

# Problems of under insurance in Personal Lines covers

- By Alan Chandler, Chartered Insurer

**Alan Chandler, Chartered Insurer**

**E mail [alanchandler@uwclub.net](mailto:alanchandler@uwclub.net) [www.alanchandler.co.uk](http://www.alanchandler.co.uk)**

- **I have trained more than 2,000 individuals to become ACII qualified**
- I have trained over 50% of the individuals in the last 8 years that have gone onto achieve the highest ACII pass in the whole of the UK.
- I train to a pass rate of more than 96% in all CII qualification levels. Certificate , Diploma and Advanced Diploma.
- I deliver the Allianz scholarship and academy programmes in both the UK and Ireland and I have been a Cii examiner.
- I have trained students who have won national prizes in almost all ACII subjects including Insurance Law (MO5), Liability (M96), Commercial Property and BI (M93), Personal Lines Insurance (P86), Business and Finance (M92), Underwriting Practice (M80), Advanced Underwriting (960), Claims Practice (M85), Advanced Claims (820), Marketing (945), Advanced Broking (930) and Advanced Risk Management (992).

# Learning Objectives

Delegates will be able to:

- Understand what needs to be taken into account when setting a household building sum insured.
- Understand what needs to be taken into account in respect of contents sums insured, including personal possessions away from the home.
- Understand how under insurance can occur and the consequences of this for the policyholder.

## The Extent of Property Under-Insurance in the UK?

---

- 90% of buildings (commercial and residential) do not have the correct Building Sum Insured
- 10% to 20% are over insured - often the BSI is based on market value
- 70% to 80% are underinsured - original BSI figure too low and indexation at renewal has not kept pace with construction cost inflation
- The average degree of under insurance is approximately 40%
- VAT – should not be applicable in personal lines

Insurance is a reluctant purchase of an intangible product – but if it is set up wrong then it will not compensate correctly.

## Consequences of Underinsurance

**Significant partial or total loss occurs,  
claim made**

**Loss adjusters identify inadequate BSI**

**Average applied and pay-out reduced**

**Policyholders left without adequate  
funds to reinstate buildings**

**Less of an issue in bed room rated**

# Policy Conditions - Average

- Average formula:

Sum Insured x Loss = Claim Paid

Correct Value

SI £20,000, correct value £40,000 claim of £2,000 and an excess of £1,000 insured gets what?

This is known as the pro rata condition of average and theoretically could apply to under insurance of 1%

Note for Household Buildings there maybe a 15% cushion – let's explore how this works

# Average

- Case law tells us that average is not an implied condition in Household insurance, if the average condition is not inserted then Insurers cannot apply it – although they may still have recourse under the Consumer Insurance Act 2012.



# Consumer Insurance Act 2012

- Duty on the consumer not to misrepresent
- If there is a misrepresentation it could be seen as deliberate, careless or reasonable – let's explore all three with a view to understanding how an insurer may respond if there is under insurance.

# The values at risk – How should these be calculated?

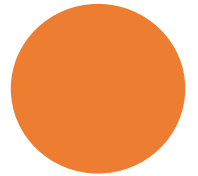
What factors need to be taken into account when considering a sum insured for:

Buildings

Contents

# Some problem issues

- Think about risks with large car parks or unusual construction – have they correctly accounted for all the rebuild costs?
- Think about unusual construction and difficult to source materials – they really do need specialist help



# The values at risk

- **Main Buildings**
  - - Fixtures and fittings
  - - Outbuildings
  - - Walls, gates, fences
  - - Car parks, roads, drives, pathways
  - - Underground piping for which the insured responsible
- All on the site of the premises address
- Cover also includes professional fees, removal of debris and compliance with Local Authority

## **Property Insurance**

### **Removal of Debris includes**

Knocking down or dismantling

Cost of shoring or propping up

Physical removal of debris

DO NOT FORGET TO ADD THIS TO CONTENTS AS WELL

**Professional fees** includes Architects, surveyors, consulting engineers and legal fees

### **Public Authorities Clause**

# Are your clients likely to get it right?

- Assessing rebuild costs are complicated – how can someone not qualified get it right?

## **Basis of Cover Options for Buildings**

- Reinstatement**

- Indemnity**

- Resist Indemnity on buildings!

# Index linking

- Royal Institute of Chartered Surveyors – General Building cost index
- Index-linked for contents is linked to consumer durables of the Retail Price Index



# Contents under insurance

- Most household policies are arranged on a new for old basis so contents sums insured need to be set accordingly.
- Clothing and linen are often on indemnity which means an allowance can be made for wear and tear on these items, if the cover is on indemnity.

# Valuables Limit

- Definition of valuable is typically 'Gold, silver, other precious metals, antiques other than furniture, jewellery, watches, furs, paintings and works of art, stamp and coin collections and musical instruments.
- Valuables limit is often 1/3 of contents si
- Some insurers apply a limit of 30% others a fixed limit of £10,000 unless there is a conversation with the insurer.

# Single article limit within the premises.

- Household policies will have a single article limit in place as well as an overall valuables limit.
- No one valuable item **is to be** greater than £1,500 or 5% of the contents sum insured. If there is the insurer may deny the whole claim as there has been misrepresentation of the risk if the policy has not been properly extended.
- Make sure the insured is clearly aware of any single article limit for valuables.

# High-value items

- Some insurers refer to 'high – value' or 'high risk' items rather than the traditional 'valuables' expression.
- This definition is wider and includes Tv's, computers and cameras.
- Some bed room rated policies restrict High-value items by the number of bedrooms let's look at examples

# Contents in the garden

- Another potential area of under-insurance is contents in the garden.

# Personal possessions extension

- If the insured wishes to extend their cover beyond the premises (let's remind ourselves of that definition) then they will need to specify the sum insured for personal possessions away from the home, as well as declaring any item over the inner limit which is typically £1,500 (much higher limits exist for HNW e.g. £15,000 limit).

# Pedal cycles and Money

- Some insurers include these within the personal possessions definition others require them insuring separately.
- Pedal cycle limits vary between £500 and £5,000 so be careful here. Some insurers ask for the maximum value per cycle.
- Money limits vary between £300 and £750 again thought needs to be given on whether this is sufficient.

# Travel Insurance

- Baggage will be needed if the Household policy has not been extended.
- Typical limits are low so again thought needs to be given to the adequacy of cover. Single article limit often £300, valuables limit often between £300- 500 and total baggage sum insured of between £1,000 and £2,500.
- Why might Household offer a better option than Travel?



# Learning Objectives

Delegates will be able to:

- Understand what needs to be taken into account when setting a household building sum insured.
- Understand what needs to be taken into account in respect of contents sums insured, including personal possessions away from the home.
- Understand how under insurance can occur and the consequences of this for the policyholder.