

As your insurance broker we want to highlight the importance of accurately calculating your building and contents sum insured.

Underinsurance

Underinsurance is an increasingly common problem and can have devastating consequences in the event of a claim.

What is the impact of under insurance?

As mentioned above, underinsurance is a significant problem and when this comes to light in the event of a claim your insurers will look at the Consumer Insurance (Disclosure and Representations) Act 2012 for what remedies they can apply for qualifying misrepresentations.

1. Deliberate or reckless misrepresentations

It's the obligation of the policyholder to declare accurate sums insured. If reasonable care is not taken, legislation may deem this to be deliberate, reckless or careless misrepresentation. In these circumstances an insurer;

- a. May avoid the contract and refuse all claims, and
- b. May not return any of the premiums paid, except to the extent (if any) that it would be unfair to the consumer to retain them.

2. Careless misrepresentations

It is your duty (the consumer) to take reasonable care not to make a misrepresentation to the insurer. In the event of a claim where underinsurance occurs, your insurer will evaluate whether they would have been able to insure you in the first place. From this they may choose either of the following;

- a. If they would not have entered into the consumer insurance contract on any terms, the insurer may avoid the contract and refuse all claims, but must return the premiums paid.
- b. If the insurer would have entered in the consumer insurance contract, but would have charged a higher premium, the insurer may reduce proportionately the amount to be paid on a claim.

Your building sum insured

If you are in any doubt as to the accuracy of your building sum insured then we recommend you review this.

To help you assess your current building sum insured we would advise you to visit www.calculator.bcis.co.uk, which is an online facility through the Building Cost Information Service (BCIS). This is a subsidiary of the Royal Institution of Chartered Surveyors (RICS).

BCIS is the UK's leading independent expert on rebuilding costs and its residential rebuilding cost models are accepted as standard by surveyors and loss adjusters.

By using this facility you are able to get an indicative rebuild value of your property by inputting limited information. Based on the limited information the BCIS calculator will give you three sum insured projections; lower, expected and higher

The rebuild value that the facility provides is indicative only, and may not take specialist features or construction types into account, but it is designed merely as a tool to help you identify where underinsurance may exist.

Valuation sources

With all this information in mind we recommend that you seek a formal rebuild valuation from a professional source such as the Royal Institution of Chartered Surveyors (RICS). You can contact them using the following contact information, web: www.rics.org, Tel: **024 7686 8555**.

Alternatively, we also have details of a valuation service through loss adjusters Cunningham Lindsey, so please contact us if you would like details of this.

The cost of underinsurance

'Proportionate remedy' means that in the event of a claim, the insurer need only pay X% of what they would have otherwise been obliged to pay under the terms of the contract.

- Your chosen Building sum insured = £200,000
- Actual Value = £500,000
- Claim cost = £300,000
- Building premium on chosen sum insured = £400
- Building premium on actual sum insured = £850
- Using the above calculation the percentage difference is 47 %
- Therefore, they would only pay 47 % of your chosen building sum insured.
- £200,000 x 47 % = £94,000, leaving a rebuild shortfall of £206,000

$$\frac{\text{X} = \text{Premium actually charged}}{\text{Higher premium}} \times 100$$