

IS YOUR STRATA BUILDING UNDERINSURED?

Recent escalations in building prices mean that if your building has not been valued in the past 12 months, there is a likelihood it is underinsured.

Whilst it is commonplace for insurers to communicate the importance of adequate levels of insurance, this message is more critical than ever given the proverbial perfect storm of events that has led to contractor shortages and soaring inflationary costs across the construction sector.

It is generally well known in the strata building insurance industry that:

- There is a need to insure for full replacement and reinstatement value;
- Include removal of debris, professional fees and an allowance for cost escalation over a period of time; and

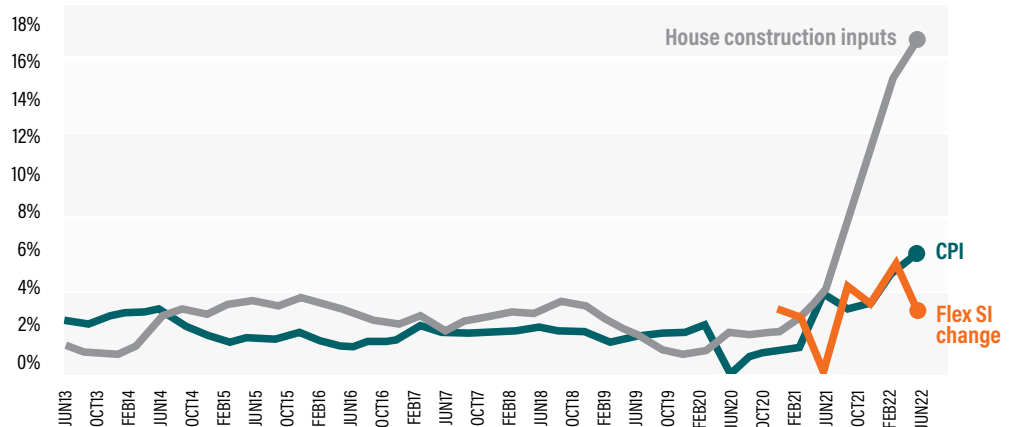
- In most states and territories, there is a requirement to obtain a valuation at least once every five years.

The figure below demonstrates how sharply the cost of construction has risen and is well outpacing CPI, with the steady increase seen from the advent of COVID now a far more steep increase for the year 2022. When you overlay Flex Insurance's actual sum insured profile from across its strata portfolio, it is clear that sums insured are not even keeping pace with the CPI% in the graph, let alone the construction pricing index.

BUILDING COST INFLATION vs CPI vs SUM INSURED CHANGES AT FLEX INSURANCE

(annual change % - source ABS)

Source: Australian Bureau of Statistics
- Reference period June 2022



Regardless of specific strata legislation across Australia, it is important to ensure that the bodies corporate will have adequate protection for their single biggest asset.

Frequency of catastrophe events continues to rise, which could mean the chances for an insured to suffer a loss are also on the increase. Flex Insurance implores all Bodies Corporate to:

- Review when their building sum insured was last updated

- Obtain a current valuation
- Review what level of indexing applies to their sum insured on renewal in between updated valuations, to ensure they are not falling behind

Without a directive from the insured or their appointed intermediary, Flex Insurance will automatically index the sum insured 5% at each renewal.

