

Property underinsurance

The consequences



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 you

No one likes to spend more money than they have to, especially when it comes to insurance. But, insurance is there to protect you against unforeseen events, so reducing your cover to lower your insurance premiums could cost you 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 you need to completely rebuild your 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 your property is found to be underinsured, your insurance company could apply the condition of 'average' and would only pay out the percentage of your property value represented on your policy. In the worst case scenario, your 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. If you have an outbuilding on your 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 your insured value is £500,000. However, if at the time of making your claim, the total reinstatement cost of your property and possessions is valued at £1 million, your property would be underinsured by 50%. This means that your insurer could impose a proportionate settlement and you would only receive a 50% pay out, leaving you to find £50,000 to contribute to the cost of your 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 yourself 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?



How we can help

We work with Rebuild Cost Assessment Ltd to offer our clients a desktop rebuild cost and rebuild period assessment of any commercial or residential property, up to a current sum insured of £10m. This works by analysing multiple data sources, including industry standard quantity surveyor data and building cost information services from RICS and using this information to calculate the true reinstatement value of your property. The price of this survey is £105 plus VAT. We can provide on-site valuations.

At Marsh Commercial, we want to help you manage your risks and make sure that you are fully covered – whatever life throws at you. We are part of a global insurance network, but are proud to be a community broker who can provide you with world-class insight and expertise. However big or small your property, get in touch with us, and we will help you with all your property insurance needs.

Get in touch

If you would like to find out the reinstatement value of your property, or any other information about our services, please contact:



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