Safe or false sense of security?

We saw a claim recently where a family had their home broken into. The burglars naturally gravitated to the place household safes usually are, the master bedroom wardrobe.

THE thieves' eyes must have lit up when they discovered the safe wasn't properly anchored to anything. It just sat in a wardrobe and light enough to pick up and carry away. I bet they couldn't believe their luck when they cracked the safe open – I'm guessing in a private, safe space, under no time pressure with no burglar alarm ringing in their ears - and they found it to be impressively stocked with jewellery.

Jewellery is one of the biggest issues with home insurance claims, amounting to around 1/3 of the aggregate value of annual theft claims on contents insurance. It is also one of the most common ways to end up with a claim being underinsured, usually because of missteps around valuations, policy limits, or covenants around security.

Let's start with safes, because the wrong safe is arguably worse than no safe. The Europe-wide, Eurograde system rates safes for their ability to withstand attacks, on a scale of 0-6. The scale is derived from the safe's 'cash rating,' a simple measure that uses a nominal money amount as a proxy for comfort and confidence.

Safes with high 'cash ratings' have thick walls and doors, complex locking mechanisms, and covert locations. They are generally hard to find, tough to crack and difficult to physically carry away. Because of this, insurers are comfortable insuring 10x the value of the cash rating.

With a Eurograde 1 €15,000-rated safe, as well as €15,000 cash, you can secure €150,000 worth of valuables in there. If the valuables in the safe totalled more than €150,000, you may have an issue claiming the full amount from your insurer.

Where people go wrong

It is really important that the security arrangements and Eurograde level of the safe are sufficient for the value of the jewellery.

There are two common ways that the value of the collection can outgrow the safe and the limits of the insurance. Many clients regularly add to their collection. It might only take a few anniversaries, birthdays and Christmases until they're over the safe's insurable allowance, and they need to upgrade or install an additional safe.

It also bears mentioning that jewellery pieces can often be valued higher than a client may think. Not in a lucky-windfall-Antiques-Roadshow kind of way, but much more simply, through the basic economics of investing.

As with art, most people buy and collect jewellery for aesthetic and sentimental reasons. But jewellery and art can be quite similar from a purely financial perspective. Each are considered asset classes in their own right; both are commonly bought and sold on the resale market, so there is scope for them to appreciate (if you buy the right things).

Stanford University research based on 38 years of auction data found that as an asset class, fine art generally performs at around 6.5% APR. This means that over a ten-year period, your art could have almost doubled in value (just for example, compound interest on €1,000 at 6.5% over ten years, nets out at €1,912.18).

That could result in your art's sums insured being woefully insufficient. Regular valuations are essential and not just for art, either.

The price of gold, a core factor in calculating replacement values of jewellery, is high currently. In July 2015, a kilo of gold - which at 5.1 cubic centimetres is roughly the size of an Oxo cube - cost €33,863. In June 2021, it sat at €50,030 after peaking at around €55,585 in 2020.

Such profound increases in gold prices have a knock-on effect on replacement value calculations and can leave clients significantly underinsured when losses occur.

Jewellery can also appreciate for other reasons. High-end pieces derive most of their market value from the creativity and craftsmanship that's gone into them; pieces by respected designers can appreciate year on year, regardless of movements in precious metal prices.

Cartier, Rolex and Tiffany & Co are widely considered investment level brands. But in reality, lots of different designers and styles can appreciate, so it is worth obtaining regular valuations to ensure the insurance and security arrangements continue to meet your client's needs.

We recommend that jewellery be revalued every three years by a professional valuer. Without a recent valuation, most insurers will only pay the lower of the value noted on the schedule or the market value - so your client could be missing out. We also recommend that clients keep their safe in a covert, secure location. This will vary from home to home. At DUAL, we work with one of Ireland's leading safe installation companies. As well as providing a safe that meets insurer requirements, they can conduct a property survey to find the optimal place to conceal it.

Clients don't tend to seek out valuations and undertake security reviews under their own steam, so a little encouragement to do so can save a lot of disappointment later.

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