

# What do you need to know about underinsurance ?



It may surprise you to know that Underinsurance is widespread with up to a staggering 80% of the UK's commercial properties thought to be underinsured and 40% of businesses underinsure their business interruption according to research by one of UK's leading insurers in conjunction with a well respected Insurance publication.

Muhammed Akser Khan of Secure Risk Solutions explains why and how underinsurance can take place and its consequences below which may surprise most people.

If the reason why customers purchase insurance in the 1<sup>st</sup> place is to ensure that they are compensated adequately in the event of a loss, then the sums insured must be correct otherwise they will not get the desired outcome or compensation.

Factors we have found that are the main reasons that lead to under insurance ; Focus on **Price** trying to keep insurance premiums low, The **Miss- understanding** of clients with open market value and purchase of property in comparison of rebuild or replacement; **Underestimating** a replacement or rebuild of property.

What would happen in reality in most cases when a loss occurs is demonstrated in the scenario below ;

A loss occurs and insurers send their loss adjuster to visit you. The adjuster calculates that the sum insured should have been £1,000,000 and you have only insured it for £500,000 This means you are 50% underinsured and haven't paid the correct premium based on the amount that was at risk

The loss is calculated at £100,000. You as the insured may be under the impression, as you have insured your property for £500,000 you should get the full £100,000? **Wrong!**

**Unfortunately** This means that as you only insured for £500,000 instead of £1,000,000 insurers will only pay you 50% of the claim as you under insured by 50% which is referred to as the **Average Clause**. This means you would suffer a potential financial loss of £50,000. Now the sad thing about all this is that to insure the property correctly would have only cost a few hundred pounds extra and the consequences of not doing so can potentially run into tens of thousands if not hundreds of thousands for the sake of a few hundred pounds.

***Its time to do the maths, Is it really worth under insuring ? “ the shortfall could be so devastating for some, so much that they may never financially recover ” ! Imagine in the scenario where a property being used for your daily business has been purchased via loan and the Insurance pay-out is not sufficient to re -instate it ! and you don't have sufficient business interruption cover ! You still owe the loan to the lender and obliged to make payments however you have no property to trade from and don't have sufficient business interruption to support your loan repayments and your ongoing business outgoings which will include not having sufficient funds to trade from an alternative location !***

With the Lure of “**seemingly cheaper**” Insurance premiums due the rise of non-advised insurance sales, particularly through online platforms, greatly increases the risk of customers being underinsured. As customers you need to be aware of the dangers of underinsurance, and need to be advised on how to avoid it, **Secure Risk Solutions** can demonstrate the added-value proposition they offer over non-advised sales and can often get you better covers and price on a like for like basis in most circumstances

**So what's the solution ?** If you have purchased your property with the help of a loan from a bank or other lender there will usually be a building re -instatement figure that has been calculated by their qualified RICS surveyor and this needs to be used however the cost to reinstate a building can change significantly over the years, Material and labour costs are in constant flux, also legislation can require additional design considerations, and planning authorities can dictate alterations to the building and its site. A failure to update sums insured to account for such changes can result in a significant financial shortfall in the event of a claim.

If its been a while since you purchased your property or you are unsure about the Insurance re - instatement value, you will need to get a valuation done by a suitably qualified professional such as a RICS valuer and this can cost will cost a few hundred pounds which we think is well worth doing.

**By insuring your commercial property through Secure Risk Solutions** we can through a special arrangement get our clients a **FREE Re-instatement Valuation** , yes that's right FREE subject to minimum sums insured and conditions that apply. Not to worry if your sums insured do not qualify or if your building does not fit this particular Insurers risk appetite we can still get you an alternative rebuild calculation by Insurance approved qualified professionals at a fraction of the cost of a full RICS valuation.

For your piece of mind, don't hesitate to contact us today



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