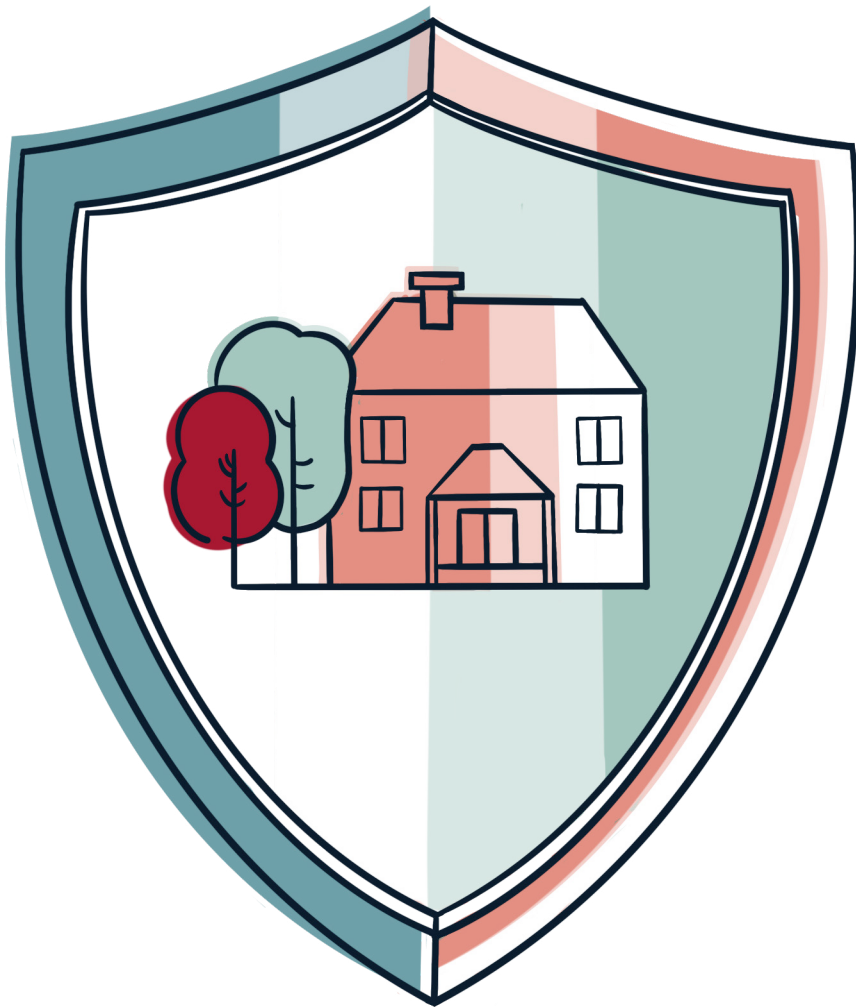


HOUSEHOLD *insurance* BASICS

Read time: 10 mins



Hello,

For most people, the single most significant purchase in their lives will be their home, so it is crucial for them to have the right insurance in place to protect it.

By purchasing home insurance, homeowners are financially protecting themselves against damage to their property, loss or damage to its contents and legal liabilities that may arise from the property.

As a result, despite household insurance not being a legal requirement, most homeowners will have some type of insurance policy in place.

Indeed, most lenders will only offer a mortgage on a property if a home insurance policy is in place.

This guide will explore the basic features of household insurance in more detail.

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Household Insurance

What is Household Insurance?

Household insurance provides cover for the damage or loss to a building and its contents. Most home insurance policies will provide cover for both buildings and contents cover. Customers can, however, choose only one type of protection if that is what they want.

Standard cover will provide cover for perils within the main structure of the policy.

Additional cover options such as extended accidental damage, personal possessions, Legal Expenses and Home Emergencies are optional; these can be added to the standard cover at an additional cost to the insured.



Household Insurance

Buildings Insurance

A standard buildings insurance policy will cover the cost of repairing or rebuilding the home's actual structure, from the walls, the roof and windows to the flooring, plumbing and electrical wiring. Cover will also typically include permanent fixtures such as fitted kitchens and bathrooms.

In addition, buildings insurance will cover the land on which the property is situated, including any garages, sheds, greenhouses, driveways, patios, fences and gates. The policy could also cover a swimming pool or a tennis court!

As a rough guide, if you would typically take it with you when you move, it would be covered under contents; otherwise, it is buildings. So, anything that a policyholder is not likely to take with them when they move out of the property can usually be covered under buildings insurance.



Household Insurance

Contents Insurance

A standard contents insurance policy will cover the policyholder's belongings, so everything they take with them when they move into their home. There's a saying that goes, if you tip your house upside down, whatever falls out makes up the contents you need to protect.

Typically, contents insurance will include:

- **Furniture**, including sofas, desks, beds, wardrobes and dining tables
- **Electronics**, including computers, televisions, DVD players, games consoles, audio equipment, washing machines, electric kettles, and other small electronic appliances.
- **Decorations**, including carpets, curtains and rugs
- **Personal belongings**, such as jewellery, watches and personal items that you would typically carry
- **Perishables**, such as the edible contents of the fridge, freezer and kitchen cupboards
- **Individual valuables**, such as jewellery, watches, musical instruments, photographic equipment and sports equipment

Household Insurance

Public Liability

The public liability section of a household policy provides cover when a homeowner is held responsible as the owner or occupier of their home. It will provide a sum to protect against the costs of defending an action and any damages that may be awarded.

The public liability section of a household policy usually covers the policyholder and their family as the occupiers of the property.

Under a buildings insurance policy, protection is usually provided for claims such as a tile falling off the insured's roof and injuring a visitor.

Under a contents insurance policy, protection is usually provided for claims such as a visitor tripping up over a loose rug.





WHAT ARE Perils?

The Perils Covered

What are Perils?

In insurance, the events that cover is provided for are known as perils. A peril is a potential event or factor that can cause a loss, such as the possibility of a fire that could engulf a house or a storm causing damage to the home's structure.

Typically, in a household insurance policy, the following perils are covered:

- Fire, lightning, explosion, earthquake or smoke
- Storm or flood
- Freezing of water in fixed water tanks or fixed heating systems
- Water or oil escaping from washing machines, dishwashers, fixed water or fixed heating systems
- Riot, civil commotion
- Malicious acts or vandalism
- Theft or attempted theft
- Subsidence or heave of the site on which your buildings stand, or of land belonging to your buildings, or landslip
- Falling trees or branches
- Falling aerials or satellite receiving equipment, their fittings or masts
- Impact involving vehicles, aircraft or anything dropped from them or animals
- Trace and access

The Perils Covered

Exclusions to Cover

There are a few exclusions to cover; each insurance policy is different. Therefore, you need to encourage your customer to read the policy documentation carefully to help ensure they fully understand which exclusions and restrictions apply to their insurance.

Below are the exclusions that are typically applied to a household insurance policy:

- Radioactive contamination or Pollution damage
- Damage or loss as a result of war, invasion or terrorism
- Damage or loss as a result of sonic bangs or waves (for example, from an aircraft travelling at the speed of sound)
- Rot, pre-existing damage or deliberate loss or damage caused by the customer
- Certain electrical or electronic viruses or the device failing to recognise the correct date or time
- Damage or loss if the property is left unoccupied for more than a given period.

Warranty & Endorsement

In addition to any exclusions, an insurer may apply a warranty or endorsement.

What is a warranty?



A warranty is a condition under a policy that must be complied with literally and at all times. A typical warranty under a household policy might be the type of locks to external doors and that these are all locked when the property is left unattended.

The breach of a warranty (failure to comply with it) can lead to the whole policy being voided from inception – that means in the event of a claim, the customer doesn't get paid any money.

You should encourage the customer to tell you if they do not understand what a warranty expects of them and/or they cannot comply with a warranty at any time.

What is an endorsement?



A standard policy is like a template, so an endorsement is a change, addition or update to a standard policy that usually restricts or excludes cover. It is essential to look out for these as the restriction to cover may affect the policyholder's ability to claim.



HOW MUCH

Cover is Required?



The total amount of compensation that a customer would be able to claim for in the event of their property's total loss is known as the Sum Insured.

Level of Cover Buildings Insurance



For buildings insurance, the Sum insured would be the property's rebuild cost, i.e. the amount required to rebuild the home completely.

Remember, the rebuild cost isn't the same as what the customer may have paid for it or the property's current market value.

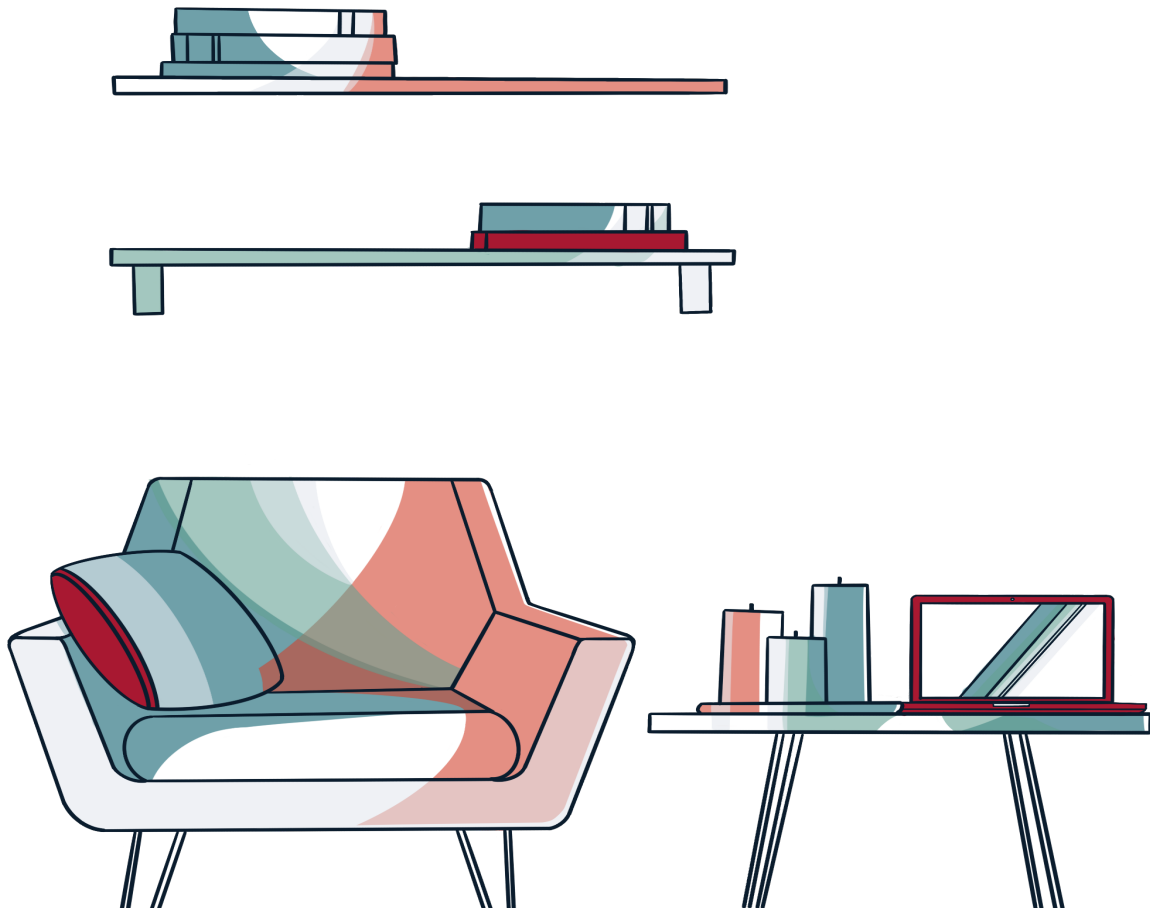
The property's market value is the amount for which the property could be expected to sell. Therefore, the property's market value could be far higher than its rebuild value. As a result, customers can easily overestimate the rebuild value, as they base their figure on the market value.

Level of Cover

Contents insurance

For contents insurance, the Sum insured is the amount of compensation the policyholder would be able to claim in the event of the total loss of all their belongings. The most effective way to do it is to list an inventory of possessions in each room of the home.

Policyholders should ensure the Sum insured is sufficient to cover all their furniture, electrical items, carpets, curtains and light fittings. In addition, if the customer has (or will have) a shed or garage. They will need to include the value of the tools, gardening equipment, sports equipment or outdoor furniture that they store in them.



The importance of getting it right!

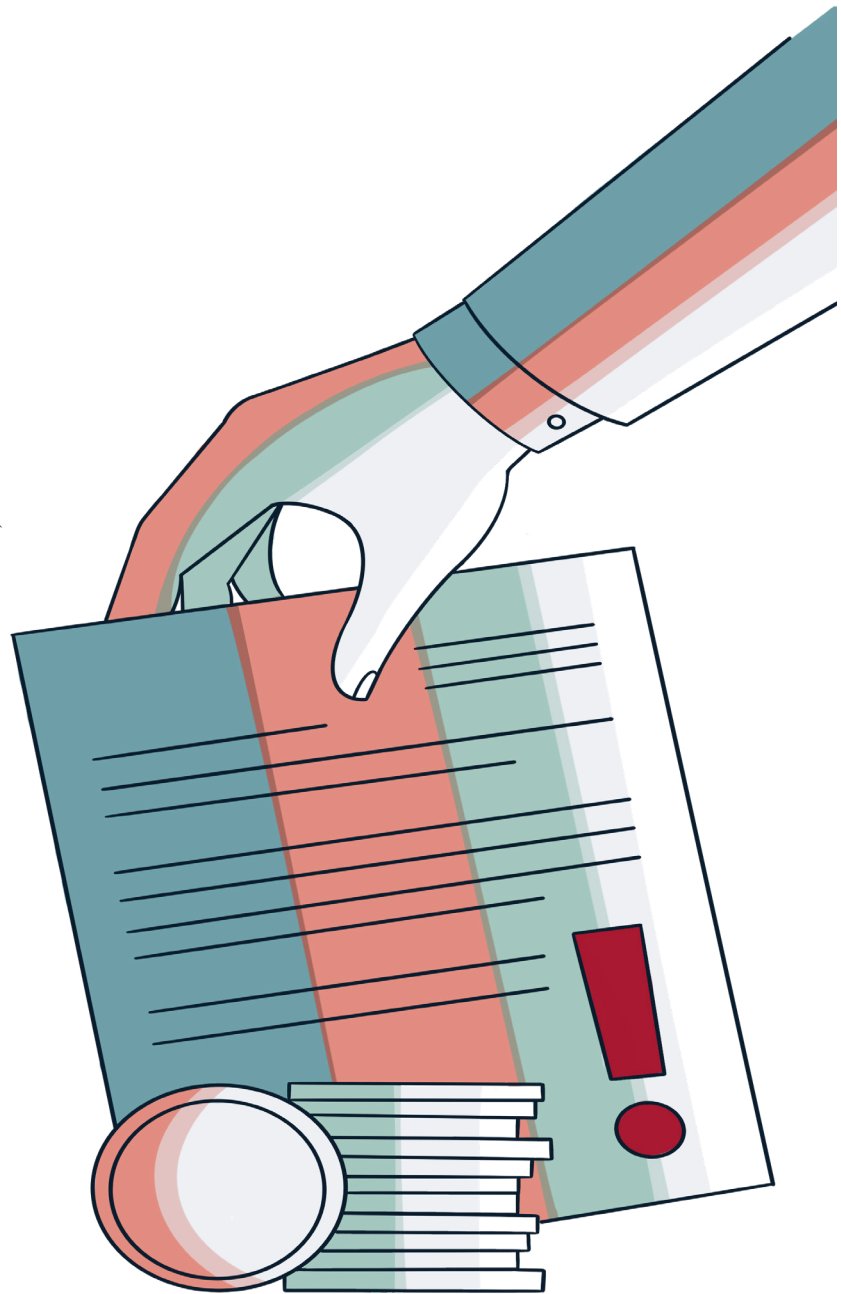
If a customer insures their home or contents for too much, they could end up paying over the odds. If they go too low, they could find themselves facing a hefty bill to top up any claim amount, should the worst happen.

For example, if the sum insured is £400,000, but it costs only £180,000 to rebuild the property completely, the customer will effectively pay for £220,000 worth of unnecessary cover.

However, if the buildings sum insured is too low, then the insurer may reduce the amount of a partial loss claim in direct proportion to the under insurance.

For example, if the customer only insured themselves for 75% of the total. Then the insurer will only pay only 75% of the claim.





HOW ARE Premiums CALCULATED?

Premiums & Risk

The premium is the amount the policyholder will pay. The general rule of thumb is that the lower the risk of loss or damage, the lower the premium should be.

Many factors determine the cost of household insurance premiums, some of these factors include:



Property Size

The buildings sum insured is often calculated based on the number of bedrooms, affecting the overall premium.



Property Location

Properties in high crime areas or at risk of flooding are deemed a higher risk and will cost more to insure.



Property Age

Older homes are often more expensive to insure as they aren't built to the current safety regulations, and materials are sometimes harder to source.



Property Type

The property type can affect the access points and other risks, impacting the premium.



Security features

If a property has more security features, it's likely to be more challenging to break into, so is cheaper to insure.



Claims History

Previous claims show a higher risk to the insurer, and an individual's policy may be more expensive.

Excesses

What is an excess?

The excess is an agreed amount that the policyholder pays of any claim they make.

The insurer will decide a compulsory excess amount as part of the policy, standard excesses for Home Insurance there is usually higher excesses for claims involving subsidence and escape of water.

Policyholders can also choose to increase their excess. Typically, the more excess a policyholder pays in the event of a claim, the smaller the amount they have to pay as a premium.

Example

Let's imagine a policyholder has a home repair bill of £1,000.

Their compulsory excess is £150, and they have agreed to pay a voluntary excess of £200.

That means they have to pay the total excess of £350 and the insurance company pays the remaining £650.



ACCIDENTAL Damage

Accidental Damage

Buildings

Accidental damage is damage to property or contents due to an unintentional action.

Accidental damage under a buildings insurance policy would usually include the accidental breakage of drains pipes, cables, underground tanks, glass, ceramic hobs or sanitary ware as standard.

Extended accidental damage cover for buildings typically includes:

- » Burning a kitchen worktop with a pan.
- » Dropping a heavy object.
- » Cracking a tile.
- » Putting your foot through the ceiling.

Extended accidental damage cover is available to a policyholder for an additional premium.



Accidental Damage

Contents

Accidental damage is damage to property or contents due to an unintentional action.

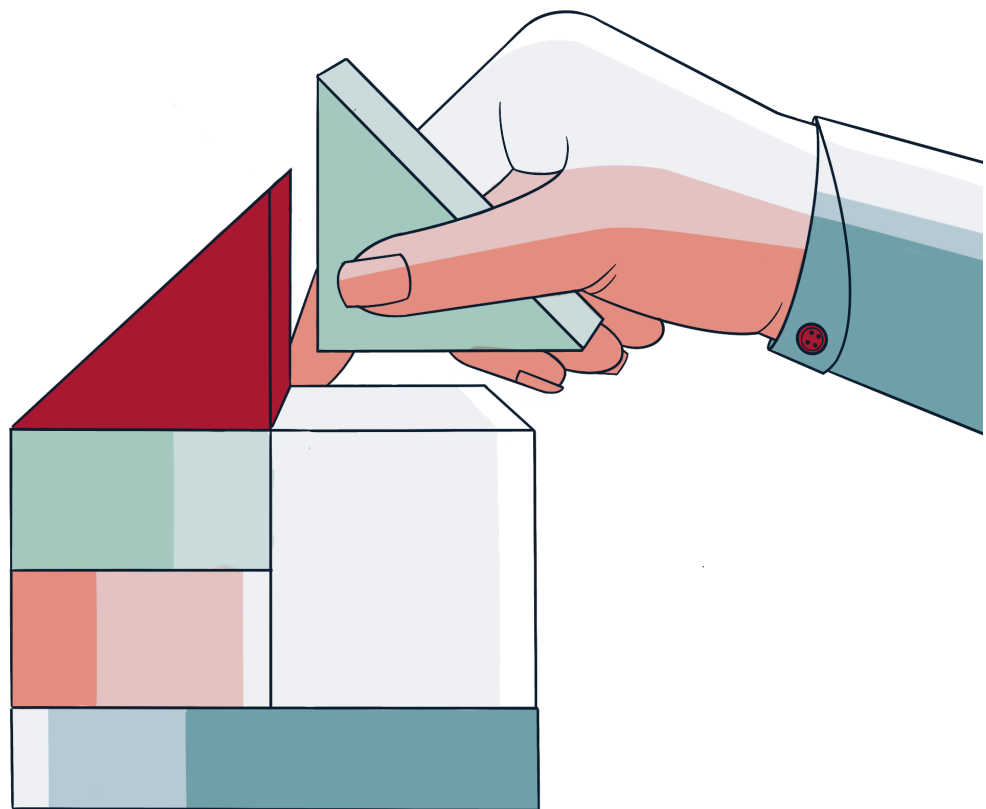
Contents accidental damage usually covers accidental damage to home entertainment equipment, glass furniture, mirrors and pictures as standard.

Extended accidental damage cover for contents typically includes:

- » the spilling of paint or wine on a carpet, curtains or rugs
- » the dropping, chipping, scratching of ornaments.

Like buildings insurance, the extended accidental damage cover is available to a policyholder for an additional premium.





OTHER COVER

Features

Other Cover Features

Trace & Access

Trace and access is the cost of removing and replacing any part of the buildings necessary to repair a household heating or water system that has caused an escape of water or oil.

Pipes are often hidden away in hard to access places. So, without this element of cover, customers could find themselves having to fork out for what can be both a disruptive and expensive process.

Trace and access cover won't always be included as standard on home insurance, and levels of cover vary.

In summary, trace and access covers:

- » The cost of a plumber or builder locating the leak and demolishing walls or floors to find it
- » Damage caused while investigating the source of the leak
- » The materials used to rebuild the walls or floor after the leak is repaired



At Source, all our household policies have trace and access cover included as standard.

Other Cover Features

Alternative Accommodation

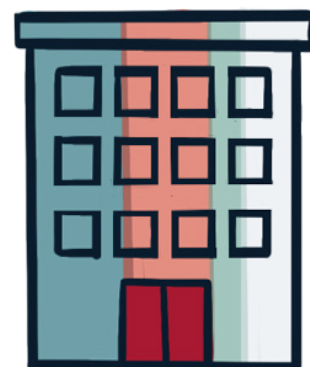
Alternative accommodation cover provides the insured somewhere to stay should their house become uninhabitable due to an event like a fire, flood or another emergency.

Some policies specify a definite figure, while others offer up to 20% of the sum insured of the total buildings cover. That means if a customer had cover amounting to £500,000 with a 20% claim limit, they'd be able to claim up to £100,000 for alternative accommodation.

The type of accommodation provided will depend on how long the insured is likely to be out of their home. For short term disruption, the insured (and their family) might stay in a hotel. For longer-term repair work, privately rented accommodation is likely to be provided.



At Source, all our household policies have alternative accommodation cover included as standard.



Other Cover Features

High Risk Items (Valuables)



These are items such as works of art, antiques, high-priced watches or jewellery, or even highly priced home entertainment systems. Such items are required to be listed separately on their contents policy, as they are unlikely to be covered under the basic terms of a contents insurance policy.

There will be a limit to the overall cover for valuables, and it varies between insurers.



At Source, our policies either have a fixed amount or a percentage of the sum insured.

Other Cover Features

Contents

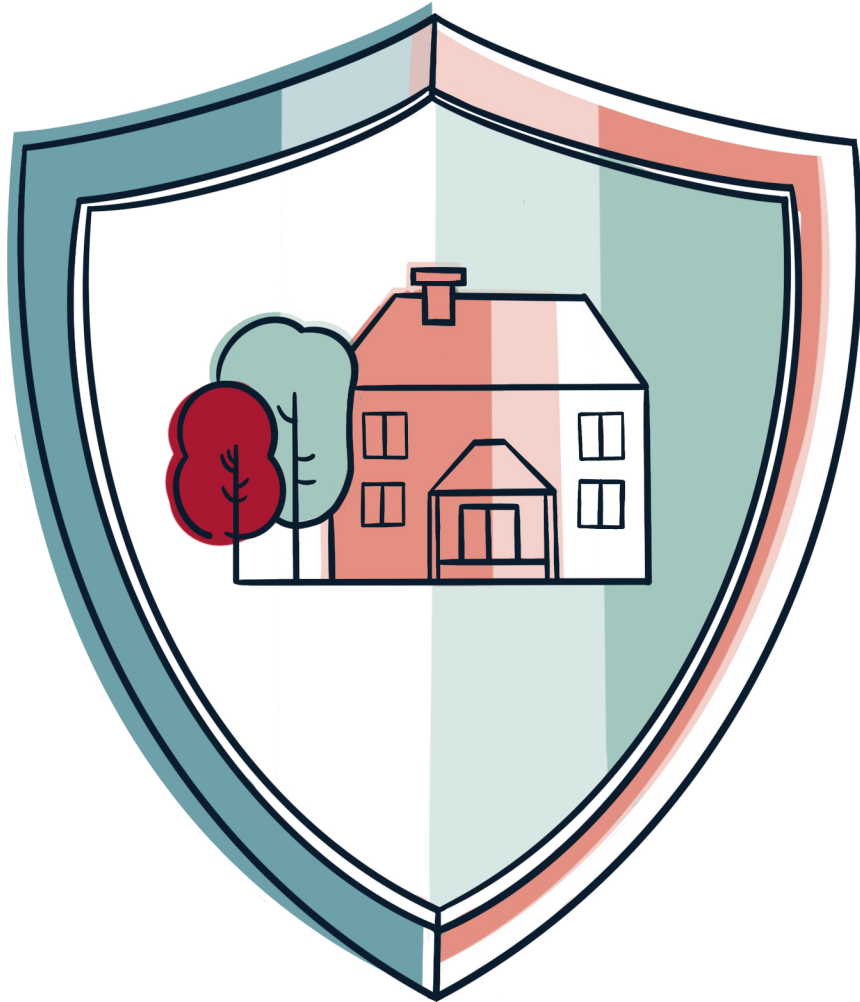
Contents policies can also provide cover for:

- » Contents of garages and outbuildings
- » Loss of keys
- » Loss of money and/or credit cards
- » Loss of metered oil or water
- » Food in the freezer
- » Student's contents
- » Visitor's belongings
- » Replacement of deeds and documents
- » Business equipment



Cover ranges from policy to policy, so policyholders must check the policy wording. At Source, the majority of policies have these features as standard.





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