

# Home insurance

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More than 20m British households handed over some £6bn in home insurance premiums last year, and annual costs currently average £210 for buildings insurance and £147 for contents cover. At the same time, insurers paid out less than £2bn in claims in 2006, with the biggest group of payouts being for domestic break-ins: an average of £1,070 for 342,000 burglaries. While this may not sound the most consumer-friendly bargain, the Association of British Insurers (ABI) points out that premiums have fallen in real terms over the past decade, while 2006 was relatively benign for weather-related claims.

What's the difference between buildings and contents insurance?

While many companies sell combined buildings and contents cover, to understand the difference imagine literally turning your home upside down: everything that falls out is "contents"; whatever stays in place is "buildings".

More technically, buildings insurance protects you against damage to the structure of your home and its fixtures and fittings; home contents covers you against damage or loss of possessions you would normally take with you if you moved.

The ABI advises checking individual policy documentation to confirm what is covered, and if necessary calling the insurer to clarify.

Generally speaking both policies cover you against perils such as fire, theft, flood, storm and subsidence, as well as your legal liabilities as a homeowner and occupier.

What isn't covered?

Contents policies have overall maximum payouts and may have limits on individual items. Your cover may also be affected or cancelled if you leave your home empty for a long period of time or let it out. Buildings policies are based on what your home would cost to rebuild – rather than its market worth – and you need to tell your insurer if you extend the property, say, with a loft conversion or conservatory.

Contents may be insured on an indemnity rather than new-for-old basis, in which case a deduction will be made from claim payouts for wear-and-tear and depreciation. Policies also normally have excesses – the first part of any claim you effectively pay – which can be as high as £1,000 for subsidence claims under buildings insurance.

How are premiums calculated?

Most insurers start with your postcode. This enables them to calculate a price based on geography, whether for example you are in an area prone to subsidence as well as their own claims' experience in your locality. They will take your previous claims' history into account too.

Beware of over-insuring on buildings cover by insuring your property's value rather than its rebuild cost and under-insuring your contents: the insurer might reduce the value of its payout proportionately in the event of a claim.

So do I need it?

Unlike car insurance, home insurance isn't a legal requirement, and one in four households has no contents cover. But mortgage lenders normally insist that borrowers have buildings insurance.

How can I cut costs?

The old cliché of shopping around is as true for home insurance as it is for many other financial products. Insurers focus their marketing money on offering cut-price deals to new customers, while largely relying on inertia to keep their existing policyholders. Internet comparison services such as Moneysupermarket.com and Confused.com are a quick and easy way to search the market. And whichever insurer you plump for there will normally be a specific discount for buying online.

Any other discounts?

Having a burglar alarm, window locks, and/or being a member of a Neighbourhood Watch scheme can all cut premiums. For example, a Nacoss-approved alarm can mean premium savings of 7.5 per cent with some insurers, while Neighbourhood Watch membership may save 5 per cent. Choosing to bump up your excess will also cut costs.

Is it a good idea to buy building and contents cover from the same insurer?

You don't need to buy both from the same company – although you may well be offered a discount for doing so, and buying a combined policy should leave insurers less wriggle room on claims. But you certainly don't have to buy cover through your mortgage lender.

Surely it's not just about price? My policy seems to have it all: accidental damage cover, legal protection insurance, all-risks.

Some of these features might be worthwhile, but equally there can be substantial savings by cutting them out. For example, all-risks cover for possessions outside the home is generally the cheapest way of insuring a bicycle against theft when you're out and about. But you might already have similar cover for possessions such as cameras under a travel insurance policy.

What about claiming? I want an insurer I can rely on to pay up.

If you make a claim, it will often mean paying higher premiums in the future. Moneysupermarket.com reckons that only home insurance claims of over £450 are really worth making, because with anything smaller you'll end up effectively paying it back in higher costs over the next three years. Instead it suggests bumping up your voluntary excess to around £500, so reducing your premium by up to 20 per cent.

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