It may also involve demolition, debris removal, professional fees, consenting costs and site works.

Why an old estimate may no longer be enough

A sum insured that seemed appropriate a few years ago may no longer reflect current rebuilding costs.

Several factors can contribute to this:

- Increases in building material costs
- Higher labour costs
- Demolition and debris removal expenses
- Architectural, engineering and consenting fees
- Inflation during a lengthy rebuild
- Changes to building standards or requirements

Over time, these costs can create a gap between the amount available under the policy and the actual cost of rebuilding the property.

Renovations can easily create a shortfall

Home improvements are another common reason a sum insured becomes outdated.

Many homeowners remember to review their insurance after a major extension, but smaller projects can also affect rebuilding costs.

Examples include:

- New kitchens or bathrooms
- Additional rooms
- Decks and outdoor structures
- Garages or sheds
- Retaining walls
- Higher-quality finishes and fixtures

Even if a renovation doesn't significantly increase the size of the home, it may still increase the cost of rebuilding it.

Calculators can help, but they have limits

Online rebuild calculators can be a useful starting point when estimating a sum insured. Rothbury clients can use the ***Cordell Calculator*** to help estimate the rebuild cost of their home. These tools typically consider factors such as floor area, location, construction type, site complexity and additional features.

However, calculators provide estimates rather than guarantees.

Properties with unique features, heritage characteristics, steep sites, difficult access or higher-value construction may require a more detailed assessment. In some circumstances, obtaining an insurance valuation or quantity surveyor's assessment may be appropriate.

What happens if you're underinsured?

Being underinsured does not always become apparent until a major claim occurs.

If rebuilding costs are higher than the sum insured, homeowners may need to contribute towards the shortfall themselves.

Depending on the circumstances, this could affect:

- The size or scope of the rebuild
- The quality of replacement materials or finishes
- Out-of-pocket costs during recovery
- Financial flexibility following a loss

This is why reviewing your sum insured periodically is such an important part of maintaining adequate cover.

When should you review your sum insured?

As a general guide, homeowners should consider reviewing their sum insured:

- At least annually
- After renovations or improvements
- After purchasing a property
- When building costs have changed significantly
- If the current figure has not been reviewed for several years

A quick review can help identify whether the current figure still reflects the likely cost of rebuilding the home today.

Questions homeowners should ask

If you're unsure whether your sum insured remains appropriate, consider asking:

- When was the rebuild estimate last reviewed?
- Does it include demolition and professional fees?
- Have renovations and improvements been factored in?
- Does it reflect site-specific challenges such as access or retaining walls?
- Is an online calculator sufficient, or should I seek professional advice?
- Has the information entered into the sum insured calculator been recorded accurately? Incorrect information could result in a lower rebuild estimate and inadequate cover.

These questions can help provide confidence that your cover remains aligned with your property's rebuilding requirements.

Looking ahead

Building costs, material availability and construction requirements do not stand still.

A sum insured that was suitable several years ago may no longer provide the same level of protection today.

The key takeaway is simple: your home may not have changed significantly, but rebuilding costs almost certainly have.

Taking the time to review your sum insured regularly can help ensure it continues to reflect the true cost of rebuilding your home if the unexpected happens.



How Rothbury can help

Your Rothbury broker can help you review your sum insured, discuss the assumptions behind your current estimate and determine whether a rebuild calculator or professional assessment may be appropriate for your property.

If it has been a while since you last reviewed your home insurance, now may be a good time to make sure your cover is keeping pace with your home's rebuilding requirements.

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