Introduction to underinsurance

Property values - what's the big deal?

Fundamentally, insurance indemnifies (or compensates) us for loss in relation to the assets we own in the event of an unforeseen incident, such as fire or theft. In other words, an insurance company will pay our claim to cover the cost of replacing or reinstating the damaged or lost item.

So, what's the problem?

It's the responsibility of the person applying for the insurance to make sure the amount they're insured for, known as the 'declared value', is adequate to replace or reinstate it. Insurance companies charge premiums based on the value of the risk.

To protect themselves against anyone who might seek a lower premium by understating the value of their asset, insurers place what's known as an **'underinsurance condition'** (also known as 'average condition') on the policy.

That simply means that if an item is underinsured (the insurance value amount is not sufficient to replace or reinstate it), the condition allows the insurance company to **proportionately reduce the claim payout.**

Your building could be at risk of being underinsured

Property values and the cost of construction in the UK have increased significantly in recent years, and we're in a situation now where many buildings are being insured for a value that would not be sufficient to reinstate them in the event of damage.

In fact, according to our data, more than **one in two properties are likely to be underinsured.**

This means it's likely, unless you've had a reinstatement valuation undertaken on your property within the last 24 months, that you're inadequately insured.

What's the worst that could happen?

In the event of underinsurance, some insurance companies will choose to proportionately reduce your claim payout by the proportion of your underinsurance.

So, if your declared value was 10% less than it should have been, your insurer will have the right to reduce your claim payout by 10%, leaving you to foot the bill for the 10% gap.

But it gets worse

In the event of significant underinsurance (insurers are at liberty to determine what they deem 'significant'), insurers can treat this as a misrepresentation by the policyholder and can at this point **refuse to make any payment for a claim whatsoever.**

What should you do?

We advise our clients to organise a reinstatement valuation of their property if they haven't had one undertaken in the past 24 months. We can help with this.

Howden partners with an independent valuation specialist who can provide you with a **reinstatement valuation from as little as £99 + VAT**, meaning you can quickly and cost effectively ensure you're not at risk of being underinsured.

If you haven't had a valuation undertaken within the past 24 months, you should consider yourself underinsured.

Contact us

We brought this to your attention during the quotation stage, but want to ensure you're fully informed and understand the implications of being underinsured or even uninsured.

To book a valuation, contact your Howden broker today.

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