03 September 2026 **FEATURE ARTICLE**

Your House Is Worth More, So Why Is the Reinstatement Value Lower?

For most families, a home is one of the biggest investments they will ever make. So, when a property valuation shows that a house could sell for a substantial amount on the market, it may come as a surprise when the figure used for insurance or reinstatement purposes is considerably lower.

This feature article explains why a property's market value and reinstatement value can differ, what influences rebuilding costs, the financial risks of underinsurance, and why homeowners should regularly review their valuations to ensure their insurance cover remains adequate.

What is Reinstatement Value?

This is the estimated amount it would cost to rebuild a property if it were severely damaged or completely destroyed, taking into account expenses such as construction materials, labour, professional fees, site clearance and compliance with current building requirements. Unlike market value, it does not reflect what a buyer may be willing to pay for the property.

If your property is worth $500,000, for example, why might its reinstatement value be only $350,000? Does that mean the insurer is undervaluing your home? Not necessarily.

The confusion often arises because market value and reinstatement value measure two very different things. Understanding the distinction is important because getting the insurance value wrong can leave homeowners facing a serious financial shortfall after a cyclone, fire or other disaster.

Two Values, Two Different Purposes

Market value is essentially what someone may be willing to pay for your property if it were put up for sale today. It can be influenced by the location of the property, the value of the land, demand from buyers, comparable property sales, the age and condition of the building, and depreciation.

Reinstatement value, on the other hand, asks a completely different question: How much would it cost to rebuild the insured building if it were destroyed?

This figure takes into account costs such as building materials and labour, professional fees, site clearance and the expense of complying with current building requirements.

Importantly, rebuilding a house does not usually require purchasing the land again. You already own the land. This is one of the main reasons why a property in a desirable or rapidly appreciating area can have a market value considerably higher than its rebuilding cost.

Imagine a house and land package with a market value of $600,000. A significant portion of that price may reflect the value of the land and the desirability of the location. If the house itself could be rebuilt for $400,000, its reinstatement value may be closer to $400,000 than $600,000.

This does not automatically mean the house is underinsured. The important question is whether the insured amount is sufficient to meet the actual cost of rebuilding the structure and the other costs covered by the policy.

Sometimes the Opposite Happens

Consumers should also understand that reinstatement value is not always lower than market value. In some circumstances, rebuilding a property can actually cost more than the amount for which it could be sold.

The Consumer Council's research identifies several situations where this may happen, including properties with unusual architectural features, buildings requiring specialised materials or craftsmanship, properties using imported or non-standard materials, and homes in remote areas where contractors and materials may be harder and more expensive to obtain.

This is why homeowners should not simply look at property advertisements in their neighbourhood and assume that those prices tell them how much insurance they need.

The two figures are measuring different things.

Rebuilding Is More Than Bricks and Timber

Another common mistake is to think about reinstatement value simply as the cost of construction materials. Rebuilding after a major loss can involve much more.

There may be damaged structures and debris to remove before construction can begin. Architects, engineers, builders, electricians and other professionals may be required. A new building may also have to comply with building standards that have changed since the original house was constructed.

The Consumer Council's own research identifies construction materials, labour, professional services, building specifications, site clearance, temporary accommodation, building-code compliance and regional differences among the factors that can affect rebuilding costs. These costs can change considerably over time.

A valuation carried out several years ago may therefore no longer provide adequate protection today. Inflation, higher material prices and changes in labour costs can push up the amount required to reconstruct a home. This is particularly important in a country such as Fiji, where natural disasters can create sudden demand for builders and construction materials across affected areas.

The Danger of Simply Choosing a Lower Figure

Insurance premiums are another reason consumers may be tempted to reduce the amount for which their property is insured.

A lower sum insured can mean a lower premium. But saving money on the premium can become extremely expensive if the amount insured is insufficient when a claim occurs. This is where underinsurance becomes a serious concern.

Underinsurance occurs when the sum for which a property is insured is less than its actual value for insurance purposes. Depending on the policy, an "Average Clause" may mean that the insurer reduces a claim proportionately when the property has been underinsured.

Consider the example contained in the Council's research. Suppose the actual value of the insured property is $200,000, but the homeowner has insured it for only $100,000. The property is therefore insured for only half of its value.

Now suppose an insured event causes $60,000 worth of damage. Under the example of the Average Clause, the claim would be calculated as:

$\$100,000 \div \$200,000 \times \$60,000 = \$30,000$.

The homeowner could therefore receive only $30,000 towards a $60,000 loss, leaving a substantial amount to be met personally.

This illustrates why underinsurance can affect consumers even when their home is not completely destroyed. Consumers should therefore read their policy carefully and ask their insurer to explain how underinsurance and any Average Clause would operate in the event of a claim.

Do Not Let an Old Valuation Gather Dust

Insuring a home should not be treated as a "set and forget" exercise. A valuation that was adequate when the policy was first purchased may become outdated as construction costs change. Renovations and extensions can also increase rebuilding costs.

Industry guidance reviewed in the Council's research recommends reviewing property valuations annually, particularly because of inflation and fluctuations in construction costs. When reviewing your insurance, do not focus only on whether the annual premium has increased.

Ask: What is my current sum insured? When was the property last valued? Does this figure reflect today's rebuilding costs? Have renovations or additions been included? What additional rebuilding expenses does my policy cover?

Consumers should also ask whether demolition and debris removal, professional fees, temporary accommodation and costs associated with meeting current building standards have been adequately considered.

If you do not understand how the insurer or valuer arrived at a figure, ask for an explanation rather than simply accepting it.

Know What You Are Paying For

Insurance documents can be difficult to understand, but consumers should not hesitate to seek clarification before purchasing or renewing a policy.

The Council's research identifies inadequate disclosure, complex policy wording and low consumer awareness as continuing concerns. It notes that consumers may not fully understand the coverage they have purchased or the implications of different methods of property valuation.

The Consumer Council of Fiji has continued to advocate for clearer disclosure and transparent practices in the insurance industry, while also providing complaint support and consumer education on insurance-related issues.

Ultimately, the biggest number is not necessarily the right number when insuring your home. A high market price may reflect valuable land and a desirable location, while reinstatement value focuses on what it would actually cost to rebuild. In other cases, rebuilding costs may exceed market value because of specialised construction, materials or location.

What matters is that the figure used for insurance accurately reflects the risk you are trying to protect yourself against. Your home may be worth more on the property market today than ever before. But when disaster strikes, the question is not simply, "What could I have sold my property for?" The more important question may be: "Do I have enough insurance to put my home back?"

That is a question every homeowner should answer before they need to make a claim.

Consumer note: Policy terms and claim outcomes vary. Read your policy schedule and wording, and seek advice from your insurer, broker or a qualified valuer about your circumstances.