



HAMILTON LEONARD GUIDE TO UNDERINSURANCE

Home Insurance

It is imperative to avoid being underinsured. If you have gone to the effort and expense of purchasing an insurance policy, you want to make sure it covers you comprehensively. If you are underinsured and have to make a claim, you could potentially find yourself paying for a percentage of that claim.

Now, more than ever with the continual increase in costs for labour, materials and replacement items extra care should be taken in ensuring an adequate Sum Insured for Buildings and Contents.

Here, we explain what underinsurance is and how you should avoid it.

What does underinsurance mean?

Underinsurance, put simply, means your insurance risks are greater than your policy covers. A building may only be worth £200,000 but rebuilding it could cost significantly more. You should be insured for the reinstatement value, not how much the building would be worth if you sold it.

If you are underinsured at the point at which you make a claim, the condition of average will come into play. This is a rule that calculates what payment you will receive.

The “average” means your insurer will pay only a certain percentage. This percentage is calculated as your Sum Insured (the amount you are insured for) divided by the accurate valuation. The insurer will only pay that percentage of your claim, minus the policy excess.

If for example, you have insured a building for £500,000 yet the valuation stands at £750,000.

£500,000 is 66% of £750,000 – meaning the insurer will only pay 66% of any claim (minus the policy excess). The more underinsured you are, the more you will potentially have to pay out yourself should you need to make a claim.

Please note underinsurance does not only apply to total loss claims, it can apply to any claim submitted and the repair costs would be proportionately reduced.

Buildings and Contents

You may think your building or property is worth a certain amount – but you may be surprised to learn that it is worth a lot more once you start trying to buy it “as new”. Insurers want to know cost new or reinstatement and rebuild figures – not the amount you originally bought the property for.

Underinsurance vs Uninsured

Being underinsured does not mean you are uninsured completely. Your insurer may still pay out – you just may not receive the full amount you need to repair, rebuild or replace if you are underinsured.

Underinsurance means your insurer will penalise you for not adequately insuring your risk. You have not declared the full risk, and the full premium has not been paid. So, in turn you may not be provided with a full pay out.

Whilst being underinsured is significantly preferable to being uninsured altogether, you should always aim to have fully comprehensive insurance in place.

The conclusion

Hamilton Leonard are here to help you. If you are in any doubt over the adequacy of any Sums Insured applying to your policy let us know so we can discuss your requirements in further detail to try and avoid any possible future issues.