

Mitigating the risk of underinsurance

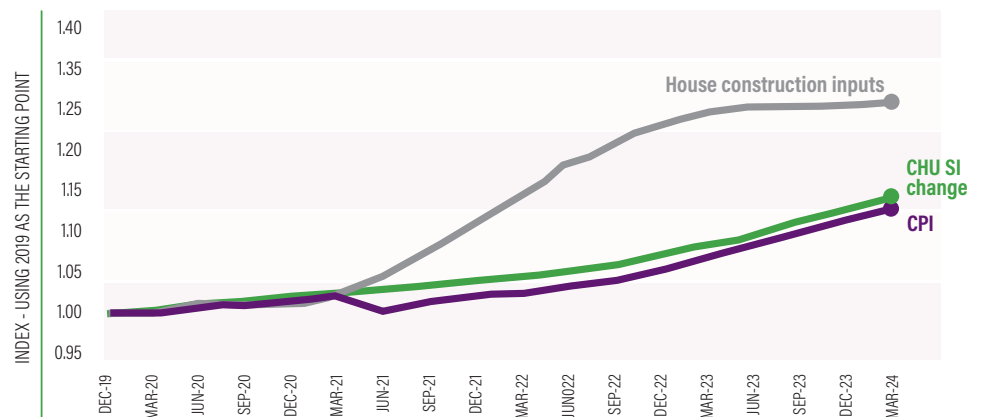
If you haven't had a building valuation in the past two years, there is a likelihood the building is underinsured.

As the leading provider of strata insurance, CHU is committed to providing education to ensure that our clients and customers are adequately protected should the unexpected occur.

Are you underinsured?

Underinsurance occurs when the value of an insurance policy is insufficient to cover the full cost of rebuilding or repairing a property after a loss. This can leave policyholders facing significant out-of-pocket expenses in the event of a major claim.

The graph demonstrates how sharply the cost of construction inputs has risen since 2019. Most of the inflation growth occurred during 2021 and 2022 and has now since stabilised. However, when you overlay CHU's actual sum insured (CHU SI) profile from across its strata portfolio, it is clear that sums insured have not kept pace and still have a lot of catching up to do.



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An accurate building valuation ensures that the insurance coverage is sufficient for the actual rebuilding or repair costs.

The risks of underinsurance

Underinsurance poses a substantial threat to the financial stability and operational continuity of strata properties. Adequate insurance coverage is essential to protect against:

- **Financial Risk:** Underinsurance can result in significant financial risk, as policyholders may be forced to cover any shortfall.
- **Costly Insurance Disputes:** Inadequate coverage can lead to disputes with insurance companies and delays in rebuilding or repairing property during the claims process.
- **Legal Consequences:** Owners Corporations* have a legal obligation to insure the building for the full reinstatement and/or replacement value.

The importance of accurate valuations

An accurate building valuation ensures that the insurance coverage is sufficient for the actual rebuilding or repair costs. It helps property owners minimise the risks of being underinsured, providing peace of mind in knowing that their property is adequately protected.

A thorough valuation goes beyond just looking at the building's structure. It considers various aspects, including:

- the cost of buildings and common areas
- external features, and the permanent fixtures within each lot, inflation, rising material and labour costs
- additional expenses such as professional fees, compliance with regulations of building development, demolition and the removal of debris.

Strata Property Checklist:

- Regular valuations:** Schedule regular property valuations to ensure your insurance coverage keeps pace with current rebuilding costs.
- Engage experts:** Work with professional valuers and insurance advisors to conduct an independent assessment and to determine adequate coverage.
- Update your coverage:** Update the 'Sum Insured' on your policy and ensure your policy reflects any changes such as renovations, or upgrades and aligns with the most recent building valuation.



Protection when it counts

By following these guidelines and understanding the importance of regular valuations, you can mitigate the risks associated with underinsurance, ensuring adequate protection for strata properties.

At CHU, we are committed to helping our clients and customers navigate the complexities of insurance and ensure their properties are adequately covered.

For further information contact CHU

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*Owners Corporation also known as Body Corporate or Strata Company.

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