



Mid Market Underinsurance Example

This is an example of a scenario where a customer would be underinsured in the event of a loss with a policy that includes an 'Average* and Underinsurance' condition in the property damage section.

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	£6,000,000	£6,900,000	£10,000,000
Contents	£1,000,000	£1,150,000	£2,000,000
Stock	£2,000,000	£2,000,000***	£2,000,000

*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 claim will be reduced in proportion to the amount of underinsurance.

**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.

UNDERINSURANCE EXAMPLE

Nature of claim

A flood at the premises occupied as a warehouse causes significant water damage to buildings and contents, and a loss of most of the stock due to contamination. Clear up, repair and reinstatement/replacement costs are:

Buildings: £2,000,000
Contents: £500,000
Stock: £1,500,000

Claims settlement

Average will apply as the declared values for buildings and contents are less than the true reinstatement or replacement costs of these items at inception, which means they are underinsured. The total amount paid is as follows:

Buildings:

- Average applies due to underinsurance. As the declared value of £6m was only 60% of the true reinstatement value of £10m, only 60% of this part of the claim will be paid
- Claim payment of 60% of £2m loss is £1,200,000 (the customer has 40% or £800,000 left to pay).

Contents:

- Average applies due to under-insurance. As the declared value of £1m was only 50% of the true reinstatement value of

£2m, only 50% of this part of the claim will be paid

- Claim payment of 50% of £500,000 loss is £250,000 (the customer has 50% or £250,000 left to pay).

Stock:

- The claim payment for stock is unaffected by average, as the sum insured at inception was a true reflection of replacement costs.
- The whole of the £1.5m claim is paid.

Total shortfall £1,050,000

These policies include an 'Average and Underinsurance' Condition in all property damage sections. In the event of a claim where property is underinsured (the sum insured on the policy is below the true replacement or reinstatement cost), Allianz will reduce the claim payment in proportion to the amount of underinsurance.

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](#).