



# PROPERTY INSURANCE INDEMNITY VALUE or REPLACEMENT VALUE

When insuring property (building or house) we are always faced with a question on what the correct insured sum should be. If you are underinsured you not only get penalised for the under insured amount but also through the *average clause* if partial loss occurs. However, if you are over insured you are probably paying excess insurance premium. So how do you decide? There is two ways in which property insurance sum can be determined, these being;

### Indemnity Value (IV)Cover

This is the value of the item at the time of the loss. Payment of the indemnity value is designed to put you in the same financial position you were in immediately before the loss occurred. This therefore takes into account the issue depreciation thus if a property was built for \$100,000 in year 1, assuming a straight-line depreciation of 1%, after 10 years the depreciated value of the property will be **\$90,000** thus the indemnity value.

### Replacement Cost or Replacement Value (RV)

The term replacement cost or replacement value refers to the amount that an entity would have to pay, at the present time to replace any one of its assets. Replacement cost is *not* market value, but is instead the cost to replace an item or structure at its pre-loss condition. Using the same example as IV cover, assuming the cost of construction increased by 15% over 10 years, the RV of the building would be **\$115,000** in its 10<sup>th</sup> year of insurance.

### How Do I Calculate my IV

Depending on make of the building (wood, concrete or mixed)a a set depreciation percentage is used normally to depreciate the cost of the building until its insurance period

### How Do I Calculate my RV

You don't. You get a registered value to carry out **A Valuation for Insurance Purposes**. At Sun Insurance this is normally valid for a period of 3 years

### SUN Insurance Advice

In view of large fluctuations in construction prices in Fiji combined with the fact that IV may be a 'guesstimate' Sun Insurance in its professional opinion advises all its customers that RV cover is by far the more secure option. Whilst the cost of carrying out the valuation and paying higher premium may bring some extra associated costs, it will lessen the financial burden at claim time. International statistics show that policy holders underinsure their property by 24% on average. For a little extra premium, this 24% or \$24,000 on a value of \$100,000 could mean a lot.

Do not hesitate to contact Sun Insurance directly or your nearest Service Centre for any further clarifications or email us on [info@suninsurance.com.fj](mailto:info@suninsurance.com.fj)