



PREVENTING UNDERINSURANCE

One of the most common causes of distress following a claim is when the client discovers that their cover is not adequate. Examples include:

- Sums insured on buildings not being adequate to cover reinstatement.
- Sums insured on contents not reflecting replacement as new values.
- New items purchased during the policy year not advised to your broker.
- Inadequate business interruption cover.

There are some simple steps you can take to reduce the risk of underinsurance:

- Buildings – consider professional valuations on a periodical basis. Once the initial valuation has been carried out, there should be a nominal cost in keeping the valuations up to date.
- Machinery & Plant – again professional valuations can be considered, but you may also feel that with some work you can put together your own inventory of the key items and obtain replacement as new valuations from the manufacturers or suppliers.
- Home Contents, valuables and art – again professional valuations are recommended on specialist items, then supported by a room by room inventory of the key items.
- Make sure any calculations you do yourself, reflect the new replacement value for an equivalent item – clients often fall into the trap of working on prices they paid, but if you have replacement as “New” cover, then even if you bought an item second hand, you are entitled to a new replacement if the item is lost or damaged beyond repair.
- For Business Interruption a common mistake that is often not realised until a claim occurs with inevitably disastrous results for policyholders is that accounting terms such as ‘Gross Profit’ and ‘Gross Income’ used in insurance policies do not have the same meaning as when used by accounts or other business personnel.

The penalties for underinsurance can be severe. Most policies contain an average clause and in simple terms this means that if your sum insured is only 75% of the correct values at risk, the insurer will only pay 75% of the claim value.

It is really important to make a concerted effort to keep sums insured at the correct level.



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