

## Making Sure You Are Not Underinsured

Building insurance is typically based on a reinstatement basis, in that the policy is there to rebuild/repair the property. Given the current inflation rates and its impact on the cost of building materials and labour, its imperative your building is insured to the correct value.

In the information below, we provide background information on this and the typical areas to be aware of.

It is important to consider that a higher reinstatement cost will have a directly proportional impact on the premium. Therefore it is important to budget for this and keep abreast of this evolving situation.

### What is the definition of Declared Value?

The 'Declared Value', is simply the cost to rebuild the property in full, this would include the materials and also professional fees such as architects and surveyors.

### Make sure your building is valued correctly for insurance purposes.

It's important that your property is insured to the correct value. Correctly assessing this is complex and this should be carried out by a qualified expert with professional indemnity insurance. If it's incorrect and you suffer a serious loss, your insurance may not cover the costs of the repair in its entirety.

If the building is under insured a potential recourse of the insurer would be to reduce your claim in proportion to the under-insurance. For example, if you insure for 50% of the correct value, only 50% of your claim might be paid. This is referred to as Average.

### What is the Average Clause?

The 'Average Clause', facilitates the insurer to reduce the claim payment proportionally in line with the underinsurance.

#### Example

A property is insured with a declared value of £800,000

At the time of a loss the correct declared value rebuild cost is £1,000,000

In the event of a total loss the claimant/insured will only receive 80% of £800,000, therefore, leaving a shortfall of £360,000.

The party responsible for the shortfall will be the Insured.