

In excess of 77% of all the cases Barrett Corp and Harrington (BCH) handle, involving billions of pounds worth of property, are found to be underinsured

The reasons for underinsurance are many and varied but often the origin of the sum insured is totally unknown. Some rely on inappropriate advice, rules of thumb, the market value or take the view 'it will never happen to me'. Sometimes there is simply a failure to update previous valuations.

BCH has also dealt with cases where the client has been reluctant to have the building valued fearing an increase in premium, not appreciating that any increase will be insignificant compared to the impact of underinsurance in the event of a claim.

Many insurance policies are subject to the Condition of Average, which means that in the event of underinsurance and partial damage, the amount that would otherwise have been paid is in proportion to the degree of underinsurance.

An example is as follows:

1. Block of 10 flats Insured for £1,000,000 ;
2. Development should have been insured for £1,500,000 ;
3. Major loss occurs to the value of £600,000 ;
4. Due to underinsurance, insurers invoke the condition of Average and pay only 66.67 % of the loss i.e. £400,000. Leaseholders have to find £20,000 each in order for the flats to be made habitable again ;
5. Potential for Directors of Residential Management Company to be sued by other leaseholders as no formal insurance valuation had ever been conducted.
6. In addition and despite the financial penalty, which can be devastating, underinsurance can lead to disputes, protracted discussions and of course delay in reinstating the building. Any additional costs resulting from such delay will not be covered by the insurance policy.

UK fire losses are at record levels and there is now greater potential for total losses than in the past, and consequently, greater potential to test the adequacy of sums insured.

Source: Flat-living.co.uk