



# Property underinsurance

## What is the true cost of underinsurance?

Many people only find out they are underinsured when they need to make a claim.

## Trying to save money could cost your clients

No one likes to spend more money than they have to, especially when it comes to insurance. But, insurance is there to protect against unforeseen events, so reducing cover to lower insurance premiums could cost more in the long run. One of the consequences of trying to keep insurance costs down by not insuring the correct amount is underinsurance.

## What is underinsurance?

When asked 'what is the value of the property?' people may assume this refers to the market value of the property. In reality, this needs to reflect what it would cost you to rebuild your property at the time you arrange or renew your policy. Valuations do not necessarily provide a reinstatement cost for insurance purposes and often refer only to the structure and don't include the surrounding areas of the property, such as car parks, outbuildings or trees or mirror the definition of buildings within the policy document.

This doesn't just apply should your client need to completely rebuild their property. It is a common misconception that if the cost of a claim is below the total sum insured (partial loss), the full amount being claimed will be paid. This is not the case. Should you need to make a claim, and the property is found to be underinsured, the insurance company could apply the condition of 'average' and would only pay out the percentage of property value represented on the policy. In the worst case scenario, an insurer could void cover on the grounds of misrepresentation.

## What is Average?

In many insurance contracts there is a Condition of Average. This means that when receiving a claim for a property or business, if the insurer believes the property or business is underinsured, they can reduce the claim by the corresponding percentage.

To give you an example, there was an outbuilding on the premises which is damaged, and will cost £100,000 to repair, you would make a claim for the full amount and expect this to be paid in full, because the insured value is £500,000. However, if at the time of making a claim, the total reinstatement cost of the property and possessions is valued at £1million, the property would be underinsured by 50%. This means that an insurer could impose a proportionate settlement and the policyholder would only receive a 50% pay out, leaving them to find £50,000 to contribute to the cost of the outbuilding repairs.

If the underinsurance is too large, the insurer could even say that the policy is void as the client failed in their duty of fair presentation under the Insurance Act.

## Questions to ask your clients to help prevent underinsurance

- ❓ Did you use the market value of your property as the insurance value, or the reinstatement cost?
- ❓ Did you get a bespoke insurance reinstatement valuation?
- ❓ Have you reviewed the value of your property in the last two years?
- ❓ Have you had any extensions or alterations made since you last had your property valued?
- ❓ Would there be additional complications to repairing your building? For example, does it have listed status, or is it situated in a conservation areas.
- ❓ Does your insurance value fall in line with the buildings description within your policy?
- ❓ Does your building have any technological or material specifications, such as solar panels or a unique construction material that would make it more expensive to repair?
- ❓ Is the building constructed of modern methods of construction such as modular?

## Get in touch

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