

The Implications of Underinsurance

Could you afford to lose a third of the value of your property?

90%



Approx **90%*** of UK properties are incorrectly insured

66%



Circa **66%*** of properties are underinsured by at least a third

Buildings should always be insured for the amount it would cost to rebuild them

The Rebuild Value of a property varies from its Market Value and represents the costs of completely rebuilding, along with other elements such as professional fees and demolition expenses. The cost of replacing fixtures and fittings, walls, fences, paving and tarmac are also factored in.

The location, availability of building materials at the time of the claim, planning provisions and utilities arrangements further complicate the rebuild value calculation, which should be index-linked to protect against inflation.

*RCA Home Buildings Insurance article, 2021

The Average Clause

Like any other contract, an insurance policy has clauses that limit the liabilities of each party.

The “Average Clause” present in most insurance contracts means that if you insure your residential or commercial building for an amount that’s too low, your insurer can reduce how much they’ll pay out. It’s your insurer’s way of making sure you only get what you pay for.

In extreme cases of underinsurance, your insurer could avoid the claim and potentially cancel the policy from inception.

Click [here](#) for a short video with more information.

Imagine...

A company insures its office building using a Rebuild Value of £500K



A fire causes £50K worth of damage to the building



The insurer calculates the correct Rebuild Value of the building to be £1m



The building is 50% underinsured



The insurer applies the Average Clause and reduces the claims settlement to £25K



The company is left to pay the remaining £25K cost of repair themselves. Because of the complexity of the Average Clause calculation, the amount paid out may be even less

If the fire had caused more damage and the building had to be totally rebuilt, the company would have faced an uninsured loss of at least £250k.

The Solution

To avoid the consequences of the Average Clause, make sure your building is insured for the right amount. For an accurate figure, you should consult with a property professional regulated by RICS.

Brunel Insurance Brokers Ltd partners with Rebuild Cost Assessment (RCA) to offer our clients an affordable alternative to costly and time consuming on-site surveys.

RCA desktop surveys provide an insurance industry trusted assessment of your building's rebuild cost, from £150 - available for commercial (up to £10m) and residential (up to £5m) properties, including Grade II listed buildings.

Where necessary, Brunel and RCA can facilitate on-site property surveys at a competitive cost, for large premises, Grade I listed buildings, etc.

How RCA has protected Brunel clients

- Our team recommended the use of RCA for a client's commercial premises, part of a portfolio of properties across the UK. While their previous building sum insured was £3.4m, our survey partners calculated a new rebuild value of £6.8m.
- One of our private clients bought a four-story London townhouse with a building sum insured of only £600k. We strongly recommended the use of RCA, which calculated the rebuild at £2.2m. This survey saved our client from a potential £1.6m exposure.
- A Brunel client engaged RCA on our recommendation. They had an initial building sum insured of £1.6m, but the survey calculated the rebuild cost at £2.6m. Despite the massive increase in cover, this client's premium increased by just £1,100.

Why Brunel Insurance Brokers?

Brunel utilises a range of facilities to assist our clients in managing their risks and insuring their exposures correctly.

We work hard to understand our clients' needs, no matter how complex. Our expert brokers arrange competitive solutions from a wide range of A-Rated insurance providers.

In the event of an insured incident, our dedicated claims handling teams strive to minimise inconvenience and expedite settlement.

Brunel has been recognised for its commitment to client service by being awarded the prestigious Chartered status by the Chartered Insurance Institute (CII).

To discuss the risks of underinsurance, contact our specialists on 0345 873 4452

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