

Digital Trading Underinsurance Example

This is an example of a scenario where a customer would be underinsured in the event of a loss with a digitally traded policy without an 'Average Condition'* clause.

The property was underinsured, as the customer may have set their declared values based on:

- The market value of the insured items rather than the reinstatement or replacement value as required by the policy; or
- on a valuation undertaken several years ago which had not been reviewed in line with inflation or current costs.

	Declared Values	Sums Insured (once a 15% Day One Uplift** has been applied)	Professional Valuation of Sums Insured (at the inception date of the policy)
Buildings	£1,000,000	£1,150,000	£2,000,000
Contents	£400,000	£460,000	£500,000
Stock	£200,000	£200,000***	£250,000

*Average Condition: A clause included in some products to calculate the amount paid in the event of a partial loss, where the total Sum Insured is below the true reinstatement cost. The amount paid against the claim will be proportional to the underinsured percentage of the total.

**Day One Uplift: A percentage added to the Declared Value, which takes into account potential rises in costs and inflation that could occur between the start and end date of your policy. The result of this uplift is the final Sum Insured.

***Day One Uplift does not apply to stock.

Nature of claim

Fire at the risk address due to electrical fault. Total loss.

Claims settlement

Our cover will pay the Sums Insured, which in this case would leave the customer out of pocket when compared to the real value at time of loss.

Buildings: £1,150,000

(42.5% underinsured, £850,000 left to pay)

Contents: £460,000

(8% underinsured, £40,000 left to pay)

Stock: £200,000

(20% underinsured, £50,000 left to pay)

Total shortfall: £940,000

Digital Trading policy with no Average Condition. In this instance the maximum Allianz will pay in the event of a loss will be the Sums Insured.

Declared values should be regularly reviewed and updated to ensure they will adequately cover the rebuild or replacement value of insured property. For buildings this should include materials, labour, professional fees, debris removal and non-recoverable VAT.



Find out more [here](#).