

The Replacement Cost of Your Home

Ensure your home is insured to the proper value

The replacement cost of your home, the value the insurance company insures your home for, is often a hot topic with home owners. It is NOT the market value of your home, and has no relation to the tax valuation of your home. It is a calculation estimating how much a contractor would charge an insurance company to rebuild the home in the event of a loss. The core of this calculation is the amount insurance companies have paid out to replace or repair homes of equal size and quality to your own.

Even still, we are sometimes faced with comments like “but I could build this home for less.” And it may be true. The planned building of a home would cost less than the “replacement cost” of a home – but remember, an insurance claim is nowhere near a “planned” construction.

Replacement cost factors in the cost to remove all damaged material from the construction site – so there is a sizable cost to just get the property READY to be rebuilt. On top of that, insurance claims are always unexpected – forcing contractors to pay a higher cost in materials and labour... a cost that is most certainly passed on to the insurance company.

But what happens when you have a loss and your home is NOT insured to the proper replacement cost? It happens more often than you would think. When it does, hopefully the insured’s broker has included a coverage called “Guaranteed Building Replacement Cost” on their policy. This is an agreement with the insurance company to pay the entire rebuilding cost, even if that cost is higher than the insured value. Where the broker has failed to include this coverage... or in instances where the coverage is simply not available (do to the age of the home for example)... then the difference is up to the insured to cover.

It’s always troubling to hear about brokers or agents who are NOT insuring their clients to the proper replacement cost of their home. They may THINK that they are doing the insured a favour by insuring the property to a lower value – after all, if the policy they sell has “Guaranteed Building Replacement Cost” the insured’s home will still be replaced. But insurance companies are catching on, and there is growing trend of insurance companies changing the insured value of a home mid-term... what may seem like a good deal now, may turn into a financial liability later.

So what about simply insuring the home for a lower value, and accepting the risk in the event of a loss? Once upon a time, you COULD insure your home or property for whatever you wanted. Not anymore. Insurance companies are legally obligated to insure what is actually there, and failures to do so resulting from oversights or misinformation are the stuff that court battles are made of. Making sure your broker has the correct information to ensure your home is insured to the proper value is essential for the protection of your family and assets.