

Underinsurance claims scenario

Building Sum Insured



Too often, clients request insurance cover based on outdated rebuild valuations, the market value of their building or, in some instances, guesswork. What should be considered is what it would cost to rebuild the property, which may end up being greater than the current market value.

Holiday cottages



Background

A property owner rents out holiday cottages within the UK. Their Sum Insured for each holiday cottage was based upon rebuild valuations obtained five years ago. But, over that period, global events had caused material and labour costs to increase substantially.



Incident

A fire spread from a neighbouring property and caused catastrophic damage to one of the property owner's holiday cottages. The extent of the damage was such that the property was a total loss, requiring demolition and a complete rebuild.



Outcome

The policy rebuild valuation of £400,000 was five years old. A value-at-risk assessment calculated the true rebuild value to be £750,000 due to the rise in material and labour costs, leaving the property owner underinsured by 47%. Unable to meet this £350,000 cost, a cash settlement was agreed and the insured lost this property as a source of income.





Risk less

In association with



Key takeaways



Underinsurance is a false economy

Being underinsured can put your business at risk. If you need to make a claim and your level of cover isn't adequate, it may mean you won't get the sum needed to recover after a loss.



A reinstatement cost assessment is essential

An expert survey can provide a rebuild figure that includes the total current cost to rebuild the property.

How to avoid this scenario



Expert support

Your broker can work with you, and their expert underwriters, to help understand and recommend suitable levels and periods of indemnity for your business.



Enlist a qualified valuation expert

Talk to your broker about getting an up to date valuation. They are likely to have trusted partners who can provide you with thorough and up-to-date reinstatement cost assessments. These help to give you the confidence that you've got the right level of cover for your business needs.

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Macbeth Insurance Brokers and Aviva are working together to help protect businesses against the risk of underinsurance.

The scenario shown in this document is fictitious and has been used for illustrative purposes only.

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