



SUM INSURED

# Australian & New Zealand Home Contents Underinsurance Survey June 2016



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## Introduction

Sum Insured Pty Ltd is an Australian private company that assists people to establish the correct replacement costs of their assets and in so doing helps them to be correctly insured.

Sum Insured specialises in the research and production of building contents replacement cost information and web based expert calculation systems. It produces information for use in both the home and commercial sectors and operates throughout Australia and New Zealand.

Home contents underinsurance in both Australia and New Zealand is a significant issue.

A common misconception is that people are purposefully underinsured however our research has in fact revealed quite the opposite. The real facts are that most people are only underinsured because until now there has not been a quick and easy way for people to estimate the true replacement cost of their home contents.

The problem with someone being underinsured is that nobody wins.....

The policyholder loses because in the event of a major disaster, such as a fire or severe storm, quite simply they do not have enough cover to replace what they had previously, which inevitably places a huge financial burden on their household finances.

Likewise the insurer loses because firstly they are not collecting enough premiums to cover the risk they are underwriting which can ultimately affect their profitability. Poorly performing insurers won't attract the sort of capital they require to keep operating, so an unprofitable insurer is the very last thing we all want!

Secondly when someone makes a claim and finds out they are underinsured it leads to a very dissatisfied customer, who is only too happy to tell anyone who will listen, how their insurance company has just let them down – which of course reflects very poorly on the insurer and can affect their ability to attract and retain customers.

### **Correct insurance cover on the other hand provides a great win-win situation!**

#### Great PR

The policyholder wins because they receive the peace of mind knowing that if disaster strikes they will be fully compensated for their home and contents assets and they “get to tell a great story about their insurance company!”

#### Correct Insurance Coverage

The insurer also wins because they are correctly covering the risk being underwritten, which in turn means they are collecting the correct premiums from which they are able to pay out the correct amount in claims, which in turn reinforces their reputation as good people to deal with!



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## Objective

The key objective of the study was to determine the level of home contents insurance cover currently held by policyholders in Australia and New Zealand and compare this with the actual amount of cover required to correctly insure the policy holders home contents assets.

The study examined policyholders across a broad range of insurance carriers during the 1<sup>st</sup> quarter of 2016.





## Research Methodology

Sum Insured provides home contents calculators to the majority of insurers throughout Australia and New Zealand. Each day hundreds of estimates are performed on these calculators giving us access to a huge volume of statistical information.

During the period 1<sup>st</sup> January to 31<sup>st</sup> March 2016 over 78,000 home contents estimates were performed across the network.

Of these estimates the vast proportion of policyholders indicated that they had a nominated sum insured of between \$20,000 and \$600,000. Further examination revealed that a proportion of these estimates (approximately 6%) revealed a high level of user input into the estimate process. With users spending a considerable period of time online, customising their initial estimates to more closely reflect their own individual situations.

Of these estimates 4,709 were considered suitable for inclusion in the research project.

## Project Findings

### Room Types

The total number of internal rooms included in the research project was 38,251 spread over the 4,709 households, with an average of 8.1 rooms per household.

The most common room types identified in the survey were broken down as follows:-

- Bedrooms – 11,781
- Bathrooms/Ensuites – 8,467
- Kitchens – 4,715
- Laundries – 4,421
- Living rooms – 4,811
- Dining rooms/areas – 3,724
- Family rooms – 1,733
- Games/Rumpus rooms - 709
- Study/Home office – 1745
- Billiard rooms - 103
- Patio/Balcony/Deck/Verandah – 3,857
- Pools - 607

A more detailed review of the individual room types revealed that along with the 11,781 bedrooms a further 1,745 rooms were described as either studies or sunrooms, which represented a total of 13,526 rooms that could more broadly be described as bedrooms. Based on this supposition this gave us an average of 2.9 bedrooms per household.



In terms of bathrooms there were a total of 5,675 bathrooms and 2,792 ensuites included in the overall sample. In addition to which respondents also indicated they had 3,462 separate toilets, however for statistical purposes these were not included in either the bathroom/ensuite count or the overall room count. So excluding these separate toilets each household had an average of 1.8 bathrooms.

### **Occupants**

The total sample included 12,634 occupants spread throughout the 4,709 households, with each household containing an average of 2.7 occupants.

Occupancy types across the sample were split as follows:-

- Adult females – 5,150 (40.8%)
- Adult males – 4,049 (32.0%)
- Teen females – 641 (5.1%)
- Teen males – 502 (4.0%)
- Children – 1,501 (11.9%)
- Infants – 791 (6.2%)

### **Quantity of Contents**

In addition to the number of rooms and occupants, policyholders were asked to indicate both the quantity and standard of the contents they had in their homes.

In terms of quantity users were able to choose from 3 different selections namely:-

- Minimal furnishings, I have just the basics in most rooms
- Comprehensively furnished but not cluttered
- Extensively furnished, most storage space is full

Overwhelmingly the most common answer selected by policyholders was “comprehensive” with a massive 66.7% of respondents indicating they had this level of contents. Whilst the balance of respondents were split evenly between “extensive” quantity (16.7%) and “minimal” quantity (16.6%).

### **Contents Standard**

With respect to home contents standard users again had 3 choices:-

- Average – No name brands, self-assembled furniture, etc
- Quality – Well-known brands, joinery standard furniture etc
- Prestige – Designer brands, handcrafted furniture, etc

Whilst certainly not as definitive as the answer to the previous quantity question, the most common standard chosen by policyholders was “quality” with a total of 55.1% of all respondents selecting this option, followed closely by “average” standard which was chosen by 42.3% of policyholders.



### Quantity vs Standard

When you compare quantity versus standard the most common answer selected by respondents was the combination of “comprehensive quantity” and “quality standard” which was selected by a total of 38.0% of policyholders.

This was followed by the combination of “comprehensive quantity” and “average standard” which was selected by 27.5% of policyholders.

Home Contents Quantity vs Standard				
Quantity	Standard			Total
	Average	Quality	Prestige	
Minimal	11.7%	4.7%	0.1%	16.6%
Comprehensive	27.5%	38.0%	1.2%	66.7%
Extensive	3.1%	12.3%	1.3%	16.7%
Total	42.3%	55.1%	2.6%	100.0%

## Sum Insured vs. Actual Replacement Cost

### % of Underinsured Households

Of the 4,709 households included in the survey, 3,081 households representing 65.4% of the total sample were underinsured.

### Nominated Sum Insured Value vs. Actual Replacement Cost

Policyholders chosen for inclusion in the research project had a nominated sum insured value between \$20,000 and \$600,000, which by any standard represented a substantial variation.

Now in terms of the statistical analysis of these numbers whilst the average or Mean is traditionally the most commonly used measure of the mid-point of a particular sample, it's use can be somewhat limited in that it can be adversely effected by even a limited number of values that are substantially higher or lower than the majority of the values of the sample.

It is for this reason that we have opted to use the Median as a better overall measurement in our understanding of the level of home contents insurance cover prevalent in the market.

The combined dollar value of the 4,709 policyholders that made up the sample had a total nominated sum insured value of \$569.7 million dollars. The median value sum insured nominated by the policyholders was \$81,000.

This compares with a median value fully calculated sum insured of the same policyholder group of \$121,300, representing a difference of -\$40,300.

In other words typical **policyholders were underinsured by \$40,300 or 49.7%.**



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## Disclaimer

Typical building contents replacement costs are provided by Sum Insured Pty Ltd trading as Home Contents (A.B.N. 55 947 630 521) ("Sum Insured"). Whilst every care is taken to ensure the accuracy of the information as a guide for costing, no responsibility is accepted by Sum Insured for its accuracy. Please check with a Valuer or other suitably qualified professional for an accurate estimate.

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## Appendix

### Diffen.com Comparison chart

#### Mean versus Median comparison chart

 Edit	Mean	Median
<b>Definition</b>	The mean is the arithmetic average of a set of numbers, or distribution.	The median is described as the numeric value separating the higher half of a sample, a population, or a probability distribution, from the lower half.
<b>Applicability</b>	The mean is used for normal distributions.	The median is generally used for skewed distributions.
<b>Relevance to the data set</b>	The mean is not a robust tool since it is largely influenced by outliers.	The median is better suited for skewed distributions to derive at central tendency since it is much more robust and sensible.
<b>How to calculate</b>	A mean is computed by adding up all the values and dividing that score by the number of values.	The Median is the number found at the exact middle of the set of values. A median can be computed by listing all numbers in ascending order and then locating the number in the centre of that distribution.

- Taken from the [www.diffen.com](http://www.diffen.com) website.