



# Reduce the risk of underinsuring your farm buildings

At Achmea Australia we exist, above all, to keep you farming, no matter what.

# Underinsurance Explained

Underinsurance? Replacement value? Indemnity value? At Achmea Australia we realise that these terms can be confusing. In keeping with our ethos of creating trust and providing transparent cover, we would like to explain these terms to you and, more importantly, how to avoid the risk of being underinsured.

At Achmea Australia we focus on reducing your risks. This is why we have created a Guarantee Against Underinsurance for farm buildings as part of our All-In-One Farm Pack.

## What is underinsurance?

Underinsurance is when the insured value of your house or farm building does not cover the actual replacement or rebuilding cost on a like-for-like basis. You are considered underinsured if your sum insured is less than 80% of the rebuilding or replacement costs.

## Why you might be underinsured

There are many reasons why you may be considered underinsured. Some common reasons are:

- **It may be hard to determine the actual value of your building.**

Even two identical buildings located in different towns or regions can vary in value.

- **Post catastrophe inflation impacts.**

This is particularly important following events such as cyclones, floods and bushfires as post catastrophe inflation pushes replacement and rebuilding costs above normal levels, and could leave you exposed.

- **You have made the decision to reduce the insured value to lower the cost of your insurance premium.**

Taking this risk may result in significant financial loss when making a claim because the amount you need to replace what you have lost may exceed the sum insured.

- **You may have undertaken renovations or made additions to existing buildings in the last year, which have increased the value of your buildings, but you haven't yet updated your policy.**

This may mean you are unable to replace what you had on a like-for-like basis, or in the event of partial claim averaging may apply meaning that you may only receive partial payment against the claim leaving you to make up the difference.

## EXAMPLE 1 - FULL LOSS



Shearing shed insured for **\$300,000**



Replacement value is **\$500,000**



You are carrying risk of **\$200,000**



If the shed was destroyed by fire you pay the additional **\$200,000** to build a like-for-like shed

## EXAMPLE 2 - PARTIAL LOSS

Even for a partial loss you may not receive the full value of your claim due to averaging<sup>1</sup>



House insured for **\$250,000**



Replacement value is **\$500,000**



Storm damage requires a replacement roof at a cost of **\$50,000**

### Trigger point

for averaging = **\$400,000**  
(80% of the replacement value)

**\$250,000/\$400,000**  
payment ratio applies  
i.e. 62.5%

Therefore you receive  
**62.5% of \$50,000**  
in this case **\$31,250**

You make up the additional  
**\$18,750** to repair this building

<sup>1</sup> Averaging proportionally calculates your loss depending on the extent of underinsurance. Averaging does not apply if your insured value is greater than 80% of the rebuilding costs.

# Guarantee Against Underinsurance

## Understanding the value of your farm buildings

### Replacement Value:

the cost to replace a building on a like-for-like basis up to the sum insured.

### Indemnity Value:

the depreciated value of a building including wear and tear. It is primarily used for older buildings to reflect its actual value, up to the sum insured.

## How do you avoid underinsurance?

While it might seem easy to simply insure for the correct replacement value, this may not take into account the true valuation of your building, or other variables such as post catastrophe inflation, costs for demolition, debris removal, engineering and council costs. This is where Achmea Australia's Guarantee Against Underinsurance comes in.

By accepting our Guarantee Against Underinsurance, we guarantee that you will be able to replace your farm buildings on a "like-for-like" basis, whatever the cost. This gives ultimate peace of mind that you will never be exposed to the financial risks arising from your buildings being underinsured.

## How does Achmea Australia provide a Guarantee Against Underinsurance?

By using the latest in building valuation information we are able to provide a true and accurate replacement valuation of your farm buildings.

Our experience and expertise in rural insurance has enabled us to compile a significant information resource which we have used to develop our own building replacement cost calculator. This resource includes details such as building age, construction type, size, location and additional features, and is continually updated.

Combined with on-farm visits and assessments, this resource means we can be confident in providing a true and accurate replacement cost for your farm buildings. We are not able to offer our Guarantee Against Underinsurance in all instances, and you accepting our calculation of the value of your buildings is a requirement of this offering, so please discuss your needs with your local Risk Specialist.

## Why do we offer this?

Because we are a dedicated rural insurer and our cover is simple, transparent and tailored to your needs.

We believe in helping you take on and manage your risk, and we work directly with you. We can always offer you our lowest possible premium and help you understand how to minimise your risk.

We know it is far better to be insured for the correct value with a slightly higher excess option, than to underinsure your buildings to achieve a lower premium. It may even work out that increasing your insurance cover will not cost you much extra but it may save you thousands of dollars if you ever need to make a claim. Call your nearest Risk Specialist to find out how you can qualify for our Guarantee Against Underinsurance.







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