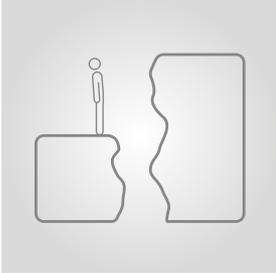


Under-insurance: What it is and how to avoid it



Having to make an insurance claim can be stressful enough but finding out that the policy you purchased doesn't cover your needs, can have devastating consequences. Under-insurance, as it is called, can be a significant issue.

Getting the right level of insurance cover is critical

The amount you declare when you take out or renew your insurance policy is known as the sum insured or insured value and this is the maximum amount you would receive in the event of a claim, (less any excess) so it is imperative to get this sum insured right.

For example, if your sum insured is less than the amount needed to replace your property, you'd be under-insured and may not get the full amount needed in the event of a claim.

Assessing the right level of cover for your buildings

The sum insured for buildings should be the present day rebuild cost. This is not the market value of your premises nor the price paid for the building.

Rebuilding cost vs Market value

Costs and value can be very different. A building worth £1m on the property market because of the land it stands on might cost only £500,000 to rebuild.

Another premises, such as a listed building, in a different location might be worth only £200,000 on the market, but because of particular special features that may be more difficult, more costly, or take longer to rebuild or repair it could cost £350,000 or more to rebuild.

The buildings sum insured will need to include costs for:

- driveways, garages and outbuildings, boundary walls, gates, fences and so on.
- materials and labour required to repair or rebuild
- architects, surveyors and other legal fees;
- the cost of demolition and debris removal;
- VAT (as necessary); and
- any public authority or planning costs and inflation or other increasing costs that happen during the policy period as well as any rebuilding period.

You should consider using professional valuation services to help you decide on your sums insured. Regular valuations are necessary to help ensure the sums insured are correctly assessed. Unity Insurance Services recommend that the sum insured for buildings insurance should be assessed at least every 3 years.

Assessing the right level of cover for your contents and equipment

The amount you should insure your contents and equipment is its replacement-as-new value.

It should not be the price paid for the items, as again the replacement cost may be different from this. Likewise, if item has been donated as a gift or purchased second-hand, then you still need to insure these items for the replacement costs.

An up-to-date inventory of all of your equipment is useful when considering how much cover you need. Smaller items can add up to a significant sum, but often these items are not included on an inventory or fixed asset schedule.

You should update your inventory when you buy or receive items which are donated new or as second hand equipment. You should also update it, if you no longer own any items. Remember to advise your insurance broker of these changes to your inventory.

If you have specialist items or complex equipment it may also be useful to talk to the people who supplied them about the cost and availability of suitable similar replacements or repairs as these could take some time to replace. If you have equipment that is no longer manufactured you might need to insure for the value of a new equivalent item.

We're here to help

Unity Insurance Services can provide advice on how to assess your sums insured and can help you to buy insurance cover that accurately meets your needs. We will help you to understand the basis of your insurances and how sums insured can be calculated to ensure you are properly covered if you have a partial or a total loss.

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