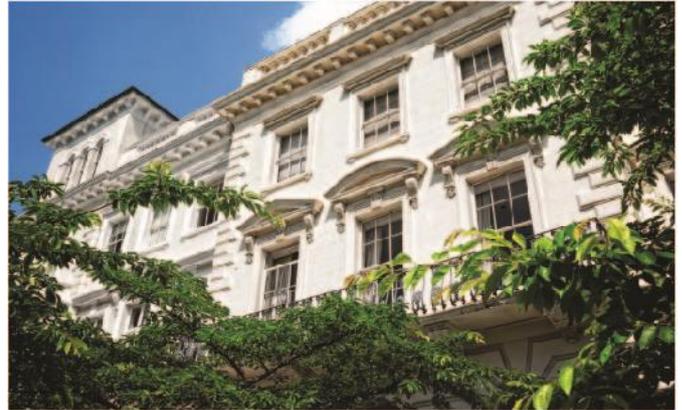


The Perils of Underinsurance

By Claire Squire, Balens, Specialist Insurance Brokers

We've all heard the stories, insurers who won't pay out when you've had a claim, but have you ever considered that for buildings and contents claims it could be that it was the individual themselves who was responsible? Or that you could be equally at risk?

In buildings and content claims the insurer will proportionately reduce the level of settlement if you don't have sufficient cover in place. For those who operate under the mistaken belief that 'OK, my goods are worth £20,000, but I'm unlikely to have a claim for any more than £10,000, I'll just insure for that value as the premiums are a lot less', they could find any payments significantly reduced due to underinsurance in the event of a claim.



Underinsurance is defined as "Inadequate insurance coverage by the holder of a policy." Whilst insuring your contents and/or buildings, you will need to tell the insurer the total value of the items you want to be insured, this is called the "sum insured". This information is used to assess the risk that the insurers are taking on and therefore the level of premium you will need to pay. If you give a false account of the sum insured, you put yourself in danger of underinsurance in the event of a claim. Where your policy wording highlights an "average clause" in relation to claims and the sum insured is insufficient, only a proportion of your claim could be paid.

The following example will hopefully give clarity: An individual insures their contents for the sum of £30,000, but find in a claim situation that they need to claim for £35,000. If the insurance loss adjuster assesses the value of the contents at the time when the incident occurred to have been £50,000 (and not £30,000) the value of the settlement would be reduced to only £20,900 when including a £100 excess. **This is £14,100 less than the value of their losses!**

The calculation is as follows:

£35,000 (Claim) x £30,000 (sum Insured) ÷ £50,000 (Value at Risk - the actual value of the Contents at the time of the claim) = £21,000 - £100 (policy excess) = £20,900 (proposed settlement)



It can be difficult to estimate the value of your contents or the cost of rebuilding a property, which is why a majority of insurers will offer package policies allowing you some room for maneuver. However, it is wise to be as accurate as possible and to ensure that the sums insured are updated should your contents costs increase, for example if you purchase new equipment, as it will be your responsibility to declare and regularly review your sums insured.

Hopefully this brief article has made you aware of the cause and effects of underinsurance. Please check with your insurance broker should you have any questions, they are there to help.

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