

WHAT IS UNDERINSURANCE?

Underinsurance occurs when the sum insured on your property policy is less than the actual rebuild cost of your building.

This can happen when:

- A building has not been valued recently
- Owners guess the rebuild figure
- Listed or heritage buildings are undervalued
- Renovations or extensions weren't added to the policy

Underinsurance is surprisingly common, and insurers say that up to 80% of UK properties are not insured for the correct amount.

THE AVERAGE CLAUSE – HOW IT AFFECTS A CLAIM

Most commercial property insurance policies include an "Average Clause."

This means that if you're underinsured, any claim payout will be reduced in proportion to the amount of underinsurance – even if the claim is only partial.

Example

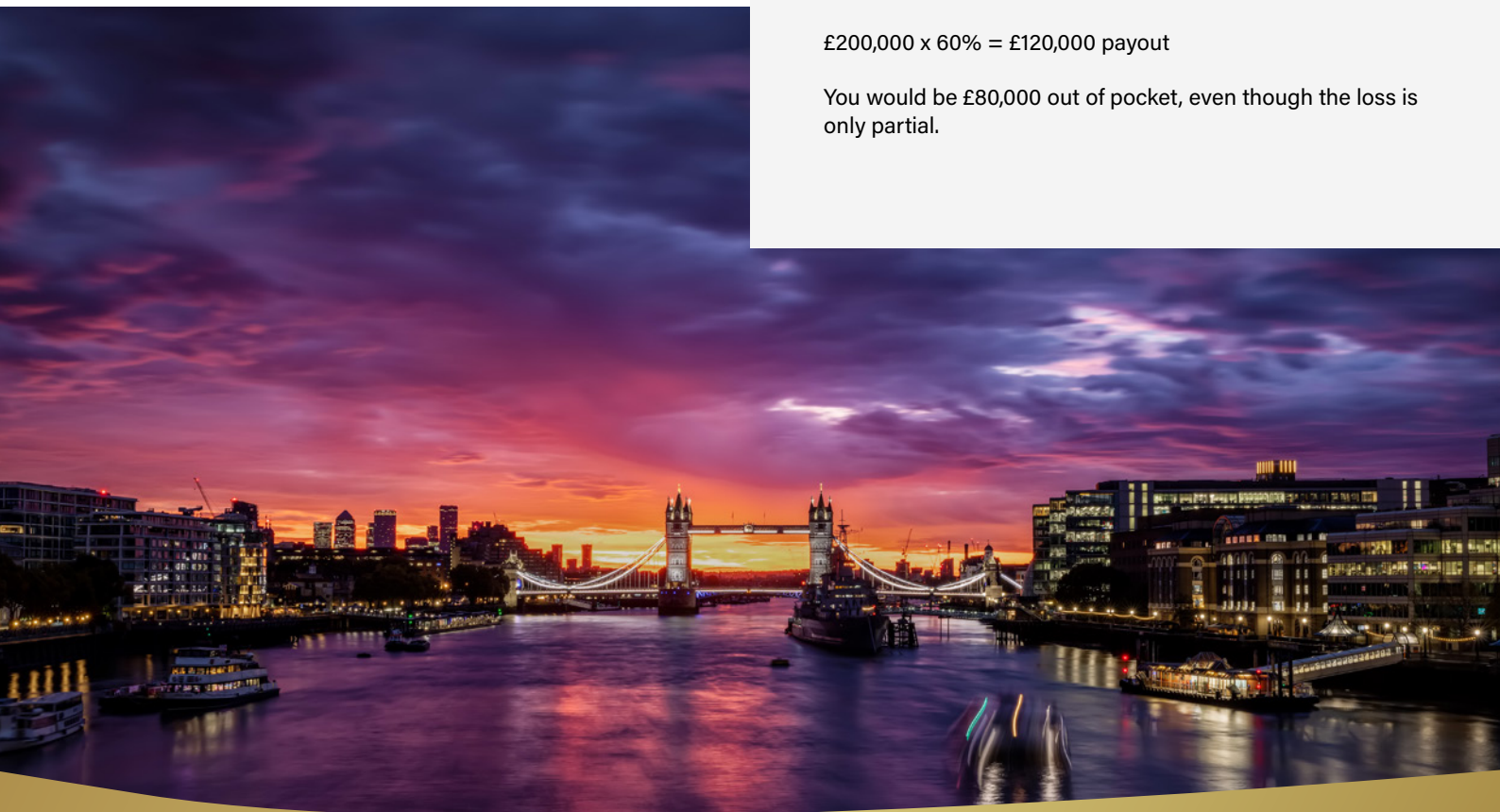
Let's say:

- Your building is worth £1,000,000 to rebuild
- You only insure it for £600,000
- A fire causes damage of £200,000

Because you've only insured 60% of the true value, the insurer applies the average clause:

$£200,000 \times 60\% = £120,000$ payout

You would be £80,000 out of pocket, even though the loss is only partial.



LISTED & HERITAGE BUILDINGS – EVEN MORE CRITICAL

Listed properties often:

- Require specialist materials (lime render, stonework)
- Use rare craftsmanship or protected methods
- Need extended rebuild timelines due to heritage rules

That means the rebuild value can be far higher than the market value.

If underinsured, you could be forced to:

- Fund a major portion of a claim yourself
- Breach your mortgage terms
- Delay essential restoration due to lack of funds



COMMON MISTAKES THAT LEAD TO UNDERINSURANCE

- Confusing market value with rebuild cost
- Using outdated valuations (more than 5 years old)
- Only adjusting for partial extensions or renovations
- Forgetting about listed status or conservation area restrictions

HOW TO AVOID UNDERINSURANCE

Get a Professional Rebuild Cost Assessment

- Use a RICS-accredited surveyor for a formal reinstatement valuation
- This is not the same as market value or purchase price
- Recommended every 3–5 years, or sooner if:
 - You've carried out building works
 - Costs of labour and materials have changed significantly

Insure for Full Rebuild Value

- Include demolition, site clearance, and professional fees (architects, planning, etc.)
- Ask your broker to add an index-linked uplift to keep the value in line with inflation

Review Annually

- Don't just renew based on last year's figures
- Use inflation-adjusted tools or ask your broker to check if valuations are still appropriate

HOW QUDOS CAN HELP

- We work with property owners, investors, and managing agents to:
 - Review sums insured
 - Arrange professional valuations if needed
 - Negotiate with insurers on index-linking and clause flexibility
- We also advise on heritage property risks and reinstatement planning

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