



## RISKS OF BEING UNINSURED OR UNDERINSURED



Many Australians don't have enough insurance, and unfortunately don't realise this until it's too late. For example, recent surveys in Australia suggest that between 27% and 81% of consumers are underinsured by 10% or more against current rebuilding costs.\*

Up to 80% of Australian families are leaving themselves exposed to financial hardship by not correctly calculating adequate levels of life insurance to cover their needs.\*\*

Underinsurance can happen because people don't value their assets or their future earned income properly. But some people are underinsured because they think that insurance is not affordable or accessible, or they don't consider their assets worth insuring, or they don't understand the products or they are overconfident about their risks.

\* Source: "Getting home insurance right". ASIC. [www.fido.asic.gov.au](http://www.fido.asic.gov.au)

\*\* Source: Presentation to IFSA conference August 2005. Rice Walker Actuaries and TNS.

## WHAT IS UNDERINSURANCE?

Underinsurance is when a person pays an insurer a premium for an insurance policy that doesn't cover the full cost of their potential loss or the financial impact on themselves and their family.

## WHAT ARE THE CONSEQUENCES OF BEING UNINSURED OR UNDERINSURED?

If you are uninsured or underinsured you will have to pay for the full cost of replacement, in the case of loss of home contents, or your family may find themselves in financial difficulty, in the event of your death.

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 a community group.

Not having insurance can erode your savings and investments, deplete your assets or result in a financial crisis. For example, many single income families with dependents would face financial crisis in the event of a parents' disablement or death.

Taking the time to make sure you have adequate insurance means that in the event of loss you're not taken by surprise.

## HOW CAN YOU MINIMISE YOUR RISK OF UNDERINSURANCE?

- Doing a room-by-room inventory of your belongings and calculate how much it would cost to replace existing contents with brand new items. Don't simply look at large items like furniture. Some commonly overlooked items include crockery, towels and sheets, clothing, books and CDs. Also consider additional cover for valuables like jewellery.
- Checking the cost of rebuilding the property with a builder or a professional valuer; taking into account the cost of demolition, debris removal and architectural, engineering and council costs associated with rebuilding. Also factor in external structures such as fences or sheds.
- Review your sum insured on your insurance policies – for general insurance, when they are up for renewal; and for life insurance, every 2 years. This will make sure your cover remains adequate. As part of your review, you should take the time to assess your assets, such as your home and car, and consider what would happen if you and your family damaged or lost any of your assets. You should also assess your liabilities, such as your mortgage repayments or rent payments, personal loans, credit cards and other living expenses, and consider how long you or your family could survive financially in the event of loss of income.
- Reading the product disclosure statement (PDS) and policy document available from your insurer to assist you better understand the product. Some insurers also provide web calculators on their website to help you calculate the cover you may need.
- Seeking professional advice from an insurance company, bank, financial adviser, insurance broker or a valuer for your personal items of value.