

HOUSEHOLD *insurance* ADVANCED

Read time: 12 mins



Hello,

Like with all insurance products, several considerations are taken into account by insurers in the development of their Household Insurance products.

Insurance underwriters need to understand the type of risk being covered and information about the proposer and their family to determine whether cover can be offered and, if so, what premium should be charged.

This guide explores the key definitions and perils covered under a typical household insurance policy. It also examines the risk factors considered by household insurance underwriters in more detail. Finally, it will demonstrate how the general principles of insurance help determine the household insurance claims process.

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Household Insurance

Buildings Insurance

Items covered under the buildings section of a policy are often defined as something which would not normally be taken if the occupants were to move to another dwelling.

Buildings cover typically includes patios, terraces, septic tanks, underground services, oil tanks for central heating, fixtures and fittings, garages and domestic outbuildings.

So, the value of a fitted kitchen should be included as part of the building, whereas the washing machine and dishwasher (unless built-in) would be part of the contents.



Household Insurance

Contents Insurance

The Contents section typically covers the items taken into the premises when first moving in.

Therefore, Contents will typically be defined as household goods and personal belongings owned by the policyholder (or a family member who normally resides at that address) for which they are legally responsible.

Additional covers may be included automatically or available to purchase optionally. These include losses if contents in the open (e.g., in the garden) cycles, freezer contents, accidental damage to TVs, mirrors and glass and personal legal expenses, amongst others.





STANDARD Perils

The Perils Covered

Buildings & Contents

Many of the perils will be common between buildings and contents policies, such as:



Fire, lightning, explosion or earthquake

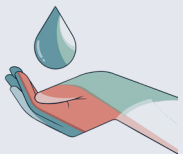


Storm or flood

- » When a storm claim is submitted, insurers will check the weather records for the date and location with the meteorological office to confirm that storm conditions existed.
- » Insurers will also want to be satisfied that a building, the subject of a storm claim, has been well maintained and that the 'storm' damage was not merely the result of a poorly maintained building suffering in windy conditions.
- » Gates/fences are typically excluded from storm & flood claims.



Falling trees or branches



Escape of water or oil from heating installations or domestic appliances



Collision or impact involving an aircraft or flying object, vehicle or animal

The Perils Covered

Buildings & Contents



Theft or attempted theft

- » Deception is generally excluded unless used purely to gain access to the home, e.g. a bogus gas repairman.
- » Theft by the policyholder or a member of his family is excluded.
- » Unoccupancy for more than a specified number of days would invalidate theft cover.

Subsidence, landslip or heave

- » Settlement of a new property will be excluded, as will coastal erosion.
- » Damage to outbuildings will be excluded unless there is damage to the main structure at the same time.

Riot, civil commotion or strikes

Vandalism or malicious damage

- » As with theft, there will be a restriction in cover if the property is left unoccupied.
- » There will also be an exclusion of damage by people legally on the premises, so damage caused by a teenage party getting out of hand is likely to be excluded.



The Perils Covered

Buildings

The following are standard perils common to the buildings section of an insurance contract:

- » Accidental damage to fixed glass and sanitary fittings.
- » Accidental damage to service pipes and cables.
- » Costs arising from site clearance.
- » Repair of damage following forced emergency access.
- » Replacement of locks following loss or theft of keys.
- » Loss of rent or the cost of alternative accommodation incurred whilst the home is uninhabitable following a claim on the policy.



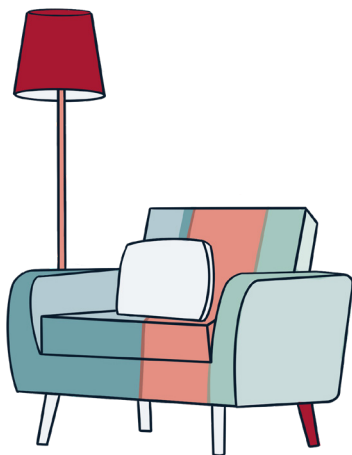
The Perils Covered

Contents

The perils covered under the contents section are the same as those covered by the buildings section, subject to minor variations in the wording to make them content-specific.

In addition, the following perils are usually covered:

- » Money.
- » A limited amount of business equipment.
- » Single articles of value, items valued above £1,000, must be disclosed to the underwriter.
- » The total amount of valuable items (not exceeding one-third of the contents sum insured).





GENERAL Exclusions

General Exclusions

Buildings & Contents

As with all classes of insurance, there are specific general exclusions that you will find.

Standard exclusions to the buildings & contents section include:

- Radioactivity:
 - » losses caused by radioactive contamination from nuclear waste, fuel or equipment.
- Sonic bangs:
 - » losses caused by pressure waves from aircraft travelling beyond the speed of sound.
- War
- Loss of value or depreciation
- Pollution
- Terrorism
- Confiscation of property
- Deliberate acts

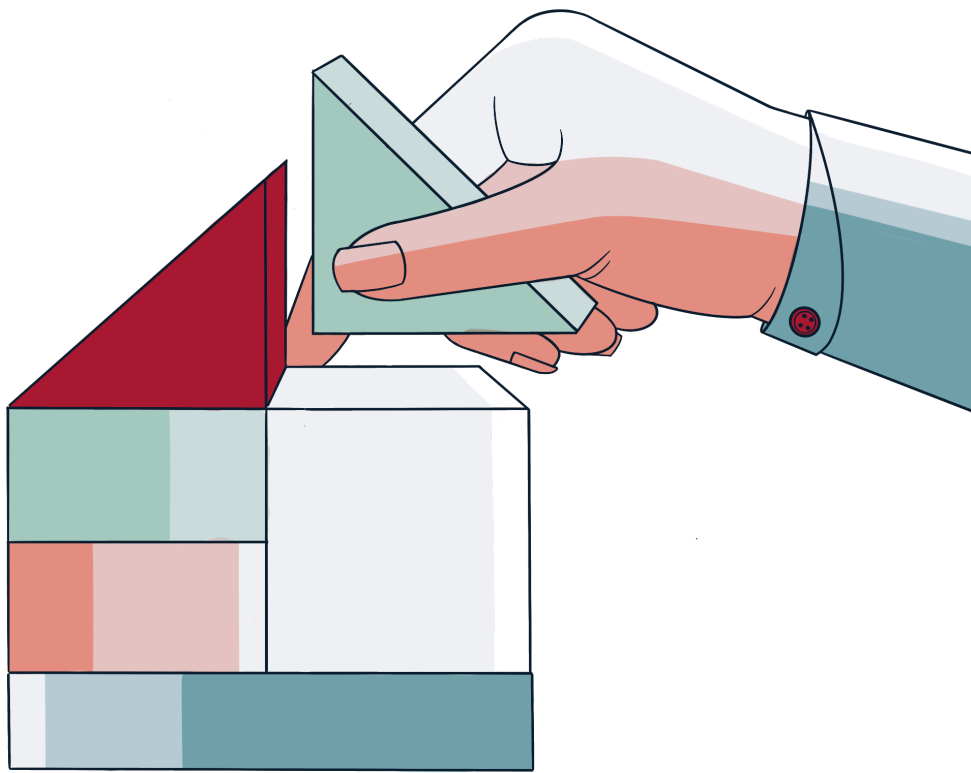
General Exclusions

Contents

In addition, there are standard exclusions to the contents section:

- » Scratching, denting, wear and tear.
- » Sports equipment whilst in use.
- » Theft from an unattended motor vehicle, unless the items are locked in a secure luggage or glove compartment.
- » Electrical or mechanical breakdown.
- » The failure of computer equipment to recognise the actual calendar date.
- » Cleaning, dyeing, reproofing, repairing or restoring.
- » The effects of insects, vermin, fungus, gradual weathering, light or atmospheric conditions.





HOUSEHOLD Underwriting

Risk Factors

Obtaining the following information will allow the underwriter to rate the risk in accordance with their company guidelines:



Property location & postcode

The property's postcode will establish the potential of a flood or erosion risk, or it could identify the crime rate in the area.

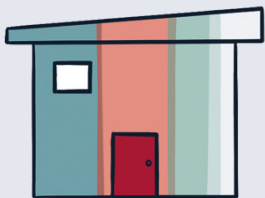


Property age & type

Insurance companies produce a matrix of rebuild values; depending upon the property, then the average cost of rebuild could be different.

These figures are not an exact science and should only be used as a guide, but they will indicate if the property is of modern design and construction.

The property's age may make it more susceptible to damage in strong winds.



Construction type

Most homes are brick built under a pitched slate roof, often referred to as "standard construction".

Homes that are prefabricated or timber clad or have a flat bitumen roof will have the potential to increase the insurer's exposure and would need a different rating.

The same could be said for a thatched property, which would have an increased exposure to a fire.

Risk Factors

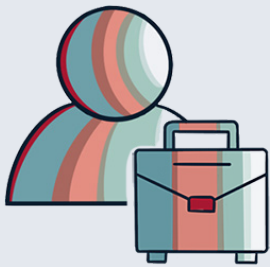


Minimum security requirements

It is common in all insurance policies that there is a minimum-security requirement.

This would state the minimum acceptable security on external doors and windows.

In certain circumstances, the underwriter may require additional protection with an upgrade on the physical security and even the addition of an alarm.



Occupation of proposer

This includes any family member permanently residing with them.

Insurance companies will have data available and would be able to identify the types of trades they would not wish to insure or that they would take a more stringent approach to cover.



Commercial Activity

Certain trades could take commercial items home. Whilst this would not necessarily increase the contents rate, it could increase the theft rate.



Claims history & previous insurance

These would indicate the proposer's claims record and if they are liable to stay with the insurer or move the following year. Underwriters have access to the Claims Underwriting Exchange that will provide information about the type of claims made by this proposer and claims from this property location.



HOUSEHOLD Claims

Household Claims

The duty of the insured

When it comes to making a claim, the insured:



Has a duty to notify insurers as soon as possible of a loss or an incident that may give rise to a claim.



Has a responsibility to provide any information and evidence asked for, including written estimates and proof of ownership or value.



Must tell the police as soon as is reasonably possible if there has been loss or damage caused by deception, theft, attempted theft, vandalism or malicious damage, riot or loss outside the home.



Must take all reasonable steps to get back lost or stolen property.



Must take all reasonable action to protect the property from further loss or damage, e.g. making temporary repairs.

Household Claims & the General Principles of Insurance

The general principles of insurance underpin the acceptance and settlement of household insurance claims.

- » **Insurable Interest**
- » **Disclosure and Representation**
- » **Proximate Cause**
- » **Indemnity & Reinstatement**
- » **Underinsurance**
- » **Subrogation**
- » **Contribution**



Household Claims

Insurable Interest

A customer taking out a buildings and contents policy on their own home will have an insurable interest in the said building and contents, as, if a severe loss were to occur, they would be out of pocket in the event of a significant loss.

Other interests may exist; for example, if the property is mortgaged, the building society or bank lending the money could insure the property as they have an insurable interest.

In practice, the purchaser insures the property, and the lender's interest is noted on the policy to avoid cancellation or lapsing without their authority.

Where an individual lives in a rented property, the lease may state that loss of or damage to the landlord's fixtures and fittings is the tenant's responsibility. A contents policy wording would cater for this exposure.



Household Claims

Disclosure & Representation

Non-disclosure and misrepresentation on the part of the policyholder could affect a claim.

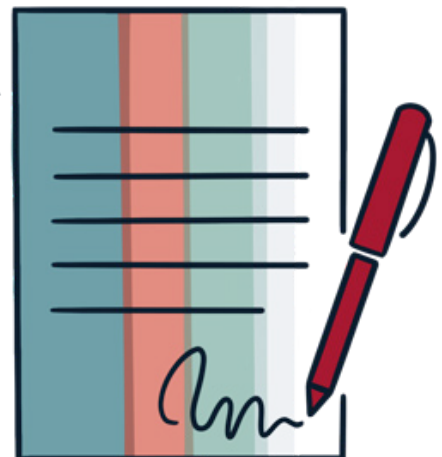
Under the Consumer Insurance (Disclosure & Representations) Bill, which came into law on 6 April 2013, consumers have a duty to take reasonable care not to make a misrepresentation to the insurer.

Disclosure

The types of facts that consumers will need to disclose when requested are:

- » Physical facts that surround the risk – e.g., situated in an area prone to flooding or subsidence.
- » Previous losses, whether insured or not and whether at the property to be insured or not.
- » Whether previous insurers had declined or offered restricted terms.

If a proposer withholds information, it is known as non-disclosure.



Household Claims

Disclosure & Representation

Misrepresentation

If a proposer makes a statement later proved to be untrue, this is known as misrepresentation. In each case, this can be accidental or deliberate.

If the misrepresentation is deliberate, it constitutes fraud, and insurers have several options available to them. They can:

- » Void the policy from the outset.
- » Sue for damages and keep the premium.
- » Accept the position and continue with cover.
- » In the case of fraudulent misrepresentation, the policy must become void as the law cannot support a contract founded upon crime.



Household Claims

Proximate Cause

The Proximate Cause is the active, efficient cause that sets in motion a train of events which brings about a result without the intervention of any force started and working actively from a new or independent source.

For example, if a fire breaks out in a next-door property and smoke billows into our client's home, causing smoke damage to curtains and soft furnishings. A claim for this damage would be covered, as the proximate cause of the smoke was fire, an insured peril.

In the event of a claim, the insurer will wish to establish the proximate cause of the event to ensure that it is an insured peril.



Household Claims

Indemnity

The original principle and definition of indemnity is to put the policyholder in the position they were in immediately before the claim arose.

So, if you had a five-year-old sofa and it was the subject of a fire claim, you would be entitled to a five-year-old sofa in replacement or the financial equivalent.

Insurers have introduced settlements on a reinstatement or 'new for old' basis. Reinstatement applies to almost all home insurance policies, except for clothing and linen, where a deduction for wear and tear is typically made.



Household Claims

Indemnity

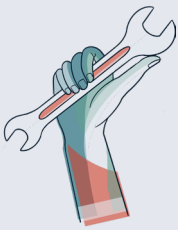
When settling a claim, the insurer may, at their option, settle a claim by:



Cash compensation

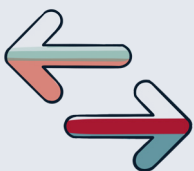
In the event of loss of household contents or valuables, many policyholders will ask for a cash settlement so that they may replace the items lost themselves.

In recent years, insurers have become much more adept at managing the supply chain in terms of the replacement of items. This means that they can replace items much more cheaply than the policyholder may be able to.



Repair

If the item is capable of repair, then the first point to be checked is whether the repair cost will exceed the item's replacement cost. If it will, insurers are unlikely to meet the total repair cost.



Replacement

One difficulty with replacement is obtaining an identical replacement; usually, the policy wording will refer to a 'nearest equivalent', as manufacturers update models on an ongoing basis.



Reinstatement

Reinstatement in this context means the reinstatement of the building to its former condition following an insured incident.

Household Claims

Subrogation

Subrogation is the right of the insurer, having paid a claim or proceeding towards doing so, taking the place of the insured to recover its outlay from a party who caused the damage.

The practical advantage for the policyholder is that their claim is met under the policy for which they have paid a premium. It then becomes the 'insurer's problem' to recover the outlay from the responsible party.

Subrogation in practice

Where a policyholder owns a house that has been damaged by smoke from a fire next door, it is established that the proximate cause of the smoke damage was fire, an insured peril. Here, the policyholder may claim for the smoke damage to their property under their own home insurance policy and be reimbursed without a problem.

The insurer, taking the policyholder's place, may then claim reimbursement of the outlay from the insurer of the property that sustained the fire, as the cause of the smoke damage was that fire.

The insured could not do this as to do so would mean that he would be claiming twice for the same loss, which is against the principle of indemnity.

Household Claims

Contribution

Contribution arises when two or more policies cover the same incident. Contribution is the right of an insurer to call upon the other insurers to share the cost of such a claim payment.

Therefore, if an insurer has paid a claim in full, it can recoup a proportion of the costs from the other insurers of the risk.

Contribution in practice

Suppose a customer lost some possessions whilst on holiday. In that case, these could be covered under a travel insurance policy as well as the personal possessions away from the home section of their household policy.

Contribution means that the insurer from whom the customer will claim (in this example, it would most likely be the travel insurer) will ask for details of any other insurance the claimant has. The travel insurer will liaise with the home insurer to agree on the settlement; each insurer will then pay a proportion of the claim.

This process happens in the background, and the result will be that the claimant will receive one payment from one insurer for their claim – ensuring the principle of indemnity is not breached.

Household Claims

Complaints

If an insurer declines a claim, a policyholder may ask for the decision to be reviewed at a senior level. If the insurer does not change its decision, the policyholder may take the complaint to the Financial Ombudsman Service (FOS).

The FOS will review the case, and part of this review will involve obtaining information from the insurer. If the FOS rules against the insurer, they can tell insurers to pay £150,000. In reality, most disputed claims are for amounts much less than this.

If the FOS finds in favour of the policyholder, then the insurer has to pay. If the policyholder is unhappy with the decision, they still retain the option of legal action.

Compensation

The other body that also affects a contract of General Insurance is the Financial Services Compensation Scheme (FSCS).

The role of the FSCS is to compensate policyholders if an insurer is unable to meet its liabilities.

If an insurer fails and a household claim is outstanding, the FSCS will pay 90% of the amount that would have been claimed.



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