

## “Insuring Your Home to its Proper Value” A Consumer Information Guide

Over the past number of years the cost of building materials and labour trended upward around 4%-7% per year. In 2008, there was an increase of over 20% in the new housing construction cost index<sup>1</sup>. Not only did new home construction costs go up but so did home reconstruction/ replacement costs. This means your most valuable asset needs adequate protection to reflect today’s costs and values.

A Home Valuation by your Insurance Broker is your first step.



Brokers rely on experts in the estimation field to help determine home replacement cost. This is done through sophisticated computer software provided by one of a number of vendors such as Marshall & Swift Boeckh, RS Means, or PowerHouse Cost Works. The software programs ask certain construction details of the home to determine the costs associated with material, labour, debris removal, and unique features, to name a few.

### Protecting your Most Valuable Asset

It is very important that your home be insured to its accurate replacement value. It’s a good idea to re-evaluate your home's replacement cost every few years to reflect any changes in the cost of construction, building materials and labour in your region. In addition, new replacement cost figures should be established after any renovations, upgrades or alterations to your home.

The purpose of Insurance to Value (ITV) is to determine what the “replacement” value is, if your home was severely damaged or destroyed. This value is not what someone would pay if your home was listed for sale or built new, but the representable costs (materials, labour and equipment) that an insurance claim would incur to “replace” the home.

### **INSURANCE TO VALUE DOES NOT COST, IT PAYS.**

<sup>1</sup> Statistics Canada, Capital Expenditure Price Statistics – October to December 2008. Table 5-3.

## Frequently Asked Questions

### ***“Why Should I Insure to Value?”***

#### ***Guaranteed Replacement Cost Advantage\****

Most comprehensive homeowners' policies guarantee the replacement of your home and contents in the event of a loss. If you have this guarantee, it will make up a shortfall in the event that the replacement cost of your home is underestimated. This is of great benefit for consumers because it provides assurance that if the cost to replace your home at time of loss is more than the home's stated value on the policy, the insurance company will still replace it at no additional cost to the owner. However, insurance companies need to keep the insurance valuations in line with construction market realities to be able to continue to provide Guaranteed Replacement Cost coverage over the long term.

#### ***Avoiding any Coinsurance Penalties***

Your home insurance policy may also contain a "co-insurance" clause. Common co-insurance limits are 80%, 90% or 100%. This is the percentage of the replacement value that your property must be insured to in order to be fully reimbursed for a loss. If you don't insure to the minimum value determined by your broker by the "Replacement Cost Valuation", you may be penalized in the event of a claim. Essentially, this means that if you insure your home for less than the determined "Replacement Cost" amount, then you might only get a portion of your claim paid.

*\*Please consult your Insurance Broker for specifics of your insurance policy.*

### ***“The Insurance Valuation provided by my Broker was Higher than my Brand New Home Cost to Build. Why is that?”***

Regardless of a home's age, when rebuilding a home with severe damage, there are costs associated with reconstruction that are not part of the original construction costs. As a result, these additional reconstruction costs need to be considered when determining the amount of insurance needed for your home.

#### ***• ECONOMY OF SCALE***

---

A reconstruction firm purchases in smaller quantities than a general contractor and does not receive volume discounts from building suppliers. These firms have to factor in their profit and overhead (20%-30%) based on building one home as opposed to many. These extra costs are all part of the cost of reconstruction.

#### ***• COSTS OF DEMOLITION AND DEBRIS REMOVAL***

---

Before any reconstruction can begin on an existing home, debris from the damages must be removed. When removing debris, reconstruction firms must work without damaging existing driveways, landscaping, utilities, sewer systems and any undamaged portion of the house that may be remaining. The time and expense to work around these obstacles add to the cost of the overall project. The site may also have to be extensively cleaned as the soil may be contaminated.

---

- **CURRENT BUILDING CODES**

When rebuilding or restoring a home, you may need to meet the newer and more demanding building codes. Building code changes can add thousands of dollars to the cost of restoring a damaged home.

---

- **SPECIAL RESTORATION PROCEDURES**

A full assessment of the home has to be made for structural integrity. Estimates from restoration firms have to be received, evaluated, and awarded. Restoration firms employ specialists who are skilled in handling hazardous waste and operating in adverse working conditions. The site also has to be secured and damage to neighbouring properties assessed. Specialized machinery will likely be required to work in a built-up, mature neighbourhood or site.

---

- **COSTS DUE TO REPLACEMENT WITH LIKE KIND**

Reconstruction includes the cost to re-construct, at current prices, an exact replica of your dwelling, using like kind and quality materials particular to your home. Older homes are more difficult to match and results in extra costs. Rebuilding older homes often require many independent specialists which can certainly affect the final price.

---

- **HIGHER LABOUR COSTS**

A Brokers' commitment to you is getting you back into your home as soon as possible. This heightened "urgency" usually costs more in materials, delivery fees and contractor fees.

When a builder has several houses under construction work can be scheduled for the most efficient use of carpenters, electricians, etc. When only one home is being rebuilt, the same kind of efficient scheduling is seldom possible.

---

- **ROOF DOWN VERSUS FOUNDATION UP**

New construction begins at the foundation and builds upwards. Repairing a house that is not totally destroyed often involves removing the roof and rebuilding from the top down, a far more time-consuming and labour intensive process.

### ***"Replacement Value vs. Market Value – Why Isn't It the Same?"***

Replacement cost is very different from market value, actual cash value or tax assessment value. Insurance premiums are not based on the current resale value of your home, but on the cost to replace it. Market value is based on a number of factors that have no direct association to your home's replacement cost. Some of those factors include desirability (location), land value and market value of surrounding homes. Replacement cost factors, on the other hand, can include material costs, fuel and energy costs, the cost and availability of skilled labor; debris removal, site accessibility, winter heating of the construction site, and changing construction codes.

*For more information on "Insurance to Value", please contact your Insurance Broker.*

---

## IBAN Broker Members

- Anthony Insurance
- Aon Reed Stenhouse
- Baine Johnston Insurance
- Crosbie Job Insurance
- Johnson Inc.
- Marsh Canada
- Munn Insurance
- Newfoundland Insurance Agency
- Reid Insurance
- South Coast Insurance
- Steers Insurance
- Sunco Insurance
- Wedgwood Insurance
- Wiscombe Insurance

Check us out at:

[www.iban.ca](http://www.iban.ca)

[www.ibac.ca](http://www.ibac.ca)

*The insurance broker industry employs over 800 employees across Newfoundland and Labrador.*

*Broker professionals represent the interests of insurance customers and advise consumers on their best insurance options.*

