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Unoccupied Direct
Property Insurance



Unoccupied Direct's guide to underinsurance

Insurance is a valuable and important safety net when owning a property and can help get things back on track if the unexpected happens. With that in mind, it's vital to ensure there is the suitable level of cover for your requirements. With an estimated 81% of UK properties being underinsured*, it's crucial that everyone understands the implications.

What is underinsurance?

Underinsurance is when the amount the property is insured for (the sum insured), isn't enough to cover the cost of repairing, replacing or rebuilding the property listed on the policy. Ultimately, that means the homeowner may be responsible for meeting any shortfall in costs.



How does underinsurance happen?

A property can be underinsured for a number of reasons, but one of the main causes is simply underestimating the true value of the property.

Buildings insurance should be enough to rebuild the home if it were completely destroyed. It is important to note, however, that the rebuild cost is not the same as the market value of the property. For example, if the home is listed and needs specialist materials and labour, the cost to rebuild it could be considerably more than its market price. Additionally, it is important to factor in the costs of hiring professionals like architects and surveyors, the cost of demolition, debris removal and finding alternative accommodation for the duration of the works.



What are the consequences of underinsurance?

If the property is underinsured, it's not as simple as getting a smaller payout. Instead, it can lead to an even greater gap between what is needed and what is paid out. This is because some insurers apply the average clause.

What is the average clause?

Essentially, the average clause allows your insurer to reduce the payout by the percentage the property is underinsured, should the property be deemed to be undervalued at the time the insurance policy is procured.

For example, if the home is insured for £500,000 but its actual value is £1,000,000, then it would be underinsured by 50%. If a loss is suffered, such as a fire which causes £100,000 worth of damage then, using the average clause, an insurer may only pay out £50,000.

Don't forget that any excess needs to be paid before any claim can go ahead, so the final payout is likely to be even lower.

Not all insurers apply the average clause, but if they do, it will be clearly set out in the policy documents.

Policy avoidance

Another serious consequence of underinsurance is that the insurer can refuse to pay out anything at all. Insurers often call this an 'avoided' policy because they treat the policy as if it never existed.

Insurers are allowed to do this if the true value of the assets have not been disclosed – such as intentionally underinsuring or misrepresenting what they're worth in order to secure a lower premium.



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Reviewing your needs and updating your policy

Try not to let the policy roll over without reviewing the sums insured and considering the value of the property on a regular basis. Taking a little time to review and update the policy can minimise the stress and anxiety of not getting the payout required.

Making use of online calculators

If it isn't easy to work out the rebuild value of the property, then there are online calculators which can provide a guide. Try using the Building Cost Information Service (BCIS) tool, from both the Association of British Insurers (ABI) and the Royal Institution of Chartered Surveyors (RICS)

Get in touch

To discuss the issues covered in this article in further detail or for any information relating to our Unoccupied Direct Property Insurance for homes that are empty due to probate or the owner moving into care, please get in touch.

You can email at wayne.shinn@vasek.co.uk or call **07833446070**.



*RCA 2023 Infographic (A4 Portrait) (21 × 40cm) (21 × 80cm) (rebuildcostassessment.com)

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